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CENTRAL INTELLIGENCE AGENCY

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## CURRENT SITUATION AND PROBABLE DEVELOPMENTS IN FINLAND DURING 1954

### THE PROBLEM

To estimate the current situation and probable developments in Finland during 1954.

### CONCLUSIONS

1. We believe that Finnish internal economic and political problems, while serious, are not of crisis proportions and will probably be somewhat alleviated during the coming year.
2. The national elections in 1954 will probably not result in any significant alteration of party strength. Power thus is likely to remain with the center parties.
3. The value of Finland's trade with the West fell sharply in 1952 and 1953, following the collapse of the Korean War boom. Accordingly, the Soviet Bloc's share of Finland's trade increased from the unusually low postwar figure of 16.5 percent in 1951 to more than 30 percent in 1953. It now appears that this trend has been reversed and that the Soviet Bloc's share in Finland's trade is declining. We see little likelihood that Finland will become so dependent upon trade with the Bloc as to impair further its ability to withstand unacceptable Soviet demands under economic pressures alone.
4. We believe, therefore, that Finland will continue to maintain the delicately balanced position between East and West which it has occupied since the end of World War II.
5. We believe it highly unlikely that the USSR will attempt to invade Finland as a move in the global cold war. It is possible, however, that the USSR might at some time in the future use or be moved by some development such as West German rearmament to invoke its Mutual Assistance Pact with Finland, and perhaps to demand additional bases, radar sites, or other concessions. In these circumstances the Finns would probably feel compelled to yield to such demands as did not seriously impair their national independence.
6. The Finnish armed forces could delay only briefly a Soviet invasion of the country. However, the political temper of the Finnish people is such that Soviet occupation forces would almost certainly be subjected to determined and intensive guerrilla warfare.

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2

## DISCUSSION

7. Since World War II Finland has successfully maintained a position delicately balanced between East and West. The Finns have maintained their national independence, carried on extensive trade with Western nations, and exhibited generally pro-Western political and cultural sympathies. On the other hand Finland was forced as a consequence of defeat in war to grant considerable economic, territorial, and political concessions to the USSR. The Finns recognize, moreover, that their country occupies a position of great strategic importance to the USSR, and that it cannot successfully defend itself against Soviet attack. For this reason Finland has been obliged to adopt an official policy of strict neutrality, emphasizing "good neighbor" relations with the USSR. The Finnish Government was also constrained in 1948 to sign a Mutual Assistance Pact with the USSR which stipulates that: (a) Finland will fight to repel any attack against Finland, or against the USSR through Finnish territory by Germany, or by any state allied with Germany; (b) the two countries shall confer in case it is established that the threat of an armed attack is present; (c) Finland will not enter into any alliance or take part in any coalition directed against the USSR.

## Military Situation

8. The strength and equipment of the Finnish armed forces are limited by the postwar peace treaty concluded in 1947. The strength ceiling of the army, including Frontier Guards, is 34,400 men; of the navy 4,500 (10,000 total tonnage); and of the air force 3,000 (60 aircraft).

9. Communism is negligible in the Finnish armed forces, and these forces could be counted on by the government to cope successfully with civil disorders.

10. The Finnish armed forces have no capabilities for offensive warfare and could not successfully defend Finland's borders. Soviet possession of the Karelian isthmus, and occupation of Porkkala, only 10 miles from Helsinki, renders any significant defense of the

capital and key southern ports impossible. The political temper of the Finnish people is such, however, that a Soviet attack would almost certainly meet armed resistance. Such resistance could delay, though only briefly, Soviet invasion of the country. Subsequently, Soviet occupation forces would almost certainly be subjected to determined and intensive guerrilla warfare, in which the Finns excel.

