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

1. Emphasis on Asia.

East Asia has become the center of the world's more immediate and urgent international tensions. The Western Powers, committed to a policy of containing Soviet influence, heretofore have concentrated their efforts in Europe and the Near East. The danger of Soviet aggression or subversion in these areas has not passed, but it has receded. For the time being the ripe "revolutionary situation" of Communist doctrine is little in evidence, very much less than in France and Italy a year or two ago. The year 1950 will be a crucial period in the efforts of the Western European community to reorganize and reconstruct its political, economic, and military strength. These efforts, associated with the second, i.e., constructive, phase of the European Recovery Program (ERP) and the first phase of the Military Assistance Program (MAP), remain the primary factors in calculations in US security interests. The opportunity to develop these long-range programs, however, exists because the threat of Communist revolution has lessened and the atmosphere of immediate military emergency has lifted. While the strength and stability of Europe will continue to be of prior strategic importance to the US, most of the crises of 1950 probably will arise in Asia. Some of them are already at hand.

In Asia, the situation is still fluid. As elsewhere around the

world, the USSR is working toward the expansion of Soviet influence. As elsewhere, the USSR has employed the traditional pressures of power politics whenever they seemed profitable, but mainly relies on the revolutionary Communist techniques of propaganda, infiltration of government by subservient local Communists, subversion, and insurrection. In China, the local Communist movement was able to identify itself with endemic agrarian discontent as well as with national resentment against Western intervention. The revolution has succeeded and, temporarily at least, virtually has destroyed US influence in China along with the power of the Kuomintang government. Peasant unrest and nationalism are not peculiar to China. They are powerful forces nearly everywhere in Asia. Moreover, at present there is a stubborn element of anti-Westernism in Asiatic nationalism. The urgent question of 1950 in Asia, therefore, is whether Soviet-oriented, China-based Communism can continue to identify itself with nationalism, exploit economic privations and anti-Western sentiment, and sweep into power by one means or another elsewhere in Asia.

2. Communism in China.

In the long run, and to some extent in 1950, the success of Soviet-oriented Communism in South Asia will depend on how China develops as a base from which to export revolution. The Chinese Communist regime in Peiping has won undisputed military control of China proper and will receive diplomatic recognition by most of the nations of the world.

