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as it Relates to the Security
of the United States**

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

SUMMARY

1. Although the propaganda purposes in Soviet exploitation of the Smith-Molotov and Wallace-Stalin correspondence are evident, there is increasing reason to believe that the Kremlin is also genuinely interested in exploring the possibility of easing the tension between the USSR and the West, for tactical purposes (*infra*, para. 1).

2. The situation is not such, however, as to render such a settlement imperative, from the Soviet point of view. The most recent developments — the French and German reactions to the Six-Power Agreement on Germany and the action of the House in curtailing appropriations for European recovery — will persuade the Kremlin that the existing situation in Western Europe is still capable of considerable exploitation. The probability is, therefore, that the USSR, while maintaining an attitude of readiness to negotiate, will press vigorously its political and propagandistic advantages in Europe and Asia (*infra*, para 4).

3. The stability of the Schuman Government is threatened by the adverse French reaction to the Six-Power Agreement and its exploitation by both the Communists and DeGaulle. The French Assembly will probably accept the Agreement by a close vote (*infra*, para. 5).

4. The German reaction to the Six-Power Agreement is also adverse, for reasons opposite to those which move the French. The Western Germans are reluctant to accept federalism, international control of the Ruhr, and the perhaps permanent loss of Eastern Germany (*infra*, para. 6).

5. Even if the four-week truce in Palestine is maintained, it is improbable that a formal political solution of the problem can be reached during that time. A military stalemate, however, may well ensue, which would in effect partition Palestine between Israel, Transjordan, and Egypt, subject to confirmation in an eventual political agreement when the situation had become accepted as an established fact (*infra*, paras. 14 and 15).

6. Throughout the Far East the situation is increasingly favorable for the accomplishment of Soviet purposes by political means. In China, the position of the National Government is increasingly desperate and there exists a possibility of the eventual elimination of Chiang Kai-shek by those who would negotiate a political settlement with the Communists (*infra*, paras. 19 and 22).

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and Air Force, though information copies were circulated on 15 June. The information herein is as of 14 June 1948.

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

GENERAL

1. THE SOVIET PEACE OFFENSIVE.

The evident propaganda purposes of the Soviet exploitation of the Smith-Molotov and Wallace-Stalin correspondences have been (a) to undermine Western European confidence in the reliability of US support, and (b) to establish the character of the USSR as peaceloving and reasonable, and to shift to the "reactionary" governments in the United States and Western Europe responsibility for the denial of all men's hopes for peace and stability. Although this propaganda has been effective, there is increasing reason to believe that, beneath these evident purposes, there is also a genuine Soviet desire to ease the tension between the USSR and the West, if only for tactical purposes. By its manner of approach the USSR maintains strategic flexibility. If the United States is responsive to its invitations to negotiate, a new situation will have been created more susceptible to Soviet exploitation than that which presently exists. If the United States refuses to negotiate, the hand of current Soviet propaganda will at least have been strengthened.

It has been anticipated (CIA 4-48 and 5-48) that, when the then current Soviet strategy in Europe reached a point of diminishing returns by reason of stiffened resistance, progress toward European recovery, and the provocation of US rearmament, the USSR would probably seek a *détente* in its relations with the West. The last immediate opportunity for Soviet expansion by political means passed with the Communist defeat in the Italian elections. A continuation of disruptive tactics merely to retard European recovery would only intensify the anti-Soviet reaction in the West. On the other hand, an apparent settlement of outstanding issues might check, or at least retard, the rearmament of the United States, confirm Soviet control over Eastern Europe, open new opportunities for Soviet penetration of Western Germany, and secure badly needed Western aid in the industrial development of the USSR and the Satellite States. Without abandoning its ultimate objectives and at no more cost than to write off postwar prospects already lost, the USSR would be enabled to strengthen itself for the exploitation of future opportunities confidently expected to arise. Such a strategy would be in complete accord with classical Communist doctrine.

2. THE SIX-POWER AGREEMENT ON GERMANY.

Along with the Italian election, the agreement between the United States, the United Kingdom, France, and the Benelux countries regarding a regime for Western Germany, if confirmed and successfully implemented, marks the end of any immediate prospect for Soviet penetration of the West. The exclusion of the USSR from participation in the control of Western Germany, particularly of the Ruhr, had long been effec-

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tive, but the Agreement, finalizing that exclusion and establishing, for the first time, a common Western policy on the subject, marks a new stage in the postwar development of the German situation.

