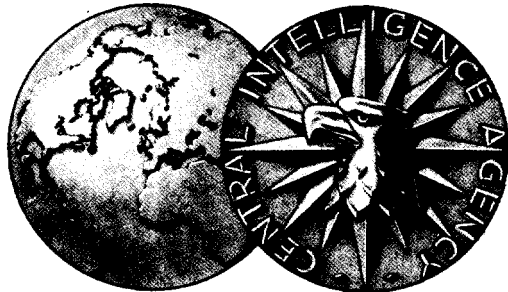


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# REVIEW OF THE WORLD SITUATION



CIA 6-49

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

### SUMMARY

1. The basic security interests of the US and the UK are practically identical. A tacit understanding has tended to grow up by which a common strategic position is maintained. The ability of the UK to play its part is considered to be directly related to the strength of its national economy. It is considered that the UK has, with respect to the reorganization of its national economy, completed the first phase of its postwar history. Its success in doing so appears to have come from a tremendous productive effort which created a surplus for export. It is now considered that the peak of this effort may have been passed and that, even though production remains high, the capacity of the world market to absorb the exportable surplus may be diminishing. If so, it will be increasingly difficult for the UK to maintain the economic strength needed to support its own policies and to carry out its responsibilities in the pattern of US-UK security. An unfavorable economic condition will lead to the problem of shifting more and more of the responsibility for maintaining a common strategic position from the UK to the US.

2. The position of the USSR in the Council of Foreign Ministers suggests that the original decision to convene a meeting may possibly have been based on estimates which were vitiated by events, and that the apparent lack of result to date in the CFM may be the consequence.

3. The ratification of the Atlantic Pact is proceeding more or less as planned, except possibly in the case of Italy. Delay in the US discussion of a supporting Military Aid Program is beginning to produce official alarms and public criticism in Western Europe.

4. In Greece, "peace feelers" are still being put out. The main intent still appears to be an effort to shift Communist pressures from the military to the political field.

5. Israel continues to be uncompromising in conference. The government is having practical and political difficulties with its immigration policy.

6. In the Far East: the US position in Japan is showing signs of becoming difficult; the Chinese Communists, moving into South China, are scattering the remnants of the Nationalist Government, creating a threat to Hong Kong, and coming closer to the point where their intentions toward Southeast Asia will begin to show; in Korea, the Republic has become somewhat hysterical about the withdrawal of US troops; in Indonesia, negotiations are developing in a good atmosphere but have not reached the crucially irreconcilable issues; in Burma, the Commonwealth has got into a position where it may be able to exert some effective pressure in favor of law and order.

7. There are no significant changes in Latin America to report. The degree of stability of particular governments continues to fluctuate.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information contained herein is as of 10 June 1949.

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

### 1. The United Kingdom

It is so frequently stated that the United Kingdom is the most powerful and important ally of the US, that the ability of the UK to fill the place assigned to it in the over-all design of US security tends to be assumed. An examination of this assumption is very much to the point in view of the fact that the present Council of Foreign Ministers—whatever may be its outcome—will inevitably initiate a new stage in the process of stabilizing the distribution of US and Soviet power. The strategic requirements of the US and the UK in respect to this process are nearly identical. The common factor in their security problems is the estimate that Soviet policy and action are a primary threat. From this follows the understanding that no concessions can be made that would materially improve the strategic position of the USSR with respect to either. Both parties are beyond question committed for the present to the maintenance and strengthening of this common position.

A discussion of this relationship must keep in mind three features of the postwar international scene:

(1) The fact that the US and the USSR rose to a degree of power greater than the UK could hope to attain.

(2) The UK, the Commonwealth, and the Empire, though the third strongest complex of power in the world, were loosely organized in comparison with the geographic concentration of US and USSR power, and were consequently susceptible to piecemeal disintegration.

(3) The balance of power in continental Europe was no longer of major significance. The rise of the US and the USSR made the orientation of continental Europe as a whole important, not its internal balance.

