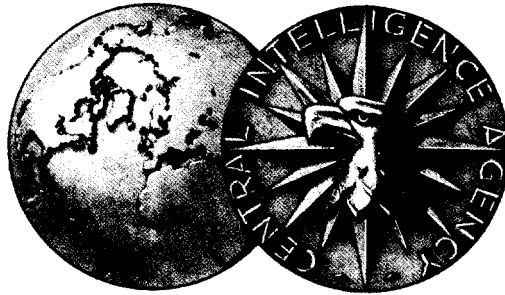


REVIEW OF THE WORLD SITUATION



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

SUMMARY

1. The situation in China has deteriorated to the point where its stabilization by the Nationalist Government is considered to be out of the question. A coalition government, with a non-Communist front but with control securely in Communist hands, is the most likely political development. Such a government would probably present itself as a continuation of its predecessor and would seek corresponding international benefits. The consequences of a Communist triumph in China will be sharply felt in the peripheral areas of Japan, Korea, and Southeast Asia, where the morale of Communist groups will be stepped up and closer coordination of their activities can be expected. Action to protect US security interests in the Far East will for some time have to be confined largely to the peripheral areas. Longer term possibilities with respect to China itself need not, however, be entirely dismissed. The capacity of the Chinese Communist Party to stabilize China is untested and it is considered that the problems of stabilization may offer opportunities at a later date for the re-establishment of discreet US influence.

2. The relations of the USSR and the Satellite States of Eastern Europe are considered to be in a condition of uneasy stability. In view of this, the USSR is obliged to measure the actual degree of reliable control it exercises in this area as an essential to the development of its general policy for Germany and Western Europe. In particular, it is believed that the Satellite States cannot at the present time be used as a reliable base for more than political and economic operations. Controls would have to be drastically increased to ensure support for military operations.

3. In the Near East initiative lies almost wholly in Israeli hands and the Arab States are uncomfortably suspended between the over-stimulated opinions of their citizens and their suspicions of each other.

4. Significant Trends: (a) World Labor is now clearly aligning itself in terms of the East-West conflict; (b) the Conference of Commonwealth Prime Ministers has ended on a note of unexpected solidarity; (c) the current trend toward an admitted partition of Germany is being accelerated by economic, political, and strategic considerations.

5. Particular situations are noted in Paraguay and Peru, in Greece and Turkey.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force.
The information herein is as of 14 November 1948.

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

GENERAL

1. FAR EAST—CHINA.

The long-anticipated crisis in China has unmistakably arrived. Its main features conform approximately to the pattern that was anticipated—military defeats, economic collapse, political defections, and a general sense of the desirability of peace at any compromise. Of unusual significance, however, has been the superior military capability which the Communist armies were able to build up and the success with which they have kept the initiative they recently seized. The military and political developments of the past month suggest a degree of coordinated strategic direction that has not been generally assumed in appraising Communist strength.

Aside from the question of whether or not this more highly organized authority and power can be effectively applied to the larger problem of pulling China together under a Communist or a Communist-dominated government, there seems to be little room left for doubting its ability to bring military operations north of the Yangtze River to a successful conclusion. The factor of time is clearly working for the Chinese Communists, and there is no sign that they do not fully appreciate the advantages this puts into their hands. It can be assumed that, within the limits set by logistics, maximum pressure on the Nationalist Government will be maintained and no breathing space will be allowed for the reorganization of an opposition.

North of the Yangtze River, this pressure is essentially military. South of the Yangtze it consists of taking advantage of the general political and economic disintegration (a) by holding out political opportunities to wavering Nationalists and (b) by propaganda activities designed to fit a popular desire for peace and stability. In these circumstances, it is highly improbable that, even with increased aid from the US, the Chinese National Government can stabilize the situation sufficiently to give any hope that the present progressive breakdown can be reversed.

It is, of course, likely that various efforts will be made to effect such a stabilization. Chiang Kai-shek might be replaced by a group of Nationalist leaders; but any such attempt to preserve a continuity of Kuomintang influence cannot lead to anything but a weaker government than the present one. Chiang might seek to preserve something by fleeing with his present government to some less easily accessible region than Nanking; but such a move would irrevocably close out any credit the Nationalist Government still has with the Chinese people. While either or both of these courses may be tried, the likely development will be a steady drift toward negotiation and a compromise settlement. As effective Nationalist resistance comes to an end, this drift will probably become a coherent movement and will be more and more widely accepted as offering the only reasonable alternative to the present confusion.

