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COPY NO. 182

REVIEW OF THE WORLD SITUATION

CIA 4-50

Published 19 April 1950

CENTRAL INTELLIGENCE AGENCY

SECRET

224
350.09 (new file) file separately

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

SUMMARY

1. Although substantial economic recovery has taken place in Europe during the year since the North Atlantic Treaty was signed, the West has lagged behind the USSR in terms of total gain in political, economic, and military strength. European interest in the attempt to equalize the East-West balance of power through a strictly European power complex is shifting toward interest in a broader grouping, including the Western continental nations, the British Commonwealth, and the US.

2. In Berlin, the USSR may avoid violence in the 28 May Youth Rally, relying on the demonstration's propaganda effect to undermine morale and increase West Berlin's sense of political and economic isolation from West Germany.

3. In Italy, the general strike of 22 March and attendant disorders marked a new high in recent Communist activity. The Communists have been gaining strength through exploiting industrial unemployment and the government's ineffective land reform policy. Present popular support of the Communists probably is comparable to the level of 1948, despite the intervening pro-Western political drift of Italian policy, and the beneficial effects of almost one billion dollars of ERP aid granted to Italy.

4. In the Middle East, the imminent threat of war between India and Pakistan has been averted, possibly for several months, by the 8 April agreement. In Greece, however, a period of unstable government appears likely in view of the political maneuvering which has followed the recent elections.

5. Prospects for Yugoslavia to develop a working accord with Western Europe are being blocked by difficulties with Italy, West Germany, and Greece. Unless the growing tension over Trieste can be reduced by negotiations with Italy, Yugoslavia's westward orientation will be appreciably retarded.

6. Sino-Soviet collaboration, in the form of Soviet technical military advice and limited material aid, will assist the Chinese Communists in their impending attack on the Chou Shan Islands. In the field of economic collaboration, the Soviet and Chinese Communist regimes have signed agreements covering commercial aviation and the future economic development of Sinkiang.

7. In Southeast Asia, the Chinese Communists are collaborating more closely with the resistance forces against the French and British in Indochina and Malaya. In nearly all areas, the West is merely holding its defensive position against the expansion of Communist influence.

8. Communist capabilities in Latin America, though still slight, have increased appreciably in Cuba and Guatemala.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information contained herein is as of 14 April 1950.

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

1. Western Unity.

In the year since the US, Canada, and the Western European nations signed the North Atlantic Treaty, committing themselves to a common defense against the threat of Soviet military aggression, Soviet power has increased in relation to that of the Atlantic Treaty nations. The USSR is displaying a new aggressiveness in international affairs, evidently based upon: (1) Soviet success in breaking the US atomic monopoly; (2) the triumph of Communism in the Far East; (3) developing economic strength and self-sufficiency in the entire Soviet-Satellite sphere; and (4) the continued ability of local Communists to disrupt the economy and harass the anti-Soviet governments in Western Europe. Major campaigns in an accelerated cold-war offensive have been intensification of the Soviet "peace" campaign, a continuation of the battle for Germany, and a coordinated campaign of attacks on the Mutual Defense Assistance Program (MDAP) and the North Atlantic Treaty (NAT).

The past year also has seen substantial progress in European economic recovery, but in terms of total gain in political, economic, and military strength, the West has lagged behind the USSR. In the Far East, the Western Powers have not yet developed a unified strategy for halting the rapid advance of Communism. In Western Europe, progress toward economic integration, which the US considers an element needed to counterbalance the threat of Soviet power, has been slow and faltering. Similarly, in the political sphere, the Council of Europe has been retarded by the cautious nationalism of Britain and France.

Combined defense planning under the North Atlantic and Brussels treaties has been initiated, and the first steps toward rearmanent under the MDAP have been taken. Nevertheless, the Western European governments recognize the necessity of accelerating the rate of Western rearmament and consider that the primary responsibility for reinforcing the Western defenses must lie with the US. Furthermore, Western Europeans still hold lingering doubts as to the willingness of the US to commit its ground forces to the continent in the event of Soviet invasion.

Europe's prospects for stability and sound economic development after the Marshall Plan ends remain uncertain. Unemployment, particularly in Italy and Western Germany, is dangerous. After some initial success, persistent efforts to solve the key trade problem of developing a mass market through liberalization of trade and payments have met strong opposition, mainly from traditional European economic nationalism. In particular, the British, while prepared to join the European Payments Union, are insisting on special treatment to protect their present trading position and the gold and dollar reserves of the sterling area.

