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## H I G H L I G H T S

Soviet Delegate Malik's last days as President of the UN Security Council were marked by the introduction of Chinese Communist charges of US aggression against Taiwan and accusations that the US has violated Chinese Communist territory. Falling into the now familiar pattern of the Soviet political and diplomatic offensive against US policy in the Far East, these latest moves provide few definite clues regarding future Soviet and Chinese Communist actions in the Far East and could be preparations for decisions either for or against the use of Chinese Communist troops in Korea, the invasion of Taiwan, or a final settlement in Korea (see page 4).

As Western Europeans continued to discuss ways and means of accelerating their defensive preparations, the Schuman Plan will face its most crucial test when negotiations resume on 10 September. Schuman's original concept of a truly supranational organization is meeting with growing opposition on political as well as economic grounds and a considerably weakened final draft is likely to emerge (see page 2).

The USSR and its Satellites are still having considerable success in their efforts to purchase scarce strategic materials from Western sources. The Spanish Government has agreed to export large quantities of pyrites to countries within the Soviet orbit (see page 6); Western molybdenum and cobalt are being transshipped to Eastern Europe (see page 7); and the Communist countries of Europe are still conducting a lively traffic in arms and munitions (see page 7).

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## THE SCHUMAN PLAN

**Crucial Test** With negotiations on the Schuman Plan scheduled to resume on 10 September, Schuman's original proposal for a truly supranational organization faces its most crucial test, and a considerably weakened final draft is likely to emerge. Opposition to the plan as first conceived appears to be growing on political as well as economic grounds, the Korean war has raised new problems, and various factors are contributing to French willingness to accept compromises.

**Weakened Power** The tentative agreement to establish a Council of Ministers composed of representatives of the member governments represents the gravest potential weakening of the power of the pool's High Authority and may seriously impair the supranational character of the proposed organization. Although the exact relationship of the Council to the High Authority is yet to be defined, the vital role of coal and steel in the stepped-up defense program and the widespread reluctance to avoid dislocations in the various national economies will be influences in the Council's favor in its struggle for power with the more international-minded High Authority.

**Economic Impetus** Meanwhile, the Korean war and the resulting increase in defense preparations have greatly increased the demand for European coal and steel and thus reduced the immediate economic impetus toward the Schuman Plan, especially among the Germans. Coincidentally, the political factors behind the original Schuman proposal may become less urgent as a result of the Korean war. Schuman, believing that his objective of curbing German aggression may now be achieved through an integrated

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**T O P S E C R E T .**

defense establishment, may become less insistent in his demands for a truly supranational High Authority.

**Task Ahead**      The most difficult portion of the negotiators' task still lies ahead, and the French continue to show concern over the problem of finding some basis for British participation. Controversy will be particularly intense over such issues as the precise machinery for electing key officials, the method for determining prices and wages, and defining clearly the relationship between the High Authority and the Council of Ministers. The British can be expected to continue their efforts so to soften the supranational aspects of the organization as to permit them eventually to participate. Confronted with these problems and pressures, the French may be willing to accept further compromises in order to avoid the loss of prestige which would follow complete failure of the plan and to insure its passage at an early date by the various national assemblies.

**Probable Outcome**      Aside from the growing likelihood that the Schuman Plan will not, as originally planned, "abnegate sovereignty in a limited but decisive field," there are some indications that the final draft may not prevent regional producers' associations from indulging in "cartel" practices. Even a watered-down plan would produce important economic results of advantage in defense efforts, particularly in the fields of investment planning, coordinated production and distribution, and price control. However, substantial departures from the original concept would: (1) be a psychological blow to the European unification movement and to the emerging faith of Western Europeans in their potential as a single force; and (2) jeopardize this unique opportunity for a full integration of two of Europe's basic industries.

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**T O P S E C R E T**

**TOP SECRET****FAR EASTERN STRUGGLE**

**Soviet Moves** The latest propaganda and diplomatic moves by the USSR and Communist China involving the Far East are further tactical developments in the continuing Soviet offensive in the United Nations. Chinese Communist charges before the UN of US aggression against Taiwan and accusations that the US has violated Chinese Communist territory fall into the now familiar pattern of the Soviet campaign to picture the US as the aggressor in Korea and other areas of the Far East, to divide the Western Powers on the controversial questions of Taiwan and Chinese representation in the UN, and to confuse UN discussion of the Korean situation.