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While the Chinese Communists cannot be expected to agree to a compromise that would keep them from collecting the benefits of their success, they will probably see good reason to negotiate with such non-Communist political leaders as may desert the hard-core of Nationalists who are wholly committed to an anti-Communist position. The bait of a "coalition" government is being dangled and there is no compelling reason why dissident ex-Nationalists, minor party leaders, non-Kuomintang officials, and aspiring regional politicians should not take it. The Chinese Communist Party has consistently presented itself in China as the only real seeker after the national interest. Its positive achievements in the exercise of authority have not perceptibly run counter to Chinese social tradition or to long-established peasant interests. Its links with the USSR have been successfully played down and obscured. This policy has been effective in that only a small proportion of Chinese are aware of the implications of a political coalition with the Communists and are accordingly prepared to support the hard-core Nationalists in resisting it.

A Communist-dominated coalition, possibly proclaimed as a successor government to the Nationalist, must be considered as a very likely next step. Such a government might well be headed by a non-Communist and leave a number of its departments in non-Communist hands. It would claim international recognition on the ground that it represented a natural development of political authority and not a revolutionary rupture. This claim would be supported by the maintenance of correct external relations, by a policy—in considerable part sincere—of avoiding the alienation of US opinion, and by an obvious absence of general internal resistance to its authority. But, behind this facade, it is reasonably certain that the key points of control at all levels of the government would be in Communist hands and that the basic and consistent aims of the Communist Party would be pursued.

The significance of a Communist success in China to the security of the US need not be stressed. The general principle of preventing the consolidation of China by an ill-disposed political force is clearly understood. The possibility of opening Asia to effective Soviet influence, through the channel of a politically dominant Chinese Communist Party, is fully appreciated. The possible effect on the alignment of voting states in the UN Security Council of the appearance of a Chinese representative who is also Communist-instructed, should probably be noted for future examination.

But, for the short-term, the peripheral consequences of a Communist success in China are perhaps more important than the situation in China itself. Within China, it is unlikely that any action taken by the US, can reverse an unfavorable trend. But, on the periphery of China—in Korea, in Japan, and in Southeast Asia—possibilities still exist for attempting such a reversal. However, in these areas, each of which presents its own internal problems, an estimate must be made of the effect of events in China on these problems.

a. Japan: for the time being, the effect would probably be felt in connection with the reorganization of Japanese economy. In so far as plans to this end assumed China as a source of raw materials and as a consumer's market, they may have to be considerably modified. This in turn might involve an indefinite prolongation of US sub-

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sidies and economic commitments. More generally, however, the security situation would enable the Japanese to emphasize the value of Japan as a strategic defense against the expansion of Asiatic Communism beyond the mainland. This value would provide the basis for a still more forcible claim on financial aid and would lay the groundwork for the questions as security guarantees, the reconstruction of an industrial potential, and the reorganization of Japanese manpower for defense purposes.

b. *Korea*: an adverse effect on the stability of the US-supported Republic of Korea can be anticipated. This will follow more from a build-up of morale among Korean Communists than in consequence of direct economic and military aid. A strong sense of success will be passed on, particularly to the southern Communist underground, as a conviction that victory is inevitable. Correspondingly increased apprehension can be expected to affect the judgment and policy of Republican political leaders in the South. There is a strong actual and spiritual kinship between these leaders and the Chinese Nationalists who are being dispossessed. Their apprehensions may well express themselves in the form of oppressive and even terroristic security measures. If the direction of such measures fall into the hands of extreme Rightists, they might easily be carried to a point where the progress that the South Koreans have made toward responsible government will be wiped out and any possible popular base for a Republican regime destroyed.