European political, economic, and military integration still seem to hinge on two related problems: British willingness to play a major role in Western Europe as a counterweight to Western Germany; and the possibility of bringing Western Germany fully into the Western European community while the German Federal Republic remains amenable to Western influence. Although the Western European governments and peoples have taken the initial steps down the long road toward a unified Western European community, they lack the initiative and the resources to move rapidly toward the agreed objective. The UK and the Western continental nations are increasingly thinking of raising the North Atlantic Treaty Organization (NATO) above its present plane of military security to become an economic and political as well as military association. Such a reinvigorated NATO would embrace the whole Atlantic com-

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munity, and through it the West would consider its problems within the broader Atlantic framework (explicitly including the US) rather than within a purely Western European system.

The impetus toward strengthening the NATO comes in part from recognition of the necessity of greater Western unity in carrying on the cold war with the USSR. Even more, it has come from growing awareness that the European dollar deficit cannot be eliminated by the four-year European Recovery Program and that Europe still, to an appreciable degree, will be financially dependent on the US after 1952. The Soviet policy of promoting economic self-sufficiency in its own sphere has dimmed previous hopes of reviving East-West trade to prewar levels (as anticipated in the Marshall Plan) and left Western Europe dependent on the US for food and raw materials that might have been obtained from Eastern Europe. The British, especially anxious to avoid submerging their global interests in the narrower European grouping, would welcome an opportunity to draw the US into an Atlantic organization encompassing the political and economic as well as military fields. Finally, the Western European countries, conscious of their own war-weariness and inability to overcome the economic obstacles to strictly European integration, almost desperately seek the continued leadership of the US. Thus European interest in the attempt to equalize the East-West balance of power through reviving a strictly European power complex is shifting toward interest in a broader grouping, including the Western continental nations, the British Commonwealth, and the US.

2. Berlin.

The USSR, in attempting to convince the German people that their future depends on a unified country under Communist control, is making extensive preparations for the Communist Youth Rally to be held on 28 May in Berlin. To prepare the West Berliners for this mass demonstration of East German support for Communist leadership, the USSR is exerting every effort to heighten the West Berliners' sense of economic and political isolation from Western Germany and the Bonn regime.

By continued interference with freight traffic between Western Germany and West Berlin, the Soviets have effectively discouraged West German businessmen and industrialists from developing their commercial contacts with the former capital. Trade continues to suffer because of the uncertainty of transporting raw materials and finished goods. In February 1950, West Berlin's production index was 28 (1936=100) in contrast to an index of 91 for Western Germany. At present, 30 percent of the West Berlin labor force is unemployed and 44 percent of the population is living on relief.

The unwillingness of the West German Republic to grant West Berlin more than 35 million DM monthly instead of a minimum requirement of 50 million DM monthly to balance its budget has added to the Berliners' sense of separation from the Federal Republic. Probably West Germans in general expect the US to contribute, in addition to ECA funds, a large portion of the one billion DM ($240 million) needed to maintain the minimum level of economic activity in the fiscal year beginning 1 April 1950. If West Berlin's planning is to deal effectively with the city's problems, long-range financial commitments from some source, instead of the present hand-to-mouth grants, will be necessary.

The USSR may well estimate that this deterioration of the West Berlin economic and social situation, with its concomitant effect on popular morale, makes it unnecessary to adopt violent tactics to win control of the whole city. In that event, the USSR probably would utilize the May Youth Rally primarily for propaganda effect instead of as a device to drive the Allies out of Berlin by force. In any case, bands of East German Communist youth probably will instigate disturbances such as street fighting, localized riots, and traffic interruptions. The armed East German Alert Police will participate in the Rally in some way, although the Soviet leaders appear anxious to avoid organized fighting between this East German Communist force and the military units of the Western Powers. If a persuasive display of German enthusiasm

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By mcl NARA Date 10/23/11

for the Communist East German regime is staged, it could have an important psychological effect on the depressed morale of the West Berliners.