SECRET

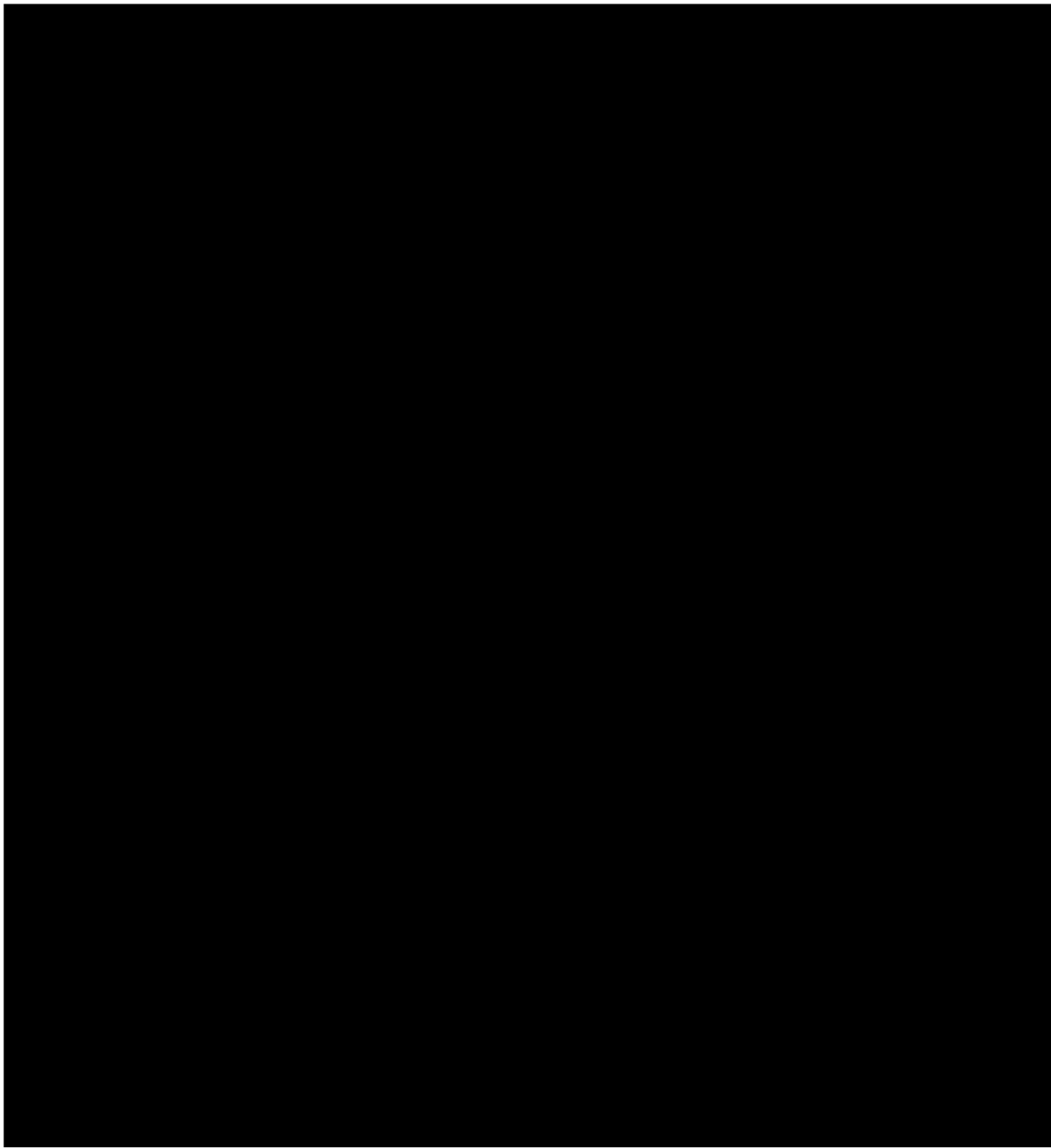
a. Recognition.

Political leaders in many Asiatic states, particularly Nehru in India, see the advent of the Communist regime to power as the culmination of an indigenous national revolution of many years' duration and welcome it as such. Though these Asiatic political leaders may have misgivings about the Communist government, they consider it to have a comparatively broad popular base and therefore to be qualified to replace the Kuomintang, which not only has been thoroughly discredited as an effective government but also was widely identified with western intervention, dictatorial political procedures, and special privilege for a landed, commercial, and financial minority.

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c. Eclipse of the Nationalist Government.

The collapse of organized resistance on the mainland and

SECRET

SECRET

retirement of the National Government to the Taiwan redoubt have ended whatever slight chance there was that the Kuomintang could place any effective opposition in the way of Communist control of China. Various remnants of the old political and military machine of Chiang Kai-shek are struggling desperately to work out political realignments that will give the illusion of successfully coping with the grave economic and administrative difficulties in Taiwan. Discontent among the native Taiwanese, poor morale among the Nationalist forces, and corrupt inefficiency on the part of the Chinese authorities continue as before, however, and in time would undermine the Nationalist position even if the Communists did not assault the island. Actually the Nationalists are only toying with the local problems. Basically they are concentrating on one last hope; decisive US intervention on their behalf against the Chinese Communists.

