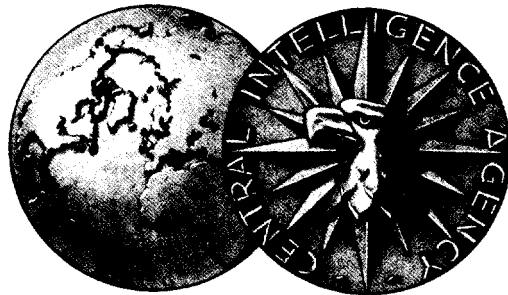


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REVIEW OF THE WORLD SITUATION



0250100

CIA 7-48

Published 14 July 1948

CIA Library

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S E C R E T

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

SUMMARY

1. The primary purpose of the Soviet blockade of Berlin is to compel the Western Powers to reopen quadripartite negotiation with respect to Germany as a whole (infra., para. 1).

2. The breach between Tito and the Kremlin brings into the open the latent conflict between international Communist discipline and national interest which has been inherent in the situation since the expansion of Communist control beyond the historical frontiers of Russia and puts in question the ability of Russian-controlled Communism to retain power indefinitely beyond those frontiers. For the short term, at least, it seems probable that Tito will succeed in making good his assertion of Yugoslav independence (infra., paras. 2 and 3).

3. Tito's contumacy will probably cause a widespread and disruptive purge of Communist ranks which will complete the elimination of Communism as a formidable political movement in Western Europe, but perfect the remnant of the faithful as a disciplined fifth column (infra., para. 3).

4. The favorable general trend toward world economic recovery continued during the second quarter (Appendix).

5. Unless the Arabs can force political concessions from the Jews during the next two months, logistical difficulties may compel them to withdraw their armies from Palestine. Under continuing guerrilla attack, however, and in political and economic isolation from neighboring states, Israel would remain dependent on the support of an outside Power or Powers (infra., para. 11).

6. Prevailing conditions throughout the Far East continue to be adverse to US strategic interests and favorable to the extension of Soviet influence (infra., paras. 13-17).

7. Latin America is approaching a political and institutional crisis which may seriously affect its ability to afford valuable cooperation to the United States (infra., para. 18).

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

GENERAL

1. SOVIET PURPOSES IN GERMANY.

The Soviet blockade of Berlin is consistent with the desire to negotiate indicated in CIA 6-48. The Soviet purpose in any negotiations, however, would be offensive rather than defensive or conciliatory.

The blockade of Berlin is designed, in the first instance, to compel the Western Powers to reopen quadripartite negotiations with respect to Germany as a whole and to render them acquiescent to Soviet terms. At no more cost than the relaxation of this pressure for the time being and perhaps minor concessions on such matters as reparations, the USSR would hope to gain an effective voice in the control of Western Germany and especially of the Ruhr. By this means it could prevent the consolidation of a West German state aligned with the West and could gain an opportunity to bring about an eventual eastward orientation of Germany as a whole. The corresponding broader consequences would be to reduce the contribution of the Ruhr to the recovery of Western Europe, to gain a share in Ruhr production for the USSR and its satellites, and to prevent or retard the consolidation of a Western European community antagonistic toward the USSR.

If the Western Powers refuse to negotiate, however, or to accept in negotiation the USSR's terms, the current blockade of Berlin will have so weakened the Western position there as to hasten the day when the USSR would expect it to become untenable. Denied quadripartite agreement on Germany as a whole, in all probability the USSR would intensify its presently coercive blockade into a decisive effort, by all means short of armed force, to compel the Western Powers to withdraw from Berlin, would establish there a "national" German government, and would employ every means of political warfare and subversion to prevent the consolidation of a West German state and to bring about an eventual unification of Germany by accession of the West to the Soviet-controlled East.

2. THE BREACH BETWEEN TITO AND THE KREMLIN.

The breach between Tito and the Kremlin is the most significant development in international Communism in twenty years. It brings into the open the latent conflict between international Communist discipline and national sentiment which has been inherent in the situation since the expansion of Communist control beyond the historical frontiers of Russia and puts in question the ability of Russian-controlled Communism to retain power indefinitely beyond those frontiers.