These changes forced a revision of one of the cardinal principles of British foreign policy—the support of an imperial position by

maintaining a balance of power in Europe. The new situation called for separate short and long-term treatment. Short-term policy required the containment of the USSR (identity of strategic interest with the US) and the recovery of an economic viability that had been destroyed by the war. The long-term had as its objective the reorganization of Western Europe and its colonial and associated territories under British leadership as a genuinely balancing element between the US and the USSR. These objectives involve no considerations that are fundamentally antagonistic to US security interests. Policy directed toward them cannot be developed, however, except in conjunction with the US. The British need for US economic support is, consequently, basic and comprehensive.

The US need to maintain the strategic positions of the UK, Commonwealth, and Empire is correspondingly basic if the process of bringing potential power to bear in restraint of Soviet expansion is to be quickly effective. The US security position, while this process is going forward, is linked with that of the UK in three vital regions:

(1) In Western Europe, where much depends upon the influence that the UK can exert,

(2) In the Near and Middle East,

(3) In South and Southeast Asia, where the combined UK-Commonwealth influence is still paramount.

The real measuring rod of UK-Commonwealth influence in these regions is not military capabilities but economic strength. The UK defense establishment, though the third best in the world, is plainly inadequate to its numerous and widespread commitments. Its operational readiness is low. It has virtually no combat-ready strategic reserve. Furthermore, claims on British economy are such that there is virtually no surplus of plant or manpower that can be allocated for its expansion.

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Military research and development alone have been shielded from retrenchment.

The limitations imposed by these considerations have already impeded the UK in its policy of assuming leadership in Western Europe and have forced diplomatic compromises in the Near East and in South Asia.

In Western Europe, while the UK took the lead in organizing joint defense and also supplied important military equipment, economic factors quickly set limits that could not be passed except in terms of US support and supply. However, political leadership, at which UK policy also aims, was not simultaneously abandoned as economic and military responsibility shifted to the US. The US does not aspire to such leadership, but its security does require that Western Europe should be firmly oriented in the right direction. The UK is a proper free agent for this purpose provided it is capable of exerting adequate influence; but economic factors are again interfering. The British need to impose sharp trade terms out of regard for its own recovery has already been costly to this influence. Although the UK is firmly committed to a cooperative program for the economic recovery of Europe, it is clear that the Labor Government considers its national recovery program is both more successful and more reputable than the methods of continental nations. The fact is that the UK does not possess the necessary margin for making economic concessions in order to secure possible political advantages.

In the Near and Middle East, adjustments between the US and the UK have been made. Strategic interests in the area are completely identified. Policies and actions are being increasingly coordinated. A common objective has been defined: to retain the area in the western orbit by means of US-UK economic and cultural investments. Here again, economic capacity will limit the UK contribution. The weakness which transferred to the US the responsibility in Greece, Turkey, and Iran, may make still further transfers—of cost if of nothing else—necessary. Such transfers will probably have to be accepted by the US in the interest of maintaining the combined position.

In India and the Far East, the UK has sought since 1946 to develop ways of maintaining its interests while reducing direct charges on the national economy. Primary strategic interests have been centered in Malaya. The Pacific sector has been relinquished to the US, and Australia and New Zealand have been encouraged to develop Commonwealth interests in relation to the US. A changed status for India was encouraged because the means did not exist for imposing any other solution on the nationalistic fervor of the country, and economic and strategic ties have been maintained by diplomatic rather than imperial methods. The greatest political triumph of the UK since the end of the war has been the extent to which a positive decline in global power has been compensated for by a readjustment of relations within the Commonwealth and Empire. The process has consisted, especially in Asia, of converting unwilling parts of an Empire to willing members of a Commonwealth. In consequence, while members of the Commonwealth are absolutely free to develop their own foreign policies, Commonwealth solidarity on essential questions—of which resistance to Soviet-Communist influence is a major one—has been actually increased.

India, Pakistan, and Ceylon are now assuming a growing share of the task of maintaining the stability of the South Asiatic region. The hope naturally is that the protection of UK-Commonwealth interests in Southeast Asia will more and more devolve upon these members, and that the over-all position of the UK power complex will be protected with less expenditure of declining UK resources. This development is favorable to US security interests. Since there is a reasonable expectation that it will not be affected by sudden changes in the economic position of the UK, it provides a more favorable climate for US security than could have been anticipated twelve months ago.