In these circumstances eventual Communist capture of Taiwan probably will occur in 1950. Nothing short of outright military occupation and complete administrative control by the US is likely to save the island. Even assuming occupation of Taiwan to be strategically advantageous enough to warrant using the necessary forces, such US action would seriously hamper the achievement of general US aims in Asia. It would give new grounds for Communist and other anti-Western attacks on US "imperialism". Probably it

SECRET

SECRET

would prevent the newly independent governments of India and Pakistan from cooperating with the US in South Asia. It would diminish US prestige and opportunities for leadership in the UN. Inside China the propaganda theme that US aims were "imperialistic" would spread among Chinese of all shades of political belief. Finally, the more doctrinaire Stalinist leaders among the Chinese Communists would advance their positions at the expense of such Communists as may be favorably disposed toward an independent policy in international affairs and an accommodation with the Western Powers.

d. The Link between Peiping and Moscow.

The critical question with respect to China concerns whether or not eventual accommodation of some kind between Communist China and the Western Powers is a possibility. On the basis of preliminary evidence the tentative answer is that such an accommodation is possible but remote in time. The Chinese Communist leaders certainly are confirmed Marxist-Leninist Communists and not simply agrarian reformers. Nevertheless, they have built their power on peasant support, most of which they won as agrarian reformers. The Peiping regime is the victorious party in a long national rebellion. Part of their popular appeal has stemmed from their steadfast opposition to Western imperialism. As a result the Communist administration is unlikely to be overthrown by internal

SECRET

SECRET

forces. In addition to possessing a powerful apparatus of control, the Communist government is probably more efficient and less corrupt than any regime within the memory of living Chinese.

The Peiping leaders probably will try hard to widen the base of their popular support and retain their reputation as nationalists while at the same time strengthening the rather unpopular alliance with the USSR. Their success will depend mainly on the degree of subservience that may be required by the Soviet Politburo, which thus far has guided the Chinese Communists by a relatively loose rein. At best, Chinese Communist Party Chairman Mao Tse-tung has to look forward to many years, probably at least a decade, of industrialization and indoctrination before he has an urban proletariat of sufficient size and loyalty to permit effective socialization of Chinese economy and society. During this period, progress in industrialization will depend on extensive capital accumulation. Assuming that the bulk of it does not come in the form of Soviet or other foreign investment, which seems likely, most of this capital will have to come from the scanty surpluses of China's small-scale agriculture. Consequently, long before basic socialization can begin, Chinese Communist administrative efficiency and peasant loyalties will be severely tested by the problem of extracting this agricultural surplus and using the proceeds as capital for industrialization.

SECRET

SECRET

China, in consequence of its size, the primitive character of its economy, and the durability of its cultural tradition, always has proved difficult enough for any regime to manage, let alone remold. It is true that the USSR has developed to new heights of professional skill the theory and practice of capturing and controlling social institutions. Soviet penetration of key units of the Paiping administration is now in process, however, and the USSR, capitalizing on the Sino-Soviet alliance and China's requests for assistance, is installing itself solidly in China, thus reducing the chances for Chinese "Titoism" and reducing the impact on the USSR of whatever dissident movements develop. The ultimate Chinese orientation in international affairs is impossible to estimate with confidence at this stage. For some time at least China will appear an uncertain quantity to Soviet leaders, including Stalin, whose fingers were burnt in dealing with unreliable Chinese revolutionary nationalists a quarter-century ago.

Mao Tse-tung probably will bring back from Moscow a treaty of Sino-Soviet friendship guaranteeing Soviet economic and technical assistance to China and arranging for joint development and use of Chinese military facilities. From the Soviet point of view all these links with China are of long-range strategic value. For the immediate future the Kremlin probably will continue to tighten the Soviet grip on the increasingly autonomous border areas of Manchuria,

SECRET

SECRET

Inner Mongolia, and Sinkiang. In China proper, privileged Soviet banks and Soviet-owned or joint Sino-Soviet commercial enterprises will serve to influence Chinese production and trade into patterns agreeable to general Soviet objectives. The USSR probably does not wish to become deeply committed in the painful and intricate tasks of reorganizing China's economy to feed its vast population. Nevertheless, many Chinese will hold the USSR and the Peiping regime jointly responsible for the famine and inflation that is bound to arouse widespread discontent in the coming year. Resentment is already in evidence among non-Communist Chinese and apparently among a few Chinese Communist Party members over Soviet privileges and economic exploitation of Manchuria, rumored Soviet profiteering in trade, and the influx of Soviet political, technical, and military advisers. If dissatisfaction against Soviet penetration of the government and economy grows, the Peiping regime will be increasingly vulnerable to effective criticism from the nationalist point of view.