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The essential complaint against Tito is that he pursued his own political interest and the national interest of Yugoslavia rather than the objectives of the Kremlin and that he remained defiantly impenitent when called upon to confess his error and mend his ways. The principal issue was probably his persistent advocacy of a Balkan federation, which could cloak Yugoslav imperialism and could result in the creation of a power capable of asserting its independence of the USSR in the international balance of power. An incidental aspect of this tendency was his disposition to exploit the situation in Greece to Yugoslav advantage and Communist disadvantage.

The Kremlin's decision to call Tito to account appears to have been taken in February, when he failed to practice self-criticism and abasement with respect to Balkan federation, as did Dimitrov of Bulgaria. Tito's formal indictment occurred in March and was generally known throughout the higher echelons of the Communist Party in Eastern Europe. The conflict became public, however, only on Tito's refusal to leave the safety of his own country to attend the June meeting of the Cominform.

The open scandal has been most untimely from the point of view of Molotov and his diplomatic interests, suggesting a conflict of purposes, if not of personalities, between him and Zhdanov, the guardian of ideological purity and party discipline. The Kremlin may have been so ill informed as to suppose that Tito would not dare to refuse the awful summons to Canossa. In any case, it was compelled to invoke open sanctions against his contumacy, lest that demoralize the remaining satellites in Eastern Europe. The event is evidence that excommunication and interdict were the only sanctions available to the Kremlin in this case.

The Yugoslav Communist Party is unique (except for the Chinese) in that it is of local development and self-contained. It is rooted in the Yugoslav Partisan movement, which was genuinely patriotic in its appeal, for all its Communist leadership. Such outside support as the Partisans had came not from the USSR, but from the West. The Partisans could readily be led again to defend Yugoslavia from foreign domination.

The Kremlin cannot brook Tito's recalcitrance, but neither can it immediately overcome him, in view of the loyalty of the Yugoslav Party, Police, and Army to him personally. Even if Tito were to be assassinated, that act would make him a martyr to Yugoslav independence and would stimulate rather than subdue Yugoslav resistance to Soviet domination. Economic sanctions would have only indirect effect, and might force Yugoslavia into closer economic and political relations with the West. Armed invasion would provoke a frenzy of patriotic resistance, would afford greater opportunities to the Western Powers, and would involve unacceptable risk of a general war. Only by long term penetration and subversion can the Kremlin get at Tito, yet each passing day of his impunity damages its prestige in Eastern Europe.

Tito, for his part, cannot immediately turn to the West without rendering his position vulnerable. He must demonstrate his loyalty to Communism and protest his innocence of heresy. Inexorably, however, the logic of his position will force him into association with the West as a factor in the balance of power, however Com-

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munistic his domestic policy. The greater the pressure exerted on him by the Kremlin, the more rapid this transition will be.

3. INTERNATIONAL COMMUNIST DISCIPLINE.

The Kremlin is quite capable of exploiting the sentiment of nationalism for its own purposes, as currently in Southeast Asia (para. 16). In both theory and practice, however, it cannot permit either individualism or nationalism to impair the absolute obedience of local Party leaders to its own dictates. A conflict between such rigid discipline and local judgment is implicit in the character of international Communism. Apart from any latent patriotism, it may appear in a national leader's presumption of better understanding of the national temperament or of the local situation. This disciplinary problem is currently rendered the more acute by the fact Communists now man the governments of half a dozen supposedly sovereign national states.

Within the Soviet Union the conflicting requirements of particular nationalisms and monolithic Soviet unity are reconciled by loose federation in the governmental structure and tight control through the parallel party organization. A similar device would serve to reconcile the nominal independence of Poland, for example, with the absolute domination of the Kremlin, so that Poland's "independence" would be no greater than that of the Ukraine, but the effectiveness of the system would depend upon absolute party discipline.