These latest moves offer few definite clues regarding future Soviet and Chinese Communist moves in the Far East and could be designed to pave the way for a number of widely varying Soviet actions. For example, charges that the US has violated Chinese territory in themselves are inconclusive: they may be designed merely to maintain the initiative in the SC and to promote Western fears of Chinese Communist intervention in Korea in an attempt to improve the Soviet bargaining position in any negotiations for a Korean solution. On the other hand, these accusations may actually be the propaganda build-up for Chinese Communist military aggression in Korea or elsewhere. Similarly, airing the Taiwan issue in the SC does not rule out an invasion of Taiwan, inasmuch as branding the US as the aggressor might later serve as justification for an attack. Turning the issue over to the UN, however, could serve as an excuse for the present failure to fulfill the pledge to "liberate" Taiwan. Finally, both moves may be further preparations for a later Soviet attempt to trade a North Korean withdrawal to the 38th Parallel for some concessions on Taiwan and seating the Chinese Communists in the UN.

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**Korean Military** North Koreans reportedly are already preparing defensive positions and troops for the time when UN forces go over to the offensive. Entrenchments, pill boxes, and artillery positions were being constructed in the city of Seoul as early as 5 August, and civilians were ordered to evacuate districts bordering on the Han River. Reports also indicate defensive preparations in the Kunsan and Inchon regions on the west coast and around Ulchin on the east coast. Although North Korean rear-area and security forces have been kept to a minimum by the necessity of committing them to the battle line in order to maintain the initiative, possibly 20,000 are believed to be deployed in the rear, both in the south-west and in the Seoul-Inchon region. The training status of these troops is unknown, but a concentrated training program for conscripts is reportedly in progress.

**Indochina Rebels** Ho Chi Minh's attempts to extend his control over rebel forces in Laos and Cambodia will multiply the military difficulties of the French forces and their native allies. Control over Lao and Cambodian rebel groups would increase Viet Minh capabilities for any of several courses of action: (1) diversionary feints against or harassment of French positions in Laos and Cambodia; (2) preparations for a "defense in depth" against French forces concentrated in Vietnam; or (3) preparations for a long-term offensive in the highlands of Laos. Intensified rebel activity, with a marked improvement in guerrilla tactics, reflects the penetration thus far by Viet Minh groups, who infiltrate these areas disguised as Lao and Cambodian natives. Viet Minh influence has been especially notable in Laos, where there are also reports of Chinese Communist advisers in the camp of the Lao rebel, Prince Souphanavong.

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**TOP SECRET****CRITICAL TRADE PROBLEMS**

**Spanish Pyrites** The Spanish Government has recently agreed to export to countries within the Soviet orbit large quantities of pyrites, an important strategic commodity. Pyrites, which are particularly important as a source of sulphur in the manufacture of sulphuric acid and which contain valuable quantities of iron and copper, have been intensively sought by the Cominform countries since Yugoslavia banned pyrites exports to Soviet countries early in 1949. Coupled with this ban has been the demand, almost confiscatory in nature, which the USSR has been making upon East Germany and Czechoslovakia for sulphur and its products.

In an effort to take advantage of this situation and others similar to it, the Spanish Government recently established a state-controlled export company which has a monopoly over trade with Cominform countries. This company has recently completed deals through agents in Switzerland and Sweden by which pyrites from the Rio Tinto mines in Spain will be sent in the quantities of 100,000 tons to East Germany and 6,000 tons to Poland. (The pyrites to be sent to East Germany could produce 150,000 tons of pure sulphuric acid or 245,000 tons of smokeless powder.) Through an earlier deal, Czechoslovakia is to receive an unspecified amount of Rio Tinto pyrites.

Although the Rio Tinto mines, largest pyrites mines in the world, are British-owned, under present Spanish Government controls over private business and all exports, the owners cannot be considered responsible for these recent deals. British ownership does, however, have economic

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and strategic implications for the US. US resources of sulphur are vanishing so rapidly that a decision was made in June to reduce sulphur exports by at least 30 percent. British sulphur-consuming industries, which have been importing US sulphur with ECA funds and which will be affected by the June cut, could turn to Spanish pyrites for sulphur. If the British were successful in getting sizeable shipments from the Rio Tinto mines, the flow of this strategic item to the Soviet orbit would be reduced and British pressure for US sulphur would be lessened.

**Arms Traffic** A by-product of World War II and the cold war has been the emergence of the Communist countries of Europe as the principal traffickers in weapons. Insufficient capacity in France, embargoes by Switzerland and Sweden on most weapons, peace treaty prohibitions in Germany and Italy, and strict regulations by the US and UK have left Soviet orbit sources, particularly Czechoslovakia, the only producers willing to sell armaments on reasonable terms to all comers with no questions asked. World War II stocks of arms have been plentiful and Czechoslovakia and the other Satellites have been producing arms of improved quality and at a higher rate. The arms are being sold as a means not only of fomenting political unrest but of obtaining readily convertible foreign exchange. Principal buyers have been dissident groups or small undeveloped countries, including Ethiopia, Israel, Venezuela, and Ecuador.