3. Resurgence of Communism in Italy.

The recent Communist disorders in Italy, culminating on 22 March in the most successful general strike since the national elections two years ago, are storm signals indicating the chronic weakness of the Italian economy. Industrial and agrarian discontent has been developing in Italy throughout the entire postwar period. This basic condition has been obscured by the surface effects of US assistance in the form of food, raw materials, and industrial equipment. The most serious problem is unemployment, widespread both in industry and agriculture, which reflects the economic unsoundness of an overpopulated country lacking natural resources and adequate investment capital.

At present there are approximately two million unemployed in Italy. To prevent additional unemployment, the government has influenced leading industrialists to overstaff their factories. For example, the Mussolini-created armaments and heavy metallurgical industry, a stronghold of the Communist labor organization, has been sustained by government financial assistance despite the fact that the workers thus subsidized could have been more efficiently employed in industries better adapted to Italian resources and potential overseas markets. The workers in these industries recognize that their jobs are in constant jeopardy, and they are particularly susceptible to Communist propaganda.

Fear of increasing unemployment has, in recent months, been developing among industrialists and businessmen as well as government officials, because of the continuing deflationary state of the economy. Many of them believe that a serious business recession may be imminent. This pessimistic outlook has been fostered in the last six months by an appreciable reduction in Italian exports as compared with export levels of the corresponding months a year earlier. The Communist labor unions have capitalized on these unsettled economic conditions by championing the workers' grievances.

The Communists have also gained strength by exploiting discontent arising from Italy's serious agricultural problems. The Christian Democratic government has been dilatory in instituting reforms in the improvement and distribution of farm land, especially in southern and central Italy. The issue is now being faced, but fundamental difficulties, such as the lack of adequate financing and the scarcity of necessary agricultural equipment, militate against any measures that will alleviate the demands of the land-hungry peasants in the near future.

The Communists recently have been taking advantage of the government's ineffective land reform policy by instigating an active land seizure program. Popular pressure for immediate amelioration of the land problem has become so strong that, for the first time, the non-Communist trade union organizations have felt it necessary to join in the movement.

As a consequence of these industrial and agricultural conditions, Communist pressure has reached its highest level of activity since 1948. To counter the increasing threat of Communist strikes and riots, the government has been adopting more repressive measures. Chief reliance has been placed on the armed police under Interior Minister Scelba's vigorous direction. On 18 March, extraordinary decrees restricting the right of public assembly and political meetings were issued. By alternating violent direct action with parliamentary attacks, the Communists have been forcing the government to adopt more authoritarian methods. As a result, moderate progressive groups, whose support is important to Premier de Gasperi, are being alienated.

One consequence of the Communists' renewed activity has been to strengthen the small neo-Fascist Italian Social Movement (MSI). As Communist-led strikes have more and more threatened industrial operations and the government has failed to deal firmly with land seizures by the peasants, some conservative industrialists and landlords have switched their support to this neo-Fascist movement. This party cannot yet be considered an important political influence, but

DECLASSIFIED
Authority NND 795006
By wd NARA Date 10/23/11

the government fears its potential appeal sufficiently to plan legal action to outlaw it.

The first reliable indication of present Communist popular strength will be the local elections scheduled this spring in the majority of all Italian communes. At that time the Communist vote is likely to reveal strength comparable to its 1948 showing in spite of the pro-Western drift of Italian Government policy and the beneficial economic effects of almost one billion dollars of ERP aid granted to Italy since 1948. If US assistance ends in 1952 as scheduled, economic conditions may deteriorate rapidly, in which case the Communists would have a good chance of securing a plurality in the 1953 national elections.

Communist opposition to the government's foreign policy has concentrated on efforts to sabotage the MDAP program. To the extent that Communist influence has increased in the past year, it has been stimulating the traditional neutrality sentiment of the Italian people, thus jeopardizing effective Italian support for Western European defense.

4. Near and Middle East.

Persistent instability in the Near and Middle East continues to be a source of weakness in the security position of the non-Communist world. The situation has improved recently only in the Indian subcontinent where disaster has been narrowly averted.

The threat of imminent war between India and Pakistan, which would have left the subcontinent in chaos, has now been postponed, possibly for a matter of months, by the 8 April agreement between the two prime ministers. This agreement paves the way for the orderly and peaceful handling of the migration of Hindu and Moslem minorities in the Bengal area. Although the accord will not silence the extremists on both sides who have been clamoring for war, it should lessen the tensions generated by this spring's wave of communal violence in Bengal. Furthermore, if faithfully carried out by the two parties, the pact should create a more favorable atmosphere for consideration of the Kashmir dispute, the current economic blockade, and other outstanding differences between the two countries.