In France, however, the adverse popular reaction to the Agreement has put in question French participation in its execution (see paragraph 5). In Germany also the reaction has been adverse, for reasons opposite to those which move the French (paragraph 6). The USSR, of course, has denounced the agreement, for its own reasons, and is inciting both French and German opposition to it.

3. US APPROPRIATIONS FOR EUROPEAN RECOVERY.

From the Soviet point of view, the action of the US House of Representatives in reducing appropriations for European recovery was a most timely fulfillment of Soviet prophecy and supplement to Soviet exploitation of the Smith-Molotov correspondence in undermining European confidence in US integrity and intentions. Even a full restoration of the amount of the cut cannot fully restore European confidence in the United States.

4. PROBABLE SOVIET INTENTIONS.

Although developments in the situation since February have been such as to warrant Soviet exploration of the possibility of a settlement of outstanding issues, nothing has yet occurred to render imperative the adoption of such a course. On the contrary, the most recent developments—the French and German reactions to the Six-Power Agreement, and the action of the House on appropriations for European recovery—are such as to persuade the Kremlin that the situation in Western Europe is still capable of exploitation. The probability is, therefore, that the Kremlin, while avoiding provocative use of force and maintaining an attitude of readiness to negotiate, will press vigorously its political and propagandistic advantages in Europe and Asia, awaiting further developments in the situation before determining its future course.

PARTICULAR SITUATIONS IN WESTERN EUROPE

5. FRANCE.

The position of the Schuman Government, which seemed reasonably secure a month ago, has been rendered precarious by (a) the tendency of the coalition to divide on secondary issues in the absence of pressure from the Left or Right; (b) the subsequent, generally adverse French reaction to the Six-Power Agreement on Germany; and (c) the seizure upon that issue by both the Communists and DeGaulle, the former in conformity to Soviet interests, the latter as a means of escape from political desuetude.

Typical of the secondary domestic issues which divided the cabinet were (a) the proposed dismissal of 150,000 civil servants, desired by the MRP as an economy measure and opposed by the Socialists as representing the workers concerned, and (b) the proposed subsidation of church schools, desired by the predominantly Catholic MRP and

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opposed by the traditionally anti-clerical Socialists. Although neither the MRP nor the Socialists were satisfied with the Six-Power Agreement, they have in the main rallied to the support of the Government on this major issue under pressure of attack from both the Left and the Right.

In general, the French reaction to the Agreement turned on the lack of satisfactory guarantees of French security. Bidault had been obliged to compromise the original French position on decentralization of Germany and control of the Ruhr. The French tended to overlook the substantial concessions he had gained. Their sense of insecurity was heightened by lack of any specific guarantee of US military support for the Western Union and by the action of the House of Representatives in reducing appropriations for European recovery. There was no doubt genuine fear of either an immediate Soviet warlike reaction or eventual German aggression. These fears were aggravated by the Communists, for Soviet purposes, and by DeGaulle, for his own.

It now appears that the French Assembly will accept the Six-Power Agreement, but by a close vote. The Schuman Government will probably survive the crisis, but Bidault may have to retire as Foreign Minister.

6. GERMANY.

National unity is the dominant political issue in the minds of the German people. This fact is recognized in recent statements to the effect that the Six-Power Agreement is not merely a device for integrating the economy of Western Germany with that of Western Europe, but could serve as a basis for the unification of Germany if the USSR would permit the Soviet Zone to participate. The Germans are likely to regard this attempt to fix the onus for partition on the USSR as a technical point of no real consequence. The real and immediate issue for them is whether to accept the regime contemplated in the Agreement and its inevitable consequences, including acceptance of actual partition, of federalism, and of international control of the Ruhr.