In these circumstances the Chinese Communist leaders will find it hard to follow the Stalinist line scrupulously, especially in international affairs. In regard to relations with the Western Powers in particular, foreign capital and foreign manufacture will exercise a great attraction to economic planners intent on industrialization. A demonstration of independence of Moscow, even though accompanied by continued asseverations of Communist faith, probably would reinforce the Peiping regime's popular standing.

SECRET

SECRET

US interests will be advanced by every new strain on the link between Peiping and Moscow. The existing strains in Sino-Soviet relations, however, probably will not become critical in 1950. For several years, China probably will be a reliable instrument of Soviet foreign policy, though it will not contribute much to the Soviet military potential. In these years the chief threat China will pose to US interests in Asia will be as a base from which to carry on revolutionary activity elsewhere in Asia.

e. Beyond China.

Whatever else is envisaged in the Politburo's plans for the Peiping Communists, the USSR plainly proposes to use the China base in its drive to spread Communism in Asia. As of 1 January 1950 a kind of Cominform of the Orient has been set up in Peiping under the designation of "Liaison Bureau" of the Communist-controlled World Federation of Trade Unions (WFTU). It will facilitate Soviet control of Asiatic labor groups, among which opposition to Communism is slight and unorganized, and set up new labor federations where they do not exist. The Chinese representative on the Bureau, one of the four "responsible" members (with the representatives from the USSR, Australia, and India), will be able to exploit the sympathies of overseas Chinese. The function of the Peiping Liaison Bureau is indicated in recent Chinese Communist propaganda, calling for Communist labor cadres to assist in the "armed struggle" for

"national liberation," particularly in the more vulnerable "colonial" areas of South Korea, Indochina, and Indonesia.

In view of the instability of Western influence in Indochina, where the French still have not transferred total sovereignty to the nationalist but non-Communist Vietnam regime of Bao Dai, the whole of Southeast Asia has become excellent ground for political gains at minimum expense to Communist China and the USSR. There is probably more than an even chance that the French will be forced to withdraw from Indochina within two years, leaving control in the hands of a Communist-led, indigenous regime. Once Indochina had succumbed, the fragile Thai and Burmese governments also would orient themselves at least nominally toward China rather than toward the West. Thus the line of farthest Communist advance would approach the borders of India and Indonesia, where Western influence has been growing rather than diminishing since the British and Dutch granted nationalist regimes virtually complete independence. Prompt and wholehearted French adoption of the British technique, that is, winning influence by losing colonies, possibly could eliminate the semi-colonial situation from which Communist movement in Indochina draws its strength. The time to try is short.

- 11 -

SECRET

SECRET

3. Kashmir and the India-Pakistan Conflict.

The sealing off of Communist advances beyond China will depend to a great extent on the inherent political stability and economic strength of non-Communist regions. Two stubborn facts to be dealt with are bitter inter-regional antagonisms and chronically low margins of economic sufficiency. These facts underlie the present conflict between the populous, comparatively stable, and comparatively pro-Western states of the Indian subcontinent. At present Pakistan and India are engaging in a costly campaign of economic warfare that neither country can afford.

The issue is broader than conflicting territorial claims, but the future political affiliation of Kashmir is the main immediate point of contention. For two years the UN has tried and failed to find a mutually acceptable solution of the Kashmir case. Public opinion on both sides is sufficiently inflamed to create some threat of the renewal of armed hostilities. In this atmosphere, trade between the two countries virtually ceased after India devalued its currency and Pakistan refused to follow suit. India's jute and cotton goods industries soon will be in severe straits, and the entire economy of Pakistan will be seriously handicapped by the suspension of coal shipments from India. The outbreak of war in all likelihood would prove disastrous to both countries. In any event, the prolongation of punitive trade interdictions would gravely weaken both states and in time would create the economic and social unrest the USSR is hopefully awaiting.