The US-UK security relationship contains, however, a major element of uncertainty: the capacity of the UK to maintain the economic strength required to support, not only the commitments it has on its own policy account, but the position it occupies in the over-

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all pattern of US security. The relative weakness of the UK at the end of the war, instead of being merely a condition caused by the war and corrected by the recovery of 1947-48, may be the result of long-term trends that were only momentarily halted. If so, the weakness which, at the start of 1947, made Greece and Turkey a US responsibility, may develop progressively and call for progressively major adjustments on the part of the US.

It is now reasonably certain that the UK is approaching the end of the first phase of its postwar history. This phase can be described in retrospect as a period of reorganizing the national economy in relation to the concept of a welfare state and the national potential in relation to profound changes in the international sphere. The adjustments called for were essentially political and economic. A large measure of democratic socialism has quietly revolutionized the national life of Great Britain. The Commonwealth and the Empire have undergone major political alterations of a realistic kind without any suggestion of collapse. The national economy has, with tremendous effort, been momentarily adapted to the demands of a welfare state. The speed and success of these adjustments have been an undeniable factor in the development of the more favorable security position in which the US now stands.

But it is also reasonably certain the UK is now moving into the second phase of its postwar history. The basic problems that will be encountered in this phase, though different in character, will be perhaps even more critical for the long run than those that have already been dealt with. They will, in any event, require more comprehensive solutions than any yet devised. The central problem can be stated as follows:

*a.* The maintenance of foreign trade at the high level required to sustain the demands upon the national economy of the standards of British life, the welfare commitments of democratic socialism, and the international commitments of UK, Commonwealth, and Imperial policy.

*b.* If this proves impossible, as it may very well do in view of developing trends in world

economy, the development of alternative ways (other than by a reduction of population) of sustaining the national economy.

Since income from British overseas investments is no longer an important item, the UK international account can be balanced only by the production and sale of an exportable surplus. A sense of crisis, in conjunction with government controls over domestic consumption and a full use of man-power, gradually pushed up the volume of exports until in March 1949 they reached 162 percent of 1938 and resulted in a momentary balancing of payments. But, even this unprecedented volume provided no cushion against the future.

Signs are now accumulating which strongly suggest that the peak of the British success in this respect may have been reached and that, from this point on, it may not only be impossible to increase the volume of exports, but even to maintain them at the required level. The signs are as follows:

*a.* Overseas markets are being increasingly satisfied by restored domestic industries and by competitors.

*b.* Japanese industry, revived to reduce US occupation costs, implies future serious competition.

*c.* German industry, similarly revived, but with its prewar outlets in Eastern Europe still blocked, implies an even severer competition.

*d.* Demand in the US has perceptibly receded and there is no evidence of its early revival.

The approach of these difficulties has been recognized. Proposals for meeting them have been under consideration for some time. The proposals consist of: a devaluation of sterling; a reduction of production costs; the adjustment of sources of imports to avoid dollar costs; the development of new economic resources, particularly in the dependent Empire. Some of these proposals call for time and capital investment on a scale now unavailable. Others would create new problems for the old ones solved. It is highly improbable that a complete solution can be found along these lines.

In Africa, south of the Sahara, for example, the UK is developing long-term plans for

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meeting its economic difficulties by the creation of new resources. This dependent Empire, with vast and largely untapped natural resources, is being slowly reorganized for the exploitation of its reserves of strategic raw materials. The plans require, however, extensive capital investment and can only produce returns in the long run. They cannot provide an immediate cushion, and there is the danger that their claims on limited resources may divert for long-term ends capital needed for short-term purposes and thus still further weaken the immediate UK position.

The moment at which the first postwar phase will give place to the second cannot be specified, but it is believed close at hand. Curves of production, exports, and national income are already losing their upward trend. When they flatten out, the UK will be in the second phase. Whether or not they turn downward depends mainly upon developments over which the UK can exercise no control and very little influence; but, if they turn markedly downward, the trend will be of fundamental importance to US security.

At this time, failing the continuance, or perhaps even the expansion of US aid, the consequences of being in the second phase will begin to show in the form of gradually lowered wages, longer hours of work, declining standards, and increased official controls. Changes of this sort, developing in the context of a welfare state, are virtually certain to lower public morale and to create political tensions. It is in the nature of the situation that the British Government will experience pressure to adjust its foreign commitments to its reduced power potential. Spelt out in terms of US security, this will mean cuts in the UK military budget, gradual withdrawal in outlying strategic areas, and a diminution of effective UK support for US policy.