Soviet propaganda will ring the changes on these themes, but the USSR is unlikely to adopt a specific course of counteraction until a regime is actually set up pursuant to the Agreement and is successful to a degree dangerous to Soviet objectives. Then the USSR will probably present a superficially conciliatory proposal to form a unified German government under quadripartite control. Such a proposal would not only prove attractive to German nationalists, but, if accepted, would afford the USSR a voice in the control of the Ruhr and an opportunity to extend its predominant political influence to the Rhine. If, however, this attempt should fail, the obvious Soviet alternative would be to demand the withdrawal of the Western Powers from Berlin and to set up there a government purporting to represent the entire German nation. The hand would then be played out according to the Korean pattern.

7. ITALY.

The new Italian cabinet is designed to carry out campaign promises of economic and agrarian reform. It is a broad coalition of moderate elements in which the Chris-

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tian Democrats have granted disproportionate representation to the minor parties — Socialists, Liberals, Republicans, and independents. Major responsibility with respect to Italian participation in the European recovery program is assigned to the moderate Socialists. Italian recovery, however, cannot be achieved without the close cooperation of all the Government parties.

Prior to the formation of the cabinet there were signs of disunity among the moderate Socialists and between them and the Christian Democrats. A continuation of these rivalries and particularly of Christian Democratic efforts to compete with the moderate Socialists for direct labor support would play into the hand of the Communists. The greatest threat to the Communist position would be success on the part of the moderate Socialists in winning over Nenni's followers to a reunited, independent, and moderate Socialist Party. This effort appears at present to have an even chance of succeeding.

The Communists, as anticipated (CIA 5-48), are striving to maintain their position as sole spokesman for the mass of Italian workers. To this end they are avoiding obviously political attacks on the recovery program, but are demanding of the Government benefits for the workers which they know are not presently feasible and are thus fomenting "economic" strikes which as effectively retard recovery.

EASTERN EUROPE

8. GENERAL.

The Soviet position in the Satellite States is not fully consolidated, even yet, but efforts to perfect it are proceeding apace. In general, consolidation of the Soviet-Communist position is most advanced in the Balkans, less so in Hungary, Czechoslovakia, and Poland, and definitely retarded in Finland.

9. FINLAND.

With apparent impunity, democratic elements in the Finnish Government have succeeded in expelling a Communist Minister of the Interior in time possibly to prevent Communist theft of the 1 July election. The strikes whereby the Communists sought to resist this action were a failure, emphasizing the continued predominance of Social Democratic influence in organized labor. The Communist demand that the office be restored to the Party was compromised by the appointment of a former Social Democrat who had only recently joined the Democratic Union, a Communist front coalition. This fellow traveler is believed, perhaps hopefully, to be nevertheless honest and willing to conduct a fair election. His actions, moreover, will be subject to supervision by a special cabinet committee.

The Soviet Union's first act, in these circumstances, was to forgive half of the remaining Finnish reparations debt and to grant Finland a loan of \$5,000,000, perhaps in execution of a previously planned effort to win Finnish favor at the polls. It would be difficult for the USSR to take punitive measures against Finland in the face of its

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recent emphatic professions of respect for Finnish sovereignty and its current "peace offensive". Without a decisive Soviet intervention in their behalf, however, the Finnish Communists are likely to suffer losses in the approaching election.

10. CZECHOSLOVAKIA.

Despite intense propaganda, intimidation, regimentation, denial of secrecy at the polls, and a controlled count, the Czechoslovak people registered a significantly large protest vote on 30 May by means of blank and defaced ballots. The subsequent resignation of President Benes will be understood by them to be a repudiation of the Communist regime. The Communists, however, confident of their control but appreciating a need to make up for lost time, are moving to consolidate their position more openly and rapidly than was the case in other Satellite States.

11. HUNGARY.

Although no effective political opposition remains in Hungary, the Catholic Church has dared to challenge the Government on the issue of the nationalization of church schools and has received tremendous popular support. The Communists cannot tolerate such opposition. Temporarily checked, they must soon act to neutralize the Church as a center of resistance.

12. YUGOSLAVIA.

The Tito regime, rebuffed in its adventurous foreign policy with respect to Trieste, Austria, and Greece, is now beset with increasing domestic difficulties, chiefly economic, but also political. Two cabinet ministers, veteran Communists, have been arrested on charges of "diversionism" (economic sabotage). Apparently they are to be made scapegoats for the impracticability and impending failure of Tito's five-year-plan. A general purge of their possible sympathizers appears now to be in progress. Although this purge will insure Tito's political control, it will not improve the economic situation. Amid these domestic distractions the foreign policy of Yugoslavia may become less adventurous than heretofore.