## Foreign Trade

11. Foreign trade is the key factor in the Finnish economy; its volume and terms largely determine the level of domestic economic activity. Finland is dependent on trade with both the West and the Soviet Bloc.

a. *West:* Over two-thirds of Finland's foreign trade is with the West; about 7 percent of the total trade is with the US. Nearly 90 percent of its exports to the West consist of forest (wood and paper) products, which are exchanged for essential imports of industrial raw materials and capital equipment. The Finns greatly prefer to trade with the West, partly for political reasons, and partly because of the superior quality of Western goods.

b. *Soviet Bloc:* Nearly one-third of Finland's foreign trade is with the Soviet Bloc. The Bloc now supplies virtually all Finland's POL and coal, and one-third of Finland's domestic cereal requirements. The Bloc is also the only available market for the export surplus of Finland's shipbuilding and metal-working industries. These industries employ about 80,000 persons. They were greatly expanded to fill Soviet reparations payments, which ended in September 1952, and their products are generally not competitive on the world market. While expanding domestic needs absorb probably more than 75 percent of the production of Finnish engineering and metal-working plants, the shipyards work almost exclusively on deliveries to the USSR.

12. During the years 1947-1949 about 25 percent of Finland's foreign trade was carried on with the Soviet Bloc; part of this trade consisted of reparations shipments. In 1951 the

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Bloc proportion fell to about 16.5 percent, but in 1953 it rose to slightly more than 30 percent. These wide percentage fluctuations were due primarily not to variations in the amount of trade with the Bloc, but to the steep and temporary rise in the value of Finland's trade with the West during the Korean War boom of 1951. In 1952 and most of 1953 the value of Finnish exports to the West fell sharply, and the Finnish Government was obliged to restrict imports from the West in order to protect its foreign exchange position. Meanwhile, after reparations shipments to the USSR ceased in September 1952, the USSR expanded its commercial purchases from Finland by an amount roughly equal to the previous volume of reparations shipments; this in turn meant a considerable increase in Bloc exports to Finland. Taken together, these factors largely account for the recent increase in the Soviet Bloc's share of Finland's foreign trade.

13. It now appears that the trends in Finnish foreign trade have again shifted, and the share of the Soviet Bloc is declining. The new Finnish-Soviet trade agreement indicates that the value of Finnish trade with the USSR during 1954 is likely to fall about 10 percent below the 1953 level, although the Finnish shipbuilding component of this trade will slightly increase. While Finnish trade with the rest of the Bloc will probably increase during 1954, it is unlikely that the increase will be sufficient to offset the decline in trade with the USSR. Moreover, there is already evident a considerable increase in the volume of Finnish exports to the West and in the prices these exports command. This trend will probably continue through 1954. Over the longer run, Western demand for forest products will probably increase moderately during the next decade. At the same time, the modernization of Finnish forest products industries, which is already under way with the help of loans from the International Bank of Reconstruction and Development will decrease Finnish production costs and make Finnish prices more competitive in Western markets.

#### Internal Economic and Political Situation

14. Finland's current political problems are primarily economic in origin. The collapse of the Korean War boom led to a considerable decline in earnings from the West. Although real national income remains above the levels of the pre-Korean period, it has dropped sharply from the peak reached during the Korean War boom. There has also been a marked increase in unemployment. By March 1954, Finnish unemployment is expected to total about 70,000, approximately 4 percent of the total labor force. This unemployment figure will be slightly higher than the 1952-1953 postwar peak.

15. The main problem facing Finnish policy makers is to increase the efficiency of the export industries. Finland's competitive position in world markets has been precarious since World War II. Some important export production facilities were lost to the USSR, and nearly all available investment resources were absorbed in expanding the productive capacity needed for reparations deliveries and in providing homes and jobs for refugees from the lost territories. Partly as a result of this inability to invest in modernization, and partly as a result of overvaluation of the Finnmark, Finnish export industries are at a cost disadvantage on the world market.