The Tito affair has exposed the Cominform as no mere information bureau, but, as supposed, the successor of the Comintern as the device for Kremlin control of foreign Communist parties and the governments of "independent" states where Communists are in power. Also made starkly plain is the Kremlin's subordination of every national interest and consideration to its own absolute power. This revelation should preclude the further political association of any patriot with international Communism and so reduce the Communist parties of Europe to those militants who have irrevocably transferred their entire allegiance to the Kremlin.

This tendency had been apparent in the French Communist Party since the establishment of the Cominform, but the process is as yet by no means completed. The Italian Communists avoided the forfeiture of national character and as recently as April could command 8,000,000 votes, but in June they too adopted the strict Cominform line, no doubt prepared to accept the logical consequences.

In Eastern Europe considerable latent nationalism persists even among Communists, especially in Poland and Czechoslovakia. Ironically, the vehemence of the Albanian and Bulgarian denunciations of Tito is attributable as much to individualistic and nationalistic fear of Tito's ambition and Yugoslav imperialism as to Communist discipline.

Tito's example could prove infectious in the non-Russian Communist world and cause a schism comparable only to that between Trotsky and Stalin. In any event, the apprehensions of the Cominform will probably produce a widespread and disruptive party purge. This process will probably complete the elimination of Communism as a

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formidable political movement in Western Europe, but at the same time it will render the faithful remnant more effective as a disciplined fifth column.

The Chinese Communist Party is guilty of most counts in the indictment of Tito, but nothing is likely to be said about that.

4. THE ECONOMIC TREND.

The favorable general trend toward world economic recovery continued during the second quarter (see Appendix, p. 10).

PARTICULAR SITUATIONS IN EUROPE

5. THE UNITED KINGDOM.

The most serious postwar crisis has found the British Government resolute in policy and strongly supported by the British people. Fears that war weariness and economic weakness might induce a mood of appeasement in the face of Soviet menace have been disproved.

The United Kingdom's international balance-of-payments position remains critical, however, despite a marked increase in industrial production, a record volume of exports, a restriction of imports to approximately four-fifths of the prewar level, and the prospect of substantial ECA assistance. It seems clear that, even with ECA support, the drain on dollar and gold reserves will continue through 1948.

6. FRANCE.

The National Assembly, in approving the Six-Power Agreement on Germany by a narrow margin, "admonished" the Government to seek more extensive international control of the Ruhr, to avoid the reconstitution of an authoritarian and centralized Reich, and to endeavor to obtain quadripartite agreement with respect to Germany. Although the Government's adherence to the existing Agreement is unqualified, it will presumably heed the Assembly's "admonitions" in its attitude during the further development of the situation in Germany.

The Assembly's action on the Six-Power Agreement coincided with an outbreak of violence as security forces broke up a sit-down strike in the rubber plants of Clermont-Ferrand. The strike, in support of wage demands, was part of a Communist plan to keep France in a ferment of local economic strikes while avoiding another general test of strength with the Government until Communist control of labor had been re-established. Local militants, however, seized the occasion to instigate disorder at Clermont-Ferrand and to call sympathy strikes throughout France, and the Party was compelled to support them. This attempt to exploit the situation was defeated, however, by the aloofness of non-Communist labor and the decisive action of the Government's security forces: within a few days the strike wave had subsided. The Communists, reverting to their previous strategy, are unlikely again to challenge the Government until the "social climate" improves.

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These labor troubles, however, point up the wage-price dilemma confronting the Schuman Government. The non-Communist unions, at the risk of losing members to the CGT, have withheld wage demands in order to support the Government's effort to reduce prices. Retail prices, however, are rising again and are already back at the high reached in February. The non-Communist unions are thus compelled to demand a return to price control and to consider demands for wage increases. The Government's position is rendered the more difficult by the fact that DeGaulle, in an effort to win labor support, has now seized upon this issue and instructed his labor cells to take the lead in wage demands. Some upward adjustment of wages would appear to be politically imperative, but satisfaction of the workers' demands would launch another round of inflation equally dangerous to the Schuman Government.