SECRET

SECRET

4. European Recovery: 1950.

There are increasing signs of a return to comparative "normalcy" in the political affairs of most Western European nations. Primarily, the change is a result of the success of the first (i.e., rehabilitation) phase of the European Recovery Program. This change has not been an unmix'd blessing for nations facing the complex issues of the second phase of recovery, which involves maintaining a stable and expanding economy in the whole Western European region. Political coalitions of moderate middle parties such as those which have cooperated in resistance to Communist seizure of power in France and Italy tend to crumble as soon as the immediacy of the threat of Communism recedes.

In France particularly, the "third force" government almost constantly is on the verge of disintegration as a result of fundamental disagreements over socio-economic policy, centering at present in the controversial issues of wage, price, and tax levels. Decisions on these issues were avoided or compromises reached as long as Communists -- or Gaullists -- were threatening to end both representative government and political dissension. In a sense, the political disputes in France spring from successful industrial rehabilitation and from the containment of the advance of Communism at the Luebeck-Trieste line. In this sense the initial success of US strategic aims in Europe has permitted a return to national strife over domestic socio-economic policy. The initial success cannot alter the fact that the political instability of France

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or elsewhere in Western Europe threatens to sabotage the second (i.e., constructive) phase of recovery, undermine the Atlantic Pact military alliance, and eventually bring back the Communist menace.

a. Overseas Trade and the Dollar Deficit.

Improvements in Western European levels of industrial production, now above 1938 averages, only accentuate the broader problem of re-organizing and rebuilding the several national economies to compete in world markets, particularly in the Western Hemisphere. The industrial nations must secure raw materials and sell manufactured goods outside Western Europe if they are to maintain employment, expand production and productivity, and cooperate with one another in regional military programs.

For example, the extraordinary economic revival of Western Germany now has reached the stage where pressure for new markets is becoming an important factor in Germany's political as well as economic orientation. German exports are falling off. Unless German goods can cross national barriers to reach consumers in the non-Soviet world, there will be a strong compulsion to revive an extensive and perhaps politically entangling trade with Soviet-dominated Eastern Europe.

Britain and France in particular must adjust their overseas trade in a way to reduce the dollar deficit, which threatens to persist after the end of ERP. They have been making little headway in this direction. In 1949, French exports to the dollar area have paid on the average for only about 15 percent of imports from the dollar area, only a slight gain

SECRET

over the preceding year. Similarly, although the UK has attained a rough over-all balance of payments, the sterling area as a whole still is buying from dollar markets goods worth approximately one billion dollars more than it is earning.

In view of the probable persistence of dollar deficits, the Western European nations will be driven increasingly to put further restrictions on dollar imports. In this circumstance, unless Western Europe develops other markets and sources of supply, or new forms of US financial aid replace ERP funds, European production will decline, perhaps to the point of frustrating US strategic aims in Europe.

b. Political Crisis in France.

France's economic recovery, accompanied by rises in the cost of living, has sharpened the political controversy over distribution or redistribution of the increased income. The current differences between the Socialists and the Radical Socialists over the budget and over wage policy and wage controls have been bridged by government compromises, but only with great difficulty and by a slender margin.

The recent agreement to restore collective bargaining was a major concession to the Socialists, who anticipate a general wage increase as a result. Considerable economic unrest and political agitation probably will make themselves felt in the near future, first during a drive for an additional cost-of-living bonus and later in campaigns for wage increases. By the end of December 1949, the cost-of-living index for the average Parisian worker without dependents had risen more than

16 percent above the level of September 1948, when the government permitted the last increase in wages. The Bidault government may be forced to concede some new wage benefits along the lines of Socialist demands, but will then find it even harder to increase tax revenues and balance the budget in the face of Radical-Socialist opposition. As labor costs rise and bring about higher prices, French industrialists will resist more strongly than ever all efforts to relax import restrictions and thus expose their products to competition from lower-cost producers. Economic, political, and military weaknesses lie just below the surface of the comparatively "normal" political bargaining and bickering in the French Assembly.