The essential conclusion that can be drawn from this analysis is that, insofar as US security is linked with a UK ability to maintain tacitly agreed positions and to develop generally accepted policies, a significant uncertainty is created by the fact that this ability seems to depend almost entirely upon the maintenance of an unprecedented volume of exports in an increasingly unfavorable world

market. The general type of problem likely to arise from this uncertainty will be one of how to transfer more and more of the costs of maintaining a combined security position from the UK to the US. This type of problem is most likely to arise in the near future in Western Europe and the Near East; for, in South and Southeast Asia, a greater share of the immediate strain is in process of being assumed by the Commonwealth.

The major device, not for preventing these problems from arising but for checking their sudden and unexpected appearance, will be the coordination of US and UK economic policies in order to reduce the number of points at which responsibility for maintaining a common security interest will tend to shift from the UK to the US. As far as the two governments are officially concerned, the method could probably be developed to a considerable degree, except for the fact that both governments may find themselves obliged to respond to public pressures of a kind which would make the reconciliation of their economic objectives extremely difficult: in the UK, the demands of a welfare state; in the US, the group pressures generated by declining prices and tighter markets.

## 2. Council of Foreign Ministers.

Little basis exists for profitable speculation about Soviet tactics in the CFM, and no estimate of Soviet intentions can be made that is not subject to sudden upset. Whatever reasons the USSR had for deciding to set about convening a conference, they have become more rather than less obscure as the conference has proceeded. The Soviet position in the negotiations has essentially been to demand a return to the *status quo* of 1945-47, a position that is strangely unrealistic. The USSR has made no use of the meeting for propaganda purposes.

The following suggestion is offered in the absence of any grounds for a firm interpretation. It is that the USSR made its decision to reconvene the CFM on an estimate of the situation which, though it may have appeared valid at the time the machinery was set in motion, turned out to be fundamentally wrong when the moment arrived for the CFM

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to sit. The USSR may have estimated that an approaching CFM meeting would halt, or at least seriously delay, action by the Germans on a West German constitution. The USSR may have estimated that it could develop and then manipulate an overwhelming German sentiment for unity. On this basis, the USSR may have calculated that it could force the West to negotiate under severe pressure from the Western Germans and that the end product would be a Germany unified in a form that would facilitate the establishment of ultimate Soviet control.

If such estimates were made, events did not cooperate to confirm them. The prospect of a CFM meeting led rapidly to the acceptance of a West German constitution and to steps for the formation of a government. Not only did the West Germans fail to show enthusiasm for a Germany unified on Soviet terms, but the East Germans showed political resistance to Soviet direction by turning in a considerable vote against a single list of candidates running on a "unity and peace" ticket. In addition, the speed with which the Western Powers developed a unified and determined position with respect to Germany was contrary to their previous practice. In short, differences between previous estimates and present facts may help to explain such curiosities as the stand-pat position which the USSR has taken in the CFM and the apparent Soviet inability to develop a propaganda campaign for the German audience.

The present fact is that the USSR has called for a return to the Potsdam Agreement and the re-establishment of the principle of unanimous Four-Power control, and that this position has no appeal to German nationalism and no relation to the developments of the past year. The area of negotiation has narrowed until it covers little more than possible agreement on economic relations, though what agreements can grow in the shadow of the present Soviet position is not readily seen.

### 3. Western Europe.

The ratification of the Atlantic Pact is likely to proceed with little delay except such as may be occasioned by the intention of some states to wait on US action. Political difficulties

may arise, however, in the case of Italy, though ultimate approval is expected. Opinion in Italy was clearly split on the question of the Pact, and the Government, in advocating participation, linked the Pact in the public mind with possible favorable developments in respect to Italy's former colonies. The disposition of these colonies in a way satisfactory to Italian opinion becomes steadily less likely. The UK has probably blocked any such development by its encouragement of Cyrenaican independence. The Italian reaction has left both De Gasperi and Sforza open to attack. This reaction is very likely to find a focus when the Atlantic Pact is presented for ratification since it can be demonstrated that none of its promised advantages have materialized and that, on the contrary, Italy's hands will be tied by participation.