7. ITALY.

Like their French comrades, the Italian Communists are seeking to reassert their leadership of labor by exploiting legitimate economic grievances, with particular reference to inadequate pay and increasing unemployment. Their latest device, a series of token general strikes in successive industries, has met with success because of the inability of non-Communist labor leaders to oppose them on these issues.

The Socialist Party Congress rejected Nenni's leadership, the Popular Front as an electoral device, and resistance to the European recovery program, but these concessions to rank-and-file sentiment were offset by lack of progress toward reunion with the moderate Socialists and a resolution in favor of continued collaboration with the Communists. Although the situation within the Party is fluid, developments probably depending on factional opportunism, continued indirect Communist control of the Party apparatus may be suspected.

Meanwhile the Government has taken no constructive action to allay labor discontent, and appears unlikely to do so before the impending adjournment of Parliament. Its inactivity with respect to promised reforms has caused concern among its Socialist and Republican members. The policy of the Government may be to rely on ECA allocations to ameliorate economic conditions in Italy, basic reforms being opposed by powerful industrial and ecclesiastical influences. Such a policy would play into the hand of the Communists.

8. GERMANY.

The Western German attitude toward the Six-Power Agreement remains unenthusiastic (CIA 6-48). Both major parties, the Social Democrats and Christian Democrats, argue that the people are more concerned with economic than with constitutional problems and hold that nothing more than a basic administrative statute could be formulated in present circumstances. In keeping with this attitude, the representatives of the eleven Western laender have agreed to the proposed establishment of a central administration at Frankfurt, but have requested that the words "constitution" and "government" not be used with reference to it.

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The initial effects of currency reform in the Western Zones have been generally good. The ultimate effect will depend largely on increased production of consumers goods before goods hoarded hitherto have been sold off. In contrast, Soviet currency reform appears to have been hasty and slipshod. Despite the precariousness of the situation in Berlin, Western marks are at a premium there over Soviet marks.

The German population in the Western sectors of Berlin continues to be strongly anti-Soviet in attitude. Its faith in the Western Powers has been strengthened by their evident determination and the scale on which supplies are being flown in. These Germans will generally remain steadfast in this attitude unless their will is sapped by starvation or by conviction that Soviet occupation is inevitable.

The British embargo on shipments into the Soviet Zone has had a damaging effect on the economy of that area and has correspondingly enhanced the bargaining position of the Western Powers with respect to the blockade of Berlin.

9. YUGOSLAVIA (see also para. 2).

Even before Tito's break with the Cominform, the Yugoslav economy was in difficult straits (CIA 6-48), largely because of the inability of the USSR to deliver capital goods, and Tito had shown anxiety to obtain from the West the economic support which the East could not provide. In present circumstances, and in view of the "technical difficulties" which have already arisen with respect to Danubian shipping and Rumanian oil, Tito will be all the more anxious to develop trade with the West. His economic need, however, is balanced by political necessity to avoid the charge that he has sold out to Wall Street, so that great delicacy is required in this matter.

THE NEAR AND MIDDLE EAST

10. GREECE.

The resistance met by the Greek Army in the critical operation of its summer campaign indicates that the guerrillas are not yet ready to abandon their cause as hopeless.

Markos, already apprehensive of Yugoslav designs on Greek territory, has no choice but to adhere to the Cominform in its quarrel with Tito. He will presumably receive the continued support of the Cominform, Albania, and Bulgaria. Supplies stockpiled for him in those countries are sufficient to keep him in business for some time, if he can avoid defeat in the field.

11. PALESTINE.

Since 15 May the Jews and Arabs have experienced four weeks of bitter hostilities and four weeks of uneasy truce, without any weakening of either Jewish determination to establish a sovereign state or Arab determination to prevent it. The period of hostilities led to a military stalemate. The period of truce was advantageous to the Jews. The Arabs have now refused to accept an extension of the truce unless their proposals for a political settlement (a unified Palestine with restrictions on Jewish immigration) are accepted as the only basis for further negotiation.