THE NEAR AND MIDDLE EAST—AFRICA

13. GREECE.

Although there has been no actual decrease in across-the-border support of Markos, the guerrillas must soon receive greatly increased Satellite aid if they are to withstand the continuing Greek Army offensive. In view of the gradual withdrawal of guerrilla forces toward mountain fastnesses along the frontier and of peace feelers emitted by the Markos radio, it would appear that the guerrillas no longer expect such aid. The failure of the Kremlin to render it, after evident preparations to do so, is significant and may reflect a judgment that the venture would be too risky in the light of recent developments in the global situation.

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14. PALESTINE.

The four-week truce is in general effect in Palestine, after early charges and countercharges of truce violation and threats of counterattack to restore the situation. There still remains danger of a renewal of conflict arising from disputes regarding the provisioning of isolated garrisons or the control of immigration.

Only if he can enjoy reasonable freedom from such distractions can the United Nations Mediator hopefully seek a political solution in conference with Arab and Jewish representatives at Rhodes. The probability is that no formal agreement will be reached, but a military stalemate approximately along existing lines may ensue, to be confirmed by eventual political agreement when it has become accepted as an established situation.

15. THE ARAB STATES.

An important new development may be indicated by the insistence of Transjordan, Iraq, and Egypt on Arab acceptance of the Security Council's truce proposals over the objections of Saudi Arabia, Syria, and Lebanon. In the past Egypt has supported Saudi Arabia and Syria in their opposition to the territorial ambitions of the Hashimite rulers of Transjordan and Iraq. At present, however, it is the Hashimite states and Egypt which have borne the brunt of the fighting in Palestine and would be most exposed to any United Nations retribution. The other Arab states have made no significant contribution to the Arab cause. What is foreshadowed in this new alignment is the possibility of a political agreement, or at least a military stalemate, which would in effect partition Palestine between Israel, Transjordan, and Egypt. King Farouk and the Hashimites would have their justification in the failure of the other Arab states to render effective support and their people the satisfaction of a gallant effort made and certain territorial aggrandizement achieved. United, the three states could withstand any vindictive reaction in Saudi Arabia and Syria, and they would not be in the least grieved if popular disappointment in those countries led to political upheavals affording them further opportunities for aggrandizement.

16. IRAN.

There are indications that the Soviet attempt to browbeat Iran (CIA 4-48) may be dropped in favor of a softer approach in which protests against US influence would be accompanied by gestures of friendship toward Iran. Despite the fluid state of Iranian politics, no presently conceivable Government is likely to be beguiled by such blandishments. Greater significance therefore attaches to the continued vigor of the Soviet subversive effort, which includes agitation in Azerbaijan and northeastern Iran and among the tribes, propaganda intended to arouse the underprivileged, and strong support of the increasingly active Tudeh Party.

17. INDIA.

Neither India nor Pakistan is believed to desire war, but that danger will exist as long as the Kashmir dispute remains unsettled. Advancing Indian Army troops

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are reported to have clashed with a Pakistan Army battalion illegally present in Kashmir. Direct conflict between the regular forces of the two dominions could not easily be localized.

There is also friction between India and the independent princely state of Hyderabad. The ruler of Hyderabad is a Moslem, but the population is predominantly Hindu. India could probably annex Hyderabad by force, but the event would be likely to precipitate a renewal of communal disorders throughout India and Pakistan, jeopardizing the stability of both countries.

18. SOUTH AFRICA.

Although Smuts' adherents received a clear majority of the popular vote in the 26 May election, Dr. Malan's Nationalist-Afrikaner coalition won a bare majority of the seats in Parliament. His unexpected victory bodes no good for Commonwealth relations, in view of the traditional isolationism and Anglophobia of his following. The one reassurance is that their prejudices also include a vehement anti-Communism.

For the present Malan's precarious tenure of office will permit no radical change in foreign policy. Should he succeed in consolidating his position, however, the availability of South Africa as a base in support of northeastern Africa and the Middle East would be put in question. The utility of South Africa as such a base could be impaired by either an isolationist external policy or internal disorders resulting from a severe policy of racial segregation.