c. *Southeast Asia*: the problem in this area falls into two parts. The first concerns the direct channels and assistance that will be opened to Communist groups already operating in these areas. Since Chinese Communists are active in all of these groups, it must be anticipated that a closer and easier liaison will be developed with the Chinese Communist Party and hence with Soviet Communism, and that the possibility of a more comprehensive and coordinated strategy for undermining European and US influence will exist. The second problem concerns the Chinese minority groups that are dispersed throughout the region. These groups total about 6½ million people and exercise considerable economic power through their control of small-scale commercial enterprise. Historically, this minority has been organized in relation to political alignments in China itself, and therefore reflects the influence and propaganda of the Kuomintang and of the Communist Party respectively. It is possible that these established political alignments may be maintained in Southeast Asia after they have ceased to be significant in China itself, for a retreat of Kuomintang personnel and funds may create a Party structure in exile; and it is certain that Communist groups will be strengthened and increased. In general, however, it is considered that these minorities—after an attempt to remain neutral—will begin a cautious reassessment of their political allegiance and will, especially if there is a Coalition Government in China to which they can attach themselves, fall in line with the possible political developments that have been described earlier.

This tendency may be speeded up if local governments in Southeast Asia seize on this moment of uncertainty to bring their Chinese minorities under restrictive control with the object of preventing Chinese encroachments on their sovereignty and of furthering their own nationalist aims. A vigorous effort in this direction might well

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oblige Chinese minorities to align themselves with whatever dominant government emerged in China and was able to make effective diplomatic representations on their behalf.

In each of these areas there is, in addition, the question of the effect of these possible developments on US influence and US interests. There is no doubt that US policy with respect to Nationalist China has been watched with close attention—in particular that aspect of policy which apparently linked aid with checking Communist expansion. It is inevitable that the governments, parties, and politically conscious groups in the states bordering China should come to a negative conclusion about the effectiveness of such a policy. This conclusion will probably raise serious doubts about the advisability of relying on US assistance as a counterbalance to the demonstrated success of Communist forces. The propaganda advantages of this situation will certainly be fully exploited against the US and the need for a countereffort is clearly indicated.

For the immediate future, US action in the Far East is probably limited to the maintenance and—if possible—the improvement of the US position in the peripheral areas. With respect to China itself, immediately useful courses of action appear to be blocked. However, for the longer term, factors do exist which allow time to reconsider the situation. The fundamental problems of demographic pressure and a disorganized and inadequate economy will not be solved merely by the substitution of one regime for another in China. The Chinese Communists do not have personnel equipped even to begin to deal with such problems, nor can such personnel be provided by any known political coalition. The Chinese state will not be quickly converted into a “going concern” under Communist direction. Material and technical assistance from abroad will be as much needed as before and the finger will continue to point to the US as the only likely source of supply. Channels exist for exerting judicious pressure by these means and a competition with the USSR for superior influence even in a Chinese Communist government need not be wholly dismissed.

It is still not certain that the Chinese Communist Party is an absolutely reliable instrument of Soviet policy. There are some indications of differences of opinion within the party in respect to the degree of orientation toward the USSR that is desirable. While these do not give hope for an immediate serious split, the monolithic control that the USSR is demanding from the Communist parties of the West has not yet been realistically tested against the regionalism and social incoherence of modern China.

The essential security interest of the US in the Far East consists in preventing the organization of that region by governments whose orientation and comparative power weaknesses will combine to make them serve the purposes of an expanding Soviet power. The dangerous factor in the success of the Chinese Communists, both in China proper and in their increased capacity to influence events in neighboring countries, is that a start has now been made in this direction. It cannot, however, be concluded from this that the ultimate threat to US security has been made and that a correspondingly comprehensive answer must be immediately found. A dangerous

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trend, capable of development into a serious threat, is clearly indicated; but the total situation is still far from being irreversibly unfavorable. The organization of China and its periphery into a political group through which the USSR can threaten US security requires the formulation and implementation over a long period of time of complexly related policies. That the Chinese Communists represent this type of authority and are capable of this type of long-range operation is still untested. Even if they should be, the conversion of China into an effective center of power assumes that China possesses—in unexploited form—the fundamental attributes of a modern power system. This assumption is considered questionable. The security problem before the US is not one that demands a comprehensive solution in the immediate future. It calls instead for the firm maintenance of positions peripheral to the area of collapse and for the steady development of new sources of influence within the area.