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In the resumption of hostilities the Jews will probably seek to consolidate their control of the coastal strip and of Galilee and to gain complete control of Jerusalem. The Arab main effort will presumably be to reimpose their blockade of Jerusalem. The success of the Arabs is doubtful in view of their acute shortage of ammunition.

Unless the Arabs can force political concessions from the Jews within the next two months, logistical difficulties will probably compel them to withdraw their armies from Palestine. However, they can be expected to support guerrilla operations there indefinitely. Arab raids, non-recognition, and economic sanctions will isolate and harrass Israel, impose upon it a heavy burden of defensive precautions, and stifle its economy. Israel will thus remain entirely dependent on the goodwill and support of some outside Power or Powers.

12. THE MIDDLE EAST.

The new Hajir Government in Iran gives promise of a resolute policy toward the USSR and even of some internal reform. Hajir's success will depend largely on the continued support of Qavam against the bitter opposition of anti-court and radical elements.

The potentially explosive Kashmir and Hyderabad disputes remain unsolved, but the danger of armed conflict between India and Pakistan appears not to be immediate.

THE FAR EAST

13. GENERAL.

Prevailing conditions throughout the Far East continue to be adverse to US strategic interests and favorable to the extension of Soviet influence. Fear and suspicion of US efforts to bring about the industrial rehabilitation of Japan are widespread. Uncertainty as to the continuance of US support for the newly elected government in South Korea and the rapid deterioration of the situation in China are both damaging to US prestige and influence. Southeast Asia has recently been the scene of intensive Soviet and Communist activity apparently intended to deny to the Western Powers the strategic materials produced in that area.

14. KOREA.

The "National Assembly" in Seoul will probably establish a professedly national government for Korea on 15 August. The North Korean radio has threatened that, in this event, a national government, including South Korean representation, will be established in the North, and that this government will demand the withdrawal of all foreign troops.

In keeping with previous estimates, the Soviet strategy foreshadowed in this propaganda is to delay until US responsibility for the division of Korea is "proved" by the inauguration of a separate South Korean regime and then to establish the proposed Korean People's Republic in the North, with membership from both sections of the

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country, which the government at Seoul would lack. At the request of the People's Republic, Soviet troops would be withdrawn. At the September session of the UN General Assembly the USSR would then demand that the People's Republic, rather than the government at Seoul, be recognized as truly national, and that US as well as Soviet forces be required to withdraw from Korea.

15. CHINA.

Within the past month the prestige and authority of the National Government have sunk to a new low marked by the sudden fall of Kaifeng and the spectacular decline in the value of the Chinese dollar.

The National Government has no program for arresting the continuing deterioration of the situation. Despite increasing criticism, Chiang Kai-sek continues to rely on personal adherents, including many of proved incompetence. In default of effective national leadership, provincial authorities tend increasingly to shift for themselves on a regional basis. This tendency, involving conservation of local military and economic resources, hastens the disintegration of the national effort.

Continuation of the existing trend in China will inevitably result in chaos, from which will emerge either general Communist domination or a new period of regional war-lordism.

16. SOUTHEAST ASIA.

The extent of Soviet penetration in Southeast Asia (CIA 6-48) has been rendered more apparent by the outbreak of violence in Malaya, where local Communists (predominantly Chinese) are conducting a campaign of destruction and terrorism against the operation of rubber estates and tin mines. A major British effort will be required to safeguard the continued production of these strategic materials.

At the same time, the endurance of Vietnam as the principal stronghold of Communist influence in Southeast Asia is underscored by the ineffectualness of the French-sponsored Xuan regime and the ambiguity of French policy toward it.

By supporting native nationalism throughout Southeast Asia the USSR is not only undermining Western political domination of that area and spreading Communist influence there, but is gaining a capability to deny the strategic resources of the region to the Western Powers.