Developments elsewhere in the Near and Middle East hamper US efforts to promote greater strength and stability among the countries along the USSR's southern borders. In Iran, the dangerous policy of drift in the face of serious economic and social deterioration continues. The new Mansur Cabinet, although it contains some competent men, probably lacks both the will and the power to take energetic measures to strengthen the country's economic structure and national morale. The Arab League's recent demonstration of solidarity, in which it was agreed to expel any member making an independent agreement with Israel, places a new barrier in the way of an Arab-Israeli settlement.

Meanwhile, the trend of events in Greece since the 8 March parliamentary elections has made it doubtful that any popularly supported, effective government will soon emerge. By deciding at the request of the King to form a minority government of his own, Liberal Party leader Venizelos not only disregarded the generally accepted belief that a broad centrist government would represent the will of the electorate but also made himself dependent on the rightist elements in parliament most likely to oppose thoroughgoing application of ECA's economic stabilization program. Venizelos has now yielded to popular pressure — and the vigorous representations of US Ambassador Grady — by resigning to permit General Plastiras to form a broad centrist coalition. Nevertheless, the seeds of dissension between Venizelos and the other center parties have been planted, and the chances of their holding together for any length of time are poor. There are strong prospects for an interim period of unstable government followed by new elections in which the King would advance Chief of Staff Papagos as a "strong man" candidate and in which the question of the King's role in the government would once again become a major disruptive issue.

5. Yugoslavia and the West.

Yugoslavia has recently encountered a number of obstacles in developing a working accord with Western Europe. The initiative taken by the Yugoslavs in attempting a bilateral settlement with Italy on the final dis-

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By mcl NARA Date 10/23/11

position of the free territory of Trieste is rapidly developing into a crisis in which both countries have publicly assumed intransigent positions. The situation has been aggravated because Yugoslavia has exceeded its treaty rights unilaterally and brought about the economic integration of Zone B with Yugoslavia, thus causing fears of outright annexation. This action has provided the basis for an Italian protest to Belgrade, followed by sharp Yugoslav countercharges, and has inflamed both Italian irredentism and Yugoslav nationalism. Although there apparently remains a desire on the part of both governments to reach an understanding over Trieste, current tensions may lead to a further deterioration in Italian-Yugoslav affairs, possibly preventing the establishment of a mutually beneficial economic rapprochement.

The situation has been complicated by the aggressive tactics of the Italian Communists. They are in a position to exploit effectively any concessions which de Gasperi might make to satisfy some of the Yugoslav claims. For its part, the Tito Government must regard any strengthening of Italian, Cominform-directed Communists as a further threat against Yugoslavia and therefore might be inclined to display a reasonable attitude towards the de Gasperi government.

The resignation of Greek Premier Venizelos and his replacement by the left-centrist General Plastiras, with whom Tito has indicated his willingness to do business, opens the way for closer relations between Belgrade and Athens. The first step in this direction may be the early implementation of plans for the reopening of the Salonika-Belgrade railroad, which would restore to Yugoslavia its prewar commercial outlet on the Aegean Sea.

On the other hand, the West German-Yugoslav trade agreement, the largest 1950 agreement Belgrade has signed with any country, has not yet been ratified by the Bonn Government. This treaty, which would re-establish a valuable prewar trade channel, is particularly important to Yugoslavia because it would provide large quantities of essential industrial goods, needed during the next few months. The West Germans have been withholding their approval on account of Yugoslav trials of German war criminals and the treatment of German war prisoners in general.

If Yugoslavia is successful in negotiating these outstanding issues with the Western governments of Italy, Greece, and Western Germany, the anti-Cominform "front" in the Balkans will be strengthened, and the orientation of Yugoslavia toward Western Europe materially advanced.