16. An effective governmental program to deal with this problem would probably have to include currency devaluation or a reduction in wages and social services. No single political party has a majority in the Finnish parliament, however, and the divergent economic interests represented by the two largest parties, the Social Democratic and the Agrarian,<sup>1</sup> have prevented agreement on any joint program. Indeed party disagreements have been so great as to prevent the formation of a viable coalition, and Finland is presently governed by a "caretaker" administration,

<sup>1</sup> The parties and their respective strengths in the Finnish parliament (based on seats gained in the 1951 election) are as follows:

Social Democrats . . . . .	53	Coalition Party (Conservatives) . . . . .	28
Agrarians . . . . .	51	Swedish Party . . . . .	15
Democratic League (SKDL) (Communist-dominated) . . . . .	43	Peoples Party (Liberal-Center) . . . . .	10

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which probably will stay in power until national elections are held in March 1954. This government is not in a position to adopt or to carry through a positive economic program.

17. There are estimated to be about 35,000 to 40,000 Communists in Finland. Communists dominate the third largest political party, the Finnish People's Democratic League (SKDL), which received 22 percent of the total vote in the last national elections. They also occupy a strong though not a dominating position in the Central Federation of Trade Unions (SAK), which is controlled by Social Democrats. They are capable of provoking strikes and making unreasonable demands on the government in an attempt to discredit it.

18. The SKDL will try to exploit popular dissatisfaction with present economic conditions in Finland in order to increase its strength in the next elections. It will probably not have much success. The influence of Communists in the Finnish labor movement has declined since 1948, though it remains large. This decline may indicate a weakening of the Communist popular base. The government's extensive social security program is adequate to cushion the effect of unemployment even at the high level expected during coming months. We therefore believe that the SKDL voting strength is not likely to change appreciably in the near future.

19. The national elections in 1954 will probably not result in any significant alteration of party strength. The Social Democrats, strongly anti-Communist, probably will increase their representation slightly at the expense of other non-Communist parties. Power thus is likely to remain with the center parties, and the Social Democrats and/or Agrarians will comprise the core of the next government coalition. It is almost certain that the SKDL will continue to be excluded from the cabinet.

20. It is thus unlikely that the political situation after the national elections in 1954 will permit major economic reforms. However, the major parties will probably be more disposed to agree on a compromise economic program since present party resistance to such a compromise has to a large degree derived from fear of losing votes in the forthcoming elec-

tions. In any event, if the non-Communist party leaders felt that economic difficulties, particularly unemployment, were threatening their own political strength or undermining the basic health of the Finnish economy, they would probably reach agreement on an effective economic program.

21. We conclude that Finnish internal economic and political problems, while serious, are not of crisis proportions and will probably be somewhat alleviated during the coming year.

### Probable Foreign Policy Developments

22. We believe that Finland will maintain its delicately balanced position between East and West.

23. It is highly unlikely that the USSR will attempt to invade Finland as a move in the global cold war. Finnish resistance would seriously limit the economic and military benefits the USSR would gain from occupation and possibly would reduce them below the levels obtained under existing economic and political agreements. Moreover, the Kremlin probably estimates that such action would have substantial propaganda disadvantage, would probably induce Sweden to move closer to the West, and might involve a risk of precipitating World War III.

24. The Finns have demonstrated a high capacity to resist economic, psychological, or internal political pressures brought to bear on them by the USSR. Their dislike and distrust of Russia are traditional; their Western sympathies are deep. The great devotion of the Finns to their national independence is even shared by a large proportion of those who vote for the Communist dominated SKDL. We believe that the Kremlin probably recognizes these facts, and is unlikely to estimate that it can gain significant concessions<sup>2</sup> from Finland by non-military pressures, at least under present international conditions.

25. In the longer run, it is possible that factors such as a marked economic recession in

<sup>2</sup> Concessions the Kremlin would like to secure might be more military bases, more stringent political obligations in case of war, or trading arrangements lopsidedly favorable to the USSR.

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the West might force Finland into greatly increased dependence on trade with the Soviet Bloc. Such a development would inevitably weaken Finnish ability to withstand Soviet pressures, though we believe that the Finns would still resist any substantial encroachment on their national independence. Finally, it is possible that the USSR might use or be

moved by some development such as West German rearmament to invoke the Mutual Assistance Pact of 1948 and perhaps to demand additional bases, radar sites, or other concessions from Finland. Under such circumstances the Finns would probably feel compelled to yield to such demands as did not seriously impair their national independence.

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