17. THE PHILIPPINES.

The grant of a general amnesty to the Hukbalahap and the seating of its Communist leader, Luis Taruc, in Congress may result in solving the Philippine Government's most vexatious internal problem, if the Huks actually surrender their arms, as required, and the Government actually carries out promised agrarian reforms. This reversal of the policy of the late President, however, is a further manifestation of an increasingly nationalistic (anti-US) trend in Philippine politics. Taruc, as a Com-

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munist, opposes US influence under color of ardent nationalism and in effect has imposed his own terms on the Government as a precondition of his acceptance of amnesty.

LATIN AMERICA

18. GENERAL.

It is becoming increasingly evident that Latin America is approaching a political and institutional crises which may seriously affect its ability to afford valuable cooperation to the United States. Stability in the region has been shaken by the impact of rising import prices on raw material economies, by the disappearance of many of the former bases of political power, and by the ability of the extreme right and the extreme left to exploit the growing power of labor. Merely palliative measures, such as repression of Communist parties, are unlikely to cure the underlying unrest, or to create a new broad basis of political power, or noticeably to diminish the capabilities of subversive elements to exploit the disturbed situation. Continuing tension between international alignments in the Caribbean, internal struggles for power in Panama, Ecuador, and Peru, instability in Bolivia, and the long-continued inability of the President of Chile to govern without extraordinary powers are symptoms of the general condition of affairs. Even Argentina, a few months ago seemingly stable and prosperous because of advantages seized in a sellers' market, must now, with the disappearance of these temporary advantages, consider increasingly authoritarian measures to augment production and may, failing substantial US aid through ECA purchases or otherwise, yield to nationalistic pressure for non-cooperation with the United States. Generally increasing pressure for US aid is merely additional evidence that Latin American leaders cannot find within themselves or their countries the means to restore stability and achieve real authority for their governments.

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A P P E N D I X

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

GENERAL

World economic recovery, as measured by industrial output and international trade, continued its upward trend during the second quarter. Increase in the availability of consumer goods, however, is still restricted in many industrial countries by the imperative need for reconstruction of war-damaged facilities and modernization of industry. Prices of most internationally traded primary commodities remained firm; the price of wheat, however, declined about 5 percent, while prices of several metals, notably tin and lead, increased. Work stoppages attributable to strikes and labor unrest were comparatively few during the quarter, but Communist-instigated labor disturbances remain a serious threat to production in parts of Western Europe and Southeast Asia.

STEEL AND NONFERROUS METALS

Steel production expanded at an accelerated rate in several of the major industrial countries. The United Kingdom, still lacking hoped-for quantities of scrap from Germany as well as high-grade imported iron ores, reached a rate, at least temporarily, of 15.5 million metric tons per year. France was producing steel at a rate of 7.7 million metric tons annually, which rate was above expectations. In the Bizone of Germany steel was being produced at an annual rate of about 4.25 million metric tons, somewhat below previous estimates of probable productive capacity. This short-fall may be corrected yet this year if more high-grade iron ore is obtained from foreign sources and an adequate share of domestic scrap and coal are allocated for this purpose. In the United States, steel output was set back temporarily in the spring owing to the coal strike; at that time production declined to about 70 percent of capacity, but by mid-year it had reached an annual rate of 82 million metric tons, equal to the wartime maximum. World-wide requirements for steel, however, continue to exceed availabilities. Supplies of chrome, nickel, and other alloy steels and steel-alloying metals, although not plentiful, are in general meeting minimum requirements.

Nonferrous metals continued in short world supply as demand was maintained at a high level. This world shortage may grow more acute during the second half of 1948, although some Western European countries will obtain larger supplies under European recovery program than were available to them during the first half of the year. With demand running persistently ahead of production, prices of lead, tin, aluminum, and antimony increased during the second quarter. With a continuation of the

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tight supply, nonferrous metal prices may be expected to hold firm throughout the remainder of the year.