6. Sino-Soviet Collaboration.

The Chinese Communists, deriving some practical military benefits from the closer association between Moscow and Peiping in recent months, probably soon will direct a major attack against the Chou Shan Islands southeast of Shanghai. The objective would be to eliminate use of these islands as an advance Nationalist base for air attacks and for naval blockade of the Yangtze estuary. In this operation, the new Chinese Communist air force is expected to make its first major appearance in the civil war. Soviet military assistance appears to include Soviet technical advice and limited material aid to all branches of the Chinese Communist military establishment. Emphasis, however, is undoubtedly being placed on the organization, training, and equipment of a tactical air force. The USSR is believed to have turned over to the Chinese Communists fighter aircraft from surplus Soviet stocks available at the Port Arthur naval base and elsewhere in the Far East. Among the Soviet military personnel in East China, estimated to number 1,000, are groups of air advisers probably directing the air training program. It is probable that the USSR will take care to prevent overt participation by Soviet military personnel in Chinese combat operations.

The Soviet military assistance program may also include training and operational advice in amphibious warfare. The Chinese Communists could use such help for their forthcoming invasion of Taiwan, which they are expected to launch in the second half of 1950. As to Hainan, where they have recently made increasingly heavy infiltration raids, the Communists appear to be following a strategy

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Authority NND795006
By md NARA Date 10/27/11

calling for a combination of internal and external pressures.

In the field of economic collaboration, the USSR and the People's Republic of China have signed agreements covering commercial aviation and the future economic development of Sinkiang. Under the air agreement, services are to be established between Peiping and three Soviet cities. The Sinkiang economic development agreement creates two Sino-Soviet stock companies, one for the production and refining of petroleum and natural gas, and the other for the discovery and production of non-ferrous metals. The expenses and profits of these joint-stock companies are to be shared equally by the USSR and the PRC. Thus China assumes the major contribution by providing the natural resources and half the expense of exploitation, while the USSR will acquire considerable economic control over this area. Since Sinkiang is too far from the populous areas of China to enable the Chinese to benefit appreciably from petroleum or metals produced and refined there, Chinese investment capital could be more profitably expended in China proper.

7. Southeast Asia.

In Southeast Asia, the Western Powers are holding an essentially defensive position against the pressure of expanding Communist influence, which is successfully exploiting local nationalist sentiments there. Chinese Communists are giving increased support to the resistance forces opposing the French and British in Indochina and Malaya. Conditions in Burma are slightly less chaotic than before. The Huk rebels in the Philippines, however, threaten that nation's internal stability.

a. Indochina.

Limited Chinese aid to Ho's forces and the strengthening of overt Stalinist influence in the Ho regime indicate that the Communist leadership of the resistance is closely identifying the movement with Moscow and Peiping. There is as yet no evidence, however, that the Chinese Communist regime is engaged in a large-scale program of military aid to Ho nor that Peiping-directed Chinese Communist troops are participating in attacks against the French in Indochina. A substantial increase in Chinese Communist military assistance can be expected within the next six months, provided that the Chinese Communists can consolidate their control over South China and do not become exclusively preoccupied with the projected invasions of the Chou Shans, Hainan, and Taiwan.

Meanwhile, the shaky structure of Bao Dai's government has been weakened by the resignations of the Minister of Defense and two under secretaries from Nguyen Phan Long's cabinet. At the same time Vietnamese leaders, emboldened by anticipated US economic and military aid, appear eager to repudiate the more restrictive aspects of the March 1949 accords and are clamoring for further concessions from the French. Such persistent Vietnamese pressure on the French is aimed at putting the Bao Dai government in a position to become the actual rather than the nominal recipient of anticipated US aid.

This growing demand for direct Vietnam-US relations threatens to upset plans for a quadripartite conference of French, Laotian, Cambodian, and Vietnamese representatives scheduled later this month. This meeting is intended to establish a joint operational organization to handle services common to all Indochina, and has been generally regarded by US observers as the most suitable agency to coordinate French and Indochinese requirements for US assistance. The Vietnamese, reluctant to be on the same level with the much weaker states of Laos and Cambodia, always have suspected that the French would try to use such a quadripartite organization as a device to establish French control over US aid, and are unlikely genuinely to support any quadripartite agency.

The proposals of the Griffin mission for US military and economic aid recognize the necessity of devising a formula that will take advantage of French experience without appearing to consolidate French hegemony. If a method can be developed to insure that US assistance will not be dissipated by disputes between the French and the Bao Dai regimes, prospects appear favorable for its effective use both against Ho Chi Minh and in defense of the China border.