2. EASTERN EUROPE AND THE USSR.

The competition between the West and East for the heart of Europe comes more and more openly to depend upon the reality of the power—actual and potential—that can be brought effectively to bear. Soviet policy, in both its strategy and its tactics, cannot be divorced from its status in Eastern Europe.

At the present time, Soviet policy in Europe is focused on Germany. In connection with this policy, the USSR must calculate the adequacy of its control over the belt of states that lies between the USSR proper and Western Europe. This belt comprises simultaneously a “defense in depth” and a jumping-off point for either ideological or military aggression. From the Soviet point of view, eastern Germany is part of the northern sector of this security belt.

The importance of the states making up this belt varies in relation to specific tactical objectives. Thus, with Soviet attention fixed on Germany, Poland and Czechoslovakia are of prime significance. As long as the main objective is the industrial potential of Western Europe, the Balkan Satellites are a secondary consideration. In the strategic view, the Kremlin can afford to move slowly in dealing with Tito in Yugoslavia.

But, although Yugoslavia may be of secondary importance in terms of the strategy of a Soviet policy in Germany, the Yugoslav schism has far-reaching political significance in relation to the over-all problem of dominating the belt of Satellite States. It represents a direct challenge to both the concept and methods of control. As such, it has made a deep impression upon the Satellite peoples, stirring latent nationalisms and facing local Communist leaders with the dilemma of reconciling the arbitrary political and economic demands of the USSR with local exigencies.

Whatever previous estimates may have been made by the USSR of the effectiveness with which the Satellites were controlled, doubts have been raised. These doubts have expressed themselves in the Communist purges in Poland and Czechoslovakia; and it is significant that these doubts are apparently being stifled by a stricter use of the techniques of party discipline and police methods rather than by basic modifications of policy.

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The general uneasy stability of Eastern Europe, though revealed chiefly by political controversy and nationalist unrest, derives in a considerable degree from economic unbalance. The doctrine of non-participation in the European recovery program, which the USSR forced upon Eastern Europe, was not accompanied by commensurate Soviet aid. Soviet insistence on a rapid collectivization of agricultural production in countries where the traditional political objectives of predominantly peasant populations were the private ownership of land, has created tensions which increase as familiar standards of living decline and as hopes are not realized. Ideological loyalty cannot be secured in these circumstances, and its lack is made up for by firmer methods of control.

It is clear that the integration of a Soviet Eastern European Empire is far from complete, and that a genuine assimilation of the Satellite States on terms satisfactory to the Kremlin is still remote. This does not imply that there is not a sufficient degree of domination to proceed with the execution of a policy for Germany and Western Europe, but it does imply that Soviet policy does not have an absolute and certain foundation and that the need to estimate the degree of control that exists cannot be overlooked.

The effort of the US to stabilize Western Europe and revive the western zones of Germany, obliges the USSR to examine the degree of control it must maintain in Eastern Europe in order to use that area as a secure base for operations in Germany and against the West. If political and economic stability increases in the West, disparities of all kinds will appear between the west and the east of Europe—availability of consumer's goods, reduction of social tensions, re-establishment of individual freedoms. Such disparities, by casting doubt on the efficacy of Communist ideology, will affect the speed with which the Satellite States are being assimilated and will probably force ever increasing controls in order to preserve a position of relative strength. Hence, the rate of rehabilitation in Western Europe will directly determine the tempo of Soviet efforts to consolidate Eastern Europe.

As long as an unfavorable basis for comparison exists, Soviet control in its European security belt will never be wholly satisfactory. If the USSR ever decides to play its trump card and incorporate the area with the Soviet Union, it will be a sign that the situation is considered to be seriously insecure.

At the present moment, it is evident that the USSR is dealing with a condition of uneasy stability in Eastern Europe and that its expansionist policy is to some degree inhibited by the uncertainties of this situation. With particular reference to the German focus of this policy, an additional uncertainty is introduced by the attitudes of an insecure Poland and Czechoslovakia toward Germany. In precisely the same sense that French uneasiness interferes with a wholehearted policy of reviving western Germany, Polish and Czech uneasiness cuts across the policy of creating a Soviet-oriented government in eastern Germany. This deep-rooted fear of putting the means of future aggression back into German hands is apparently stronger than any concept of international Communism. Yet, from the Soviet point of view, the establish-

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ment of a strong Soviet-controlled German system in eastern Germany is a prerequisite to achieving Soviet aims for Germany as a whole.