5. Economic Reorientation of Yugoslavia.

The Tito regime in Yugoslavia still appears to be more immediately concerned with economic problems than with the danger of Soviet or satellite military action. The Yugoslavs recently have made significant advances in offsetting the Soviet economic blockade of Yugoslavia by strengthening their economic ties with the West. After long negotiations, a five-year agreement, bringing Yugoslavia £ 110,000,000 worth of badly needed capital equipment and raw materials from the UK, has been completed. A trade agreement with Western Germany will provide Yugoslavia with \$60,000,000 worth of coke, machinery, and industrial goods during 1950. The recently concluded US civil air transport agreement and US approval of Yugoslavia's purchase of civil aircraft parts will contribute further toward improved relations with the West, as will materialization of the proposed \$25,000,000 International Bank loan. Assurance of further Western assistance, especially US dollar credits, may

SECRET

be required during the coming months to sustain Yugoslav will to resist Soviet pressure as well as to carry the Yugoslav economy through the transitional reorientation toward the Western world.

The USSR seems to be currently preoccupied with shoring up Soviet control of the other Eastern European states and reducing "deviationism" among Communist organizations outside the orbit, especially in Italy and France. Recent Moscow propaganda has shifted its emphasis from frantic insistence on the eradication of the Tito government to the theme that "Fascist" and "imperialist" Yugoslavia must be "sealed off" effectively from the purer world of Moscow-dominated Communism. This shift may indicate that the USSR is prepared to tolerate the Tito situation for some time. Temporarily, in any event, the western boundary of Soviet domination in the Balkans runs along the Romanian and Bulgarian frontiers rather than along the Adriatic coast.

6. Egyptian Elections.

In Egypt's first free elections since 1935, the Wafd Party has won an overwhelming Parliamentary majority and has now formed a government. As a result of this election, the prestige and political influence of King Farouk, who dominated the coalition cabinets of the past five years, has been diminished. The Wafd victory will bring an unaccustomed stability to the government because of Wafdist parliamentary strength and popular support. The Wafd will continue Egypt's alignment with the Western Powers in opposition to the USSR, and relations with the British, who were responsible for Wafd control of Egyptian affairs during the war, probably will improve. The new Egyptian Government and the UK may well reach a

SECRET

satisfactory compromise on revision of the Anglo-Egyptian Treaty and may also reach an understanding over reduction of Egypt's sizable blocked sterling balances. Successful settlement of these issues would permit the British to continue their strategic control in the Eastern Mediterranean, which is compatible with US security interests.

7. Caribbean Altercations.

The recent disputes between Cuba and the Dominican Republic on the one hand and Haiti and the Dominican Republic on the other have not threatened open warfare, but they do reflect the continued seriousness of underlying political tensions in the Caribbean area. They adversely affect progress toward greater solidarity within the American family of nations. The Cuban-Dominican dispute, a prominent feature of which was Dominican congressional authorization of special war-powers for Trujillo, was brought to the attention of the Inter-American Peace Committee of the Organization of American States (OAS). The second dispute came to the OAS when Haiti charged Dominican participation in an abortive plot to overthrow the Haitian President, Estimé, with the result that the Rio Treaty was invoked at the request of both governments. While fundamental differences between these countries remain unresolved and further manifestations of mistrust and hostility may be expected, the decision of the Council of the OAS to study the Caribbean situation will at least curb open hostility. The appeal probably will increase the prestige and usefulness of the Rio Treaty and strengthen the formal machinery of Inter-American solidarity against more serious tests in the future.