The fate of the supplementary Military Aid Program is, however, beginning to cause public apprehension in Western Europe, and remarks are beginning to appear about the uncertainties and lack of firmness in US policy. Reference is made to CIA 3-49, where it was estimated that a Military Aid Program was of first importance in maintaining the initially favorable psychological reaction to the Atlantic Pact. Specifically, "Equipment and armament from this source . . . will be regarded as a natural and legitimate *quid pro quo* for the risks undertaken and the compromises accepted . . . . Strains will develop at all possible points in connection with the practical implementing stage and a sense of insecurity will probably reappear as a distorting factor." It is possible that these strains may now start to develop in connection with delays in authorizing the supplementary Program.

### 4. Near East.

#### a. Greece.

The situation with respect to Soviet and guerrilla "peace feelers" remains fluid. Soviet suggestions on the matter were interesting chiefly because they implied a Soviet ability to control guerrilla operations, and hinted at a possible desire to arrange a big-power deal. Soviet strategists, reviewing the situation in the Balkans generally may have concluded that Greek national resistance and

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US aid were steadily reducing guerrilla capabilities. Recent Communist propaganda had paved the way for a shift from guerrilla warfare to political campaigning. The main aim of the diplomatic maneuver—leaving aside any connection it may have had with the CFM—must have been to prepare the way for the Greek Communists to come back into Greek politics. Their minimum demands, if this maneuver was to bear fruit, would have to be the legalization of the Communist Party and its free participation in subsequent elections. It was stated that the guerrillas were ready to make peace; this readiness being presented as a lead from strength not weakness since they would be willing to take part in free elections. Whatever was intended was thrown out of gear by the refusal of the US and UK to negotiate with the USSR behind the back of the Greek Government and outside the UN. It is noted that, in spite of this elaborate peace strategy, no real evidence has yet come to hand of any intention to end guerrilla operations in Greece except on conditions favorable to the maintenance of Communist pressure on Greek internal affairs.

*b. Palestine.*

Israel has been uncompromising in the three conferences that are simultaneously going on—at Lausanne, with Syria, and with the Kingdom of Jordan. The Israeli have produced new demands and are apparently prepared to have all three talks break down. The possibility exists that Israel may be foreseeing advantages in having the issue of its relations with the Arab States thrown back to the Security Council whose inevitable delays and problems of implementation might open the way for further Israeli expansion.

It is becoming increasingly clear that the Israeli Government is having great difficulty in carrying out its promises to immigrants. Its economy is unable to sustain the current rate (over 15,000 a month), nor can such numbers be physically absorbed. A critical triangle of housing, unemployment, and inflation has developed. At the same time it is out of the question politically for any Israeli leader to suggest checking the influx even temporarily. The stereotype of the "Prom-

ised Land," created by years of intensive propaganda, cannot be easily altered.

*c. Turkey and Iran.*

The disappointment of Turkey at being excluded from the Atlantic Pact has been mitigated by reassuring conversations with the Turkish Foreign Minister. These reassurances of continued US interest, though only verbal, have had weight in Turkey because they have been supported by visible evidence of material aid. However, similar verbal reassurances to Iran, since they lack at present similar material support, are producing stronger Iranian pressure for direct US aid. The motives behind this pressure are mixed. A desire to be as favorably placed with respect to the USSR is the paramount one, but jealousy of Turkey is also present.

5. The Far East.

*a. Japan.*

US efforts to gain for Japan a more favorable international position and concurrently to revive Japanese economy, have run into difficulties. Western European states, members of the Far East Commission, turned down US proposals that Japan should become a recognized member of international bodies and be granted most-favored-nation privileges in trade arrangements. When, in addition, the US halted further removals of equipment earmarked for reparations, there was bitter criticism of the action as unilateral. The action, however, naturally got wide approval in Japan. Whatever may be its long-term economic value, its immediate psychological value was outweighed by the inexpensive Soviet proposal to discuss a Japanese peace settlement. The effect on the Japanese, whose enthusiasm for recovering national sovereignty is increasing, forcefully underlined the influence which the USSR will be able to command in any treaty negotiations.