In view of these considerations, there are grounds for concluding that Soviet tactics in Europe will continue to be developed by political rather than military means, and that Eastern Europe is at this moment a base suitable only for operations short of war. If Soviet policy reaches the point where it accepts the necessity for large-scale military operations as well, it will be obliged drastically to increase its control over the Satellite States in order to ensure their effective support.

3. NEAR EAST.

The situation in Palestine has now reached the point where it is stalemated internationally but leaves local initiative in the hands of the Israeli state. A series of well-designed military *fait accompli* have broken down whatever theoretical balance was being preserved by the UN truce, and it is now doubtful if the Security Council is willing to make or able to execute the judgment that would be needed to reverse the process. By all the usual calculations, the Arab position has deteriorated to the point of being untenable, but religious and nationalistic feeling may result in its being maintained even in the face of fact. This deterioration, though apparently appreciated by Arab political leaders—each in terms of the interests of his own country and parties—is not generally understood by an over-stimulated public opinion. In consequence, the members of the Arab League, while maneuvering to find a scapegoat among themselves, are at the same time prevented from making realistic adjustments to the fact of Israeli strength by their fear of political repercussions at home.

In these circumstances, even though the Israeli can probably drive the Arab armies out of Palestine, fix the borders desired, and force a negotiated settlement, the relative peace that would thus be secured for the state of Israel would be more than counterbalanced by the increased instability of the rest of the Middle East.

4. SIGNIFICANT TRENDS.

a. World Labor.

When the "cold war" was joined, one of its key problems became the effort to influence what went on in the minds of men, and one of the most important aspects of this problem was the body of opinion and action represented by world labor. The World Federation of Trade Unions (WFTU) was the stage for a significant effort to merge trade unions of the Soviet type and unions of the Western Democratic model in an organization that would focus on common labor objectives and that would pursue them in an atmosphere of working-class solidarity. This aspiration and the ambiguities it permitted, gave Soviet-Communist strategy a chance to try to substitute an international Communist loyalty for the dispersed loyalties of national labor organizations.

A conscious resistance on the part of Western labor organizations has developed, probably as a natural but delayed consequence of the broader East-West conflict. Important signs of the growth of an organized resistance have been accumulating for some months. Efforts to enlist labor support for the European recovery program have moved considerably beyond the original official idea of setting up the European

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Trade Union Advisory Committee (TUAC). The American Federation of Labor, for example, sponsored the establishment in Paris of a committee of exiled labor leaders from Eastern Europe. Subsidiary labor groups—International Metal Workers, Transport Workers, Mine Workers, the French *Force Ouvriere* and the British Trade Union Council (TUC)—have publicly expressed doubt about the activities of the Communist-oriented Secretariat of WFTU.

Supplementary support for this trend was given by the breaking up of Communist-Socialist trade union coalitions in France and Italy; by the purging of Communist executives in American, British, and Latin American labor organizations; and by the increasingly outspoken definition in Western Europe of Communist labor as dominated by Soviet policy rather than by the interests of the nation of which labor was a part. Catholic trade unions have also sought to revitalize themselves and to find ways of removing the anti-clerical antagonisms that had previously made it difficult for them to work in conjunction with other labor groups.

Most recently, and of considerable significance, the British TUC has recommended that all WFTU plans and activities be suspended for one year. The recommendation is coupled with a threat to withdraw from the WFTU if the World Federation does not comply. The American Committee for Industrial Organization (CIO) will apparently follow suit. The motive behind this action is the increasing certainty that WFTU is being used by Soviet-Communism as a channel for bringing international labor into opposition to ERP and organizing it to support Soviet policy aims. Soviet reaction has been immediate, and it is evident that the possible formation of a new international labor organization, oriented to Western policy, is viewed with alarm. Soviet propaganda has already discovered a conspiracy to destroy working-class solidarity.

In general, the development here described is still in its early stages. The factors that set it in motion are far from being consolidated. In particular, money is not available for rapidly organizing this trend into a strong and coherent body of labor opinion. Hence full advantage cannot be taken of its value as a counterbalance to Soviet propaganda and Communist activities in areas of political and economic instability. The trend, however, has reached the point where it opens a valid channel to one of the most important sectors of opinion in the democratic world.

b. The British Commonwealth.