DECLASSIFIED
Authority NND 795000
By wd NARA Date 10/23/11

Despite the French reports that US military equipment must arrive within the next three months if it is to prevent a debacle, it is doubtful that a crisis will develop that rapidly. Assuming that Chinese aid to Ho does not exceed the moderate proportions anticipated in the near future, the French probably can maintain their present control of the chief Indochinese centers during the next six months while US equipment is in process of delivery.

b. Burma.

In Burma there has been some recent progress toward stability, although widespread unrest continues. Government forces have established a protected corridor from Rangoon to Mandalay and have ended organized Karen resistance for the present. The reopening of channels of trade and communications between Upper and Lower Burma will aid the government in reasserting its authority over the country and strengthening Burma's economy. British confidence in the Burmese Government has increased, and further British military aid for Burma may be approved. The recent £6 million Commonwealth loan, which will temporarily ease Burmese internal financial problems, also will improve strained Anglo-Burmese relations.

Meanwhile, the Burma Communist Party (BCP), now organized with its own "Government" at Prome, 160 miles northwest of Rangoon, has weakened itself temporarily by arresting the leaders of its insurgent partner, the People's Volunteer Organization (PVO). The BCP, however, remains the logical recipient of the assistance which the Burmese Communists expect to get from China. The BCP may be attempting to develop a smaller but more effective political and military organization capable of gradually increasing its authority along the lines followed by the Chinese Communists. Should it receive aid from Peiping, the BCP probably could cause greater difficulties for the Burmese Government.

c. Malaya.

After nearly two years of attempting to suppress Communist-directed terrorism in Malaya, the British have been unable to make progress in solving the problem and are faced with a deteriorating situation. They finally have come to admit concern over inability to restore order to a region that is the sterling area's greatest net dollar earner.

Though there are approximately half as many bandits operating in Malaya as nearly two years ago when guerrilla warfare began, the 3000-odd terrorists, mostly Chinese, have been conducting a more intensified campaign since October 1949. Bandit attacks in February 1950 were the highest recorded since 1948 and British casualties exceeded those of any month since the campaign began. As a result, the British recently have strengthened both the ground and air forces of the Malayan garrison and have made several administrative changes designed to increase the efficiency of the police and military establishment. At present there are some 26,000 British and Indian troops, plus approximately 70,000 full and part-time police operating in the area.

The large Chinese community — approximately 44 percent of the population — has complicated the problem for the British. Although Malayan Chinese are not ideologically attracted to Communism, they tend in typical opportunist fashion to support the successful Communists in China. The expected arrival of Chinese consular representatives, as a consequence of British recognition of Peiping, probably will accelerate this trend. The Chinese Communists have dispatched trained agents to assist the terrorists in their military campaign, in sabotage operations, and in infiltration of the trade unions and the educational system.

On 23 March the Griffin mission recommended a 4.5 million dollar US aid program, to be expended by 30 June 1951 for the purchase of equipment not available in the sterling area. Most of the funds would be expended on materiel to increase the efficiency of police and constabulary operations. It is extremely doubtful, however, if such a small volume of US aid will have any considerable effect on the fight against terrorism.

d. Philippines.

Widespread and apparently well-coordinated Huk violence in central Luzon in late

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March indicates increased dissident strength and a more thorough integration of effort on the part of the Communist-led guerrilla forces. The Philippine Government's counteraction thus far has been largely ineffective. Although Huk violence is not expected to become critical in the immediate future, it represents the worst outbreak in the past three years and is a direct consequence of deteriorating basic socio-economic conditions which the Philippine Government appears incapable of alleviating.

8. Latin America.

In Latin America, the decline of Communist influence and strength, which extended from 1947 to 1949, appears to have ended. Although the potential remains low, Communist capabilities for anti-US action have increased appreciably during recent months in Cuba and Guatemala, where opportunist politicians are collaborating with the Communists to obtain a solid block of votes.

In Cuba the major political parties have begun to court Communist favor, and one party has signed an electoral pact with the Communists, giving them a cloak of respectability and increasing their opportunities to attract recruits, collect funds, and spread propaganda designed to undermine US prestige. In Guatemala, some Communists are employed by the government and have been utilizing official facilities to advance their cause. The administration candidate for President has accepted Communist support, and virtually all organized labor has come under Communist domination. In Brazil, although the Communists have not gained in popular influence, they have been able to organize anti-US demonstrations, capable, for example, of providing the additional influence necessary to delay the passage of a petroleum code favorable to US interests.

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