The production of lead and zinc is increasing in Canada, Mexico, Australia, and the United States, although Mexico had a marked set-back in the early spring owing to labor strikes which have since been settled. In Australia any increase in the availability of mine production will depend on improvement in transportation facilities.

Copper production in Canada, Chile, and the United States is increasing, but there is little change in Northern Rhodesia and the Belgian Congo.

Mine production of tin in Malaya and the Netherlands East Indies is larger as a consequence of rehabilitation of the mines, but local authority in Malaya is presently being threatened by terrorist activities which are in large part Communist-inspired and directed. There is also some improvement in Bolivian tin production whereas the rate of production in the Belgian Congo and Nigeria has not changed materially.

The antimony shortage is becoming more serious. Bolivian output is increasing, but production in China is only a fraction of normal. Mexican production was impeded by labor difficulties in the spring of the year and by the wide discrepancy between the price paid for ores from small producers and the world price for the metal.

Aluminum production has been hampered by shortages of soda ash and electric power in Europe and by floods and shortages of electric power in the United States. There were, however, substantial increases in output in Canada and Norway. Supplies of secondary aluminum accumulated from war scrap in European countries and the United States are virtually exhausted. Bauxite production has increased much faster than aluminum; consequently, there were no shortages of that raw material except where in a few instances transportation was a temporary bottleneck.

COAL AND PETROLEUM

Compared with the same period last year, output of coal was larger in the principal coal producing countries, except the United States, where about 48 million tons of coal were lost through strikes. The smaller volume of coal mined in this country did not appreciably interfere, however, with meeting the requirements of Western Europe, in view of the rising output of coal in the United Kingdom, Germany, Poland, and France. Moreover, increased production in Europe reduced the tonnages required from the United States, thereby releasing dollar exchange for other purposes. Aside from some shortage of coking coal, European output plus imports was generally sufficient to meet requirements, although transportation was at times inadequate to move coal out of Germany and Poland to importing countries.

World production of petroleum, except in a few areas, notably the Satellite States of Eastern Europe and recently Iraq, has been running well ahead of last year. Production was adequate to meet mounting requirements in the United States and elsewhere in the world except in some parts of Europe, the Middle East and Far East, where inadequate refining and transportation facilities have caused shortages of refined products.

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RUBBER

World production of crude and synthetic rubber is now ample to meet demands for current consumption. Synthetic rubber production in Canada, the Soviet Zone of Germany, and the United States has declined in recent months compared with the corresponding period a year ago and will be substantially less for the year as a whole than for 1947; synthetic rubber production in Western Germany ended on 1 July. The large output of the USSR, however, is expected to increase moderately in 1948.

Communist-instigated disturbances in Malaya, which produces about half the world's supply of crude rubber, may, if continued, seriously curtail rubber production in that area. In such eventuality United States operating and standby capacity for synthetic rubber would be ample to offset a substantial decline in receipts of Malayan rubber.

Increasingly large Soviet purchases of Malayan rubber at premium prices and with provision for special packaging indicate stockpiling of that commodity by the USSR.

CHEMICALS AND FERTILIZERS

The world-wide shortage in many chemicals, including nitrogenous fertilizers, continues. Scarcity of alkalis, coal-tar crudes, nitrogenous fertilizers, and other basic chemicals will not be alleviated for a year or more, but improvement may be expected as coal supplies increase and new or rehabilitated production facilities become available.

The alkali shortage has limited production of rayon, glass, aluminum, and many industrial chemicals. Recent increased production of alkalis in Western Europe has been due principally to rehabilitation of war-damaged plants and increased supplies of coal. No new major production facilities are expected to come into operation in that area for a year or two. Over half of the German production is in the Western Zones, where several important plants were severely damaged by bombing. In the USSR a large part of productive capacity of alkalis was destroyed during the war and will not be fully restored until 1950 or later. Output of the Eastern European Satellites has not regained the prewar level. In the United States, increased capacity recently completed is still insufficient to meet both the domestic demand and the export demand, the latter mainly from Latin America and Southeast Asia.