The outstanding fact of the recent conference of Commonwealth Prime Ministers was the unmistakable evidence of fundamental agreement about the basic problems of contemporary international relations. Contrary to expectations, recognized grounds for disagreement were not developed at the expense of the superior value of making a common cause. The facts of the present East-West conflict were accepted, not obscured; and the necessity for adjusting to these facts was admitted.

The Prime Ministers endorsed Great Britain's commitments under the Brussels' Pact as being in the Commonwealth interest. They concurred in the need to rearm and in the obligation to combat Communism by progressive social and economic meas-

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ures. Finally, they agreed to improve the machinery for mutual consultation at all stages of relevant policy formulation.

Though no formal attempt was made to resolve intra-Commonwealth issues, the degree of basic unity that was revealed made their solution seem less pressing. The intangible consequences of this conference cannot be precisely measured. It adds to the potential political power of Great Britain and of the individual members of the Commonwealth by forcing others to assume once more a solidarity that was being questioned. It indirectly serves US interests by providing a clear channel for coordinating one large sector of foreign relations. It adds to the British capacity to influence Western Europe.

c. Germany.

A draft constitution for the Western Zones of Germany is being completed by the main committees of the Parliamentary Council. In the Soviet Zone, the People's Council has recently approved a draft constitution for eastern Germany. Each is theoretically designed to be suitable for extension to a Germany unified according to Western or Soviet doctrine. Their simultaneous presentation reflects the current acceleration of the trend toward partition, a trend that is given impetus by economic developments and by strategic considerations. The long implicit competition between the West and East for control of a central position in Europe and of the power potential that goes with this region is now much closer to being openly joined.

For its part, the USSR appears to be compensating for the increasing economic difficulties of its Zone and the widespread political apathy that greets its efforts to win popular support by strengthening its economic and political controls and by a reorganization and expansion of its German-Communist security forces. The implication is, not that the USSR has modified its objectives in Germany, but, that it is prepared to accept the fact that it may be obliged to employ broader and more direct coercion for their achievement.

The West, in contrast, pursues its objectives by economic means and by seeking to reduce its controls over German political life. A comprehensive development of this policy, spearheaded as it is by the incorporation of western Germany in the European recovery program, is not easy. At all stages, it runs into the fears of Western Europe about the restoration of German industrial-military capacity, and into the related question of reparation. The hesitations introduced by this point of view are often beyond the reach of logical argument and negotiations must wait on the pressure of events for their removal.

5. PARTICULAR SITUATIONS NOTED.

a. Latin America—Paraguay and Peru.

Recent events in these two countries have illustrated two types of possible consequences that are likely to follow from the basic social and economic instability that prevails in much of Latin America. In the case of Peru, the new regime cannot be expected to achieve more than a short-term stability; and the chances for the re-establishment of a more broadly based, democratic government—the prerequisite for long-

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term stabilization—have been reduced by the outlawing of APRA, the most popularly based party in the country. In the case of Paraguay, the extreme weakness of the present government invites an expansion of Argentine influence. Argentine investments in Paraguay will encourage the use of pressure to ensure the type of stability that will protect these investments. The serious split in the Paraguayan Army—an unusual development in Paraguayan politics—facilitates the use of pressure, and channels for exerting it are available in the large number of important Paraguayan exiles who are now gathering in Argentina.

b. Greece - Turkey.

Military operations against the guerrillas have slowed almost to a standstill and, in view of the unlikelihood that effective international action will emerge from the current UN discussions, a solution of the military aspects of the Greek problem cannot be expected in the near future. This check to publicized expectations has led to a new wave of inflationary pressure and made the whole unstable structure of economy and public morale increasingly sensitive to sabotage and disruption. Political disunity has also raised its customary head—probably as a consequence of an atmosphere of deterioration—and agitation for a non-political “service” government may enter into the maneuverings that have begun. The effect of these unfavorable developments on US security interests are partly balanced in the same general area by the benefits which US aid is beginning to produce in Turkey. Military training programs and service reorganizations are well under way there and considerable modern equipment has been received. Official and public morale is correspondingly high.

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