THE FAR EAST

19. GENERAL.

Throughout the Far East the situation is increasingly favorable for the accomplishment of Soviet purposes by political means. Circumstances, especially in Korea, indicate that the USSR will continue its efforts to destroy US influence in East Asia by inflicting a maximum loss of US prestige among Asiatics, with the purpose of eventually compelling the United States to withdraw from that region. It is highly improbable, however, that for this purpose the USSR would incur the unnecessary risk of a collision between US and Soviet or Soviet-controlled armed forces. Rather the technique would be to act, by political means, to cause the Asiatic peoples concerned to insist upon US withdrawal, amid execrations.

20. JAPAN.

Active US consideration of the industrial rehabilitation of Japan has revived the peace treaty issue. An early treaty imposing limitations on Japanese industrial activity would alleviate the fear of a resurgent Japan which persists in China, the Philippines, Australia, New Zealand, and Canada. The United Kingdom is associated with this group by reason of Commonwealth solidarity and its own disinclination to meet Japanese competition in export trade. The USSR, however, will presumably still refuse

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to negotiate without veto power, and China will still fear to participate without the USSR.

21. KOREA.

The representatives elected in South Korea on 10 May have met as a "National Assembly" to prepare a national constitution for Korea. Rhee Syngman will presumably be elected president, but the extent of his powers may become a major issue. Kim Seung Soo, leader of the Hankook Democrats, whose strength in the Assembly is approximately equal to Rhee's following, may attempt to reduce the presidency to ceremonial functions and to gain real power as prime minister.

The evident intention of the USSR to dominate Korea through extension of the "Korean People's Republic" has convinced most South Korean leaders and the UN Commission that US occupation must be prolonged until a reasonably adequate security force has been organized in South Korea. Rhee subscribes to this view, but insists that there must be no US interference with Korean sovereignty during the interval.

The USSR may confidently rely upon the egotism characteristic of South Korean politics to prevent the establishment at Seoul of a government capable of withstanding the regimented strength of North Korea. By ceaseless agitation and such practical inconveniences as denial of electric power it will seek not only to render the US position vexatious and untenable, but also to render the anticipated eventual US withdrawal as damaging as possible to US prestige throughout the Orient.

22. CHINA.

In Chinese and Asiatic opinion generally the fortunes of the National Government and the prestige of the United States are inextricably associated. The situation of the National Government is increasingly desperate. The position of the United States in China is precarious.

The Communists have no resumed active military operations, especially in Shantung, and are likely soon to make a clean sweep of that province, except for the port of Tsingtao. There is little prospect that the National Government can check the Communists' general advance without direct US military assistance on a considerable scale.

In Nationalist China, meanwhile, the reaction of press and students to the idea of rehabilitating Japan is bitter. The widespread student demonstrations may be effective in directing traditional Chinese anti-foreign sentiment into specific antagonism toward the United States.

Chiang Kai-shek is irrevocably committed to resist Communism to the bitter end. Within the National Government, however, there are many who believe that continuation of civil war is futile and who therefore would end it, even on terms advantageous to the Communists. Thus, although the event may not yet be imminent, there exists a possibility of the eventual elimination of Chiang and the negotiation of a political settlement with the Communists.

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23. SOUTHEAST ASIA.

Soviet propaganda has long championed the nationalistic aspirations of the peoples of Southeast Asia in opposition to Western imperialism. Recently the USSR has actively engaged in direct political and economic penetration of that region, beginning with the establishment of diplomatic relations with Siam. Concomitant Soviet commercial activities not only facilitate penetration of the area, but also contribute to the stockpiling of strategic raw materials, especially rubber, in the USSR.

Tension between the Dutch and the Indonesian Republic is again acute, as a result of their inability to agree on the proper implementation of the Renville Agreement. This situation is aggravated by implicit Soviet recognition of the Republic.

In Burma the Prime Minister, Thakin Nu, has announced that he will retire on 20 July in order to promote a union of all Leftist parties on the basis of a socialistic program and close relations with the Soviet Union. If this declaration was intended to outbid the dissident Communists (CIA 5-48), it may prove in effect to be a capitulation to them.

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