The shortage of coal-tar crudes, which are used mainly by the plastics, dye, and synthetic organic chemicals industries, is directly related to the rate of operation of by-product coke ovens, which in turn are dependent on adequate supplies of coking coal. In Western Europe the improved coal situation, which had previously limited operations, made possible an increase in output of these products. Further rehabilitation of plants and a few new installations, together with adequate supplies of coal, should materially alleviate the shortage of crudes in that area before the year-end. In the USSR the large number of by-product coke ovens destroyed during the war are in process of restoration, but reconstruction work will not be completed until 1950 or later; consequently the shortage of coal-tar crudes in that country is acute. In the

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United States the second quarter coal strike resulted in a substantial reduction in output of coal-tar crudes, the domestic and export demands for which show little sign of abating.

Chile, the United States, the United Kingdom, and Belgium continue as the world's largest postwar exporters of chemical nitrogen, although the United States is on a net import basis. The more than doubled output of the last three-named countries since 1937 has not been sufficient to compensate for production losses in other former major producing countries. Germany, once the largest producer and exporter of synthetic nitrogen, now depends partly on imports because of war-damaged or dismantled plants and restriction of production by the occupying powers. Japan, formerly the second largest producer of the synthetic product, now depends on imports to a much greater degree than formerly. Rehabilitation of plants in the Netherlands, France, Italy, and Poland, and operation of German plants at greater capacity, together with more plentiful supplies of coal, will reduce the nitrogen shortage in the current fertilizer year. The USSR, although exporting small quantities of nitrogen to neighboring states and India, is increasing as rapidly as possible its chemical nitrogen industry, a large part of which was destroyed during the war.

FOOD

The per capita supply of staple foods in Europe, Asia, and certain other areas remained abnormally low. This was especially true of cereals, meat, and fats. The situation was alleviated somewhat, however, by larger exports of grain from the United States than had been anticipated and by an exceptionally mild winter and early spring in Europe, which increased significantly the production of dairy products and vegetables.

The acreage planted to food crops to be harvested in 1948 showed a substantial increase over plantings in previous postwar years. In general, temperatures and rainfall have been favorable to the early growth and development of crops, particularly in North America and Europe, thus indicating a 1948 food harvest almost equal to prewar harvests.

WORLD TRADE

World trade continued to increase during the second quarter of the year, although trade and exchange controls were almost everywhere maintained. Increases in production of goods for export, in combination with a ready world market, contributed largely to the continued world trade expansion.

Trade among the Western European countries, however, is currently impeded by serious payments problems, which in turn reflect the economic vacuum left by Germany and the inability of the United Kingdom to assume its prewar role in European trade. Although European countries have made substantial gains in reviving their export trade, it is estimated that their current volume of exports is only about two-thirds that of 1937. The volume of European imports, on the other hand, approaches or surpasses that of the immediate prewar years. The United Kingdom, however, is a notable

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exception in both cases. The exchange and transfer problems thus generated have been heightened further by rising price levels. Western European exports, though lagging below prewar, have increased moderately since a year ago. Eastern European countries are exporting little more than half their prewar volume.

Exports from the United States fell well below the level for the corresponding months of 1947 primarily as a consequence of the world shortage of expendable gold and dollars. Nevertheless, on a quantum basis United States exports during the first half of the 1948 were at a rate about double that of the prewar years. United States imports, on the other hand, though increasing in volume moderately over the level of 1946-47, were only slightly above prewar. Consequently, the dollar gap between United States imports and exports continued to be large and contributed cumulatively to monetary and exchange problems abroad. In 1946 and 1947, the United States had a net export balance of roughly 5 to 10 billion dollars respectively; in 1948 its export balance was at an annual rate of about 6 billion dollars.

* * * *

The progress toward economic recovery observed in this summary of developments during the second quarter of 1948 is encouraging. It must be strongly emphasized, however, that the attainment throughout the world of conditions of economic well-being, even approximating those prevailing before the war, will require still higher levels of production in many countries and a larger volume and better balance in world trade than at present.

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