*b. China.*

Communist military advances into South China, though temporarily halted for regrouping, have launched developments which will be intensified when the advance is resumed. Nationalist officials are scattering, some to Taiwan, some to Chungking, some

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abroad. A further stage has been reached in the process by which the Nationalist Government is falling apart. It has lost all its unity and its contacts with foreign diplomats will gradually disappear also. The implied threat to Hong Kong has produced a quick reaction. The UK has announced its intention of defending its position and has dispatched reinforcements. It is unlikely that the Chinese Communists will attempt to resolve the issue by military means except as a last resort. Hong Kong can be made a liability without a military action. A more probable procedure will be the use of psychological and economic pressures in conjunction with negotiations which may well expand to include recognition of a Communist regime. Finally, the Communist occupation of South China will probably lead to an early clarification of Communist intentions toward the countries of Southeast Asia.

*c. Korea.*

The scheduled start of US troop withdrawals produced so much official apprehension, publicly communicated, that symptoms of mass hysteria appeared. Unless the Republic assumes an air of confidence—justifiable at least for the short run—hysteria can easily grow into panic. Actually, since the Republic's armed forces are at the least equal in number and superior in equipment to those of North Korea, an immediate test of strength is not likely. Popular panic, stimulated by hysterical government publicity, has recently done more to prepare the ground for the destruction of the Republic than have direct acts of the Communists.

*d. Indonesia.*

The agreement reached at Batavia represents no more than the first step in the process of permanently settling the Indonesian problem. It depends on the ability of the Republican leaders to maintain law and order in their area of authority and to maintain political unity among their followers. It depends also on the doubtful cooperation of Dutch military authorities. Both sides will eagerly note deficiencies in these respects. Even assuming success at this stage, the Conference at The Hague can only move toward a con-

sideration of fundamentally contradictory positions. Dutch policy is predicated on neutralizing the Republic in order to retain a controlling influence in Indonesia. Republican policy seeks to counteract this intent. The position of the Federalists is not yet clear. It is difficult to foresee a favorable end to the Hague Conference unless one of the parties makes basic concessions. All that can be said at present is that the atmosphere is better than could be expected. The real issues, however, have not yet been approached.

*e. Burma.*

The most important development has been the decision of the Commonwealth to extend military and financial aid to the Burmese Government. It was unanimously agreed that the first objective of this program was the restoration of law and order. Extremely complex issues enter into its execution. There is continual danger that it may backfire to the injury of Commonwealth prestige and influence. However, two favorable factors are now present. The Burmese Government has lost some of its "anti-capitalist-imperialist" phobia and may be weighing the disadvantages of impetuous secession from the Commonwealth against the relative prosperity and peace that has accompanied the less doctrinaire courses of India, Pakistan, and Ceylon. Furthermore, the Commonwealth has a foot in the door of Burmese affairs and is finally in a position to exert pressure on their conduct.

**6. Latin America.**

Developments affecting the stability of Latin American governments are mixed. The governments of Cuba, Paraguay, and Peru appear to have become stronger. Brazil and Mexico continue on an even keel, and Venezuela's government still demonstrates firm control. In Bolivia, however, labor troubles—aggravated by the activity of opposition groups—have become increasingly serious recently, and the weak government has been forced to take extreme steps to insure its tenure. In Argentina, too, the administration's position has become increasingly serious. Here grave economic problems remain unsolved and there is increasing evidence of con-

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fusion within the government. Other countries which have experienced adverse developments include: Chile, whose government is fearful of the political consequences of falling copper prices; Colombia, where the political situation has been tense because of pre-election partisan rivalry; and Ecuador, where stability has become much less certain as new political alignments have threatened to upset the formerly balanced strength of the groups opposed to the administration.

Communist strength in these countries, it would appear, has declined during the month. There is evidence to show that in Colombia the Party has become relatively ineffective; that in Uruguay it has lost ground among labor; that popular disapproval of Commu-

nism seems to have increased in Mexico. In Argentina, the government continues its anti-Communist measures.

No new serious problems have arisen out of relations between these countries during the month, but several irritating points of difference remain. In the Caribbean area, even though no new issues have arisen, the "democracies" and "dictatorships" continue to be hostile, and there are some signs of renewed activity on the part of the Caribbean Legion. The threat by Uruguay to make an issue in the UN of the Venezuelan treatment of political prisoners did not materialize. Uruguay has renewed diplomatic relations with Paraguay, but Uruguay still has not recognized either Venezuela or Peru.

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