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**Czech-Swedish Trade** Shipments of ferro-alloys to Czechoslovakia have been suspended by Sweden following Czechoslovak failure to import the amount of nonessential goods scheduled under the 1950 trade agreement. Sweden was to deliver 50 tons of ferro-vanadium, 400 tons of ferro-tungsten, 280 tons of ferro-chromium, and 120 tons of ferro-silicon, all of vital importance to the Czech iron and steel industry. The Swedish action is similar to that which occurred in the fall of 1949 when shipments of high grade iron ore were halted temporarily until the Czechs increased non-essential imports. Czechoslovakia undoubtedly will once again increase nonessential imports because the Czech iron and steel industry must have a constant supply of Swedish ferro-alloys.

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**TOP SECRET****LOCAL DEVELOPMENTS****UNITED KINGDOM**

**Labor Party Policy** The recently published annual Labor Party policy statement emphasizes the Party's support for the US and the Western defense effort, while simultaneously revealing a marked retreat from the doctrinaire socialism preached in the early postwar period. The statement's approach to domestic economic issues reflects a greater flexibility and pragmatism and fails to reaffirm the Party's earlier intention to nationalize the sugar and cement industries or to "mutualize" life insurance. The solidity of the Party leadership's support for Allied policies is revealed by number of favorable references to the US, the call for a strong defensive structure even at the cost of standards of living and tax relief, and the proposal for a "world plan for mutual aid." Apparently an echo of the Point IV Program and a calling for an amalgamation of existing UK, US, and UN programs for economic aid and technical assistance, the proposal reflects Labor's view that backward areas can best be made immune to Communism through economic improvement fostered by the Western Powers. It may also have been made at this time in an attempt to overcome charges of isolationism which grow out of Britain's stand on European integration. The statement will almost certainly be approved at the forthcoming national party convention.

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**TOP SECRET****SOUTH ASIA**

**Kashmir Stalemate**      The failure of the efforts of UN Mediator Sir Owen Dixon to effect a solution of the Kashmir dispute suggests that the present stalemate will continue indefinitely unless overwhelming opposition to Indian Prime Minister Nehru's stand somehow develops within the Indian Cabinet or unless Pakistan eventually loses patience and resorts to force. Sir Owen's attempts to work out a compromise have at least brought out into the open the idea of partition plus a limited plebiscite. Pakistan, recognizing that the once agreed-upon overall vote is virtually unobtainable, now appears prepared to compromise on the control of certain districts if assured that the inhabitants of the all-important (and now Indian-held) Vale will be able to register their preferences without outside influence or compulsion. At the same time, however, Sir Owen's efforts have demonstrated that Nehru, despite the deceptively fair words he has often used, is still unwilling to bargain in good faith. Inasmuch as the UN Security Council is unlikely to bring any effective pressure to bear on India at this time, any peaceful resolution of the present impasse would appear to rest on the slim hope that Nehru's colleagues will eventually prevail upon him to make a genuine effort to reach a compromise solution. Various members of the Indian Cabinet appear to be eager to throw off the heavy economic burden which the Kashmir stalemate is imposing on India, some reportedly even to the extent of being willing to give up the Vale without a plebiscite if some way can be found to appease Sheikh Abdulla.

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## YUGOSLAVIA

**Western Relations** Yugoslavia's relations with Italy and Austria have shown definite improvement during recent weeks, despite continued strain with its other pro-Western neighbor, Greece. The friendlier atmosphere between Yugoslavia and Italy derives from the dormancy of the Trieste issue, the easing of traffic restrictions between the Allied and Yugoslav zones of Trieste, and the cessation of the Yugoslav practice of requiring Italians working in Zone A to convert their lira into dinars at a loss. Moreover, Italians are becoming increasingly aware of the importance of Yugoslavia to Italian defense plans and will probably seek even closer relations with the Tito regime. Regarding Austria, the Yugoslavs have ceased pressing their own claims against the Austrians in the peace treaty negotiations, have sought economic aid from Austria, and have refrained from stirring up dissension among the Slovene Carinthians. Greek-Yugoslav relations, however, show little signs of improving despite the desire of both countries for closer diplomatic and commercial ties. The principal obstacles appear to be Tito's continued unwillingness to renounce his Macedonian aspirations and his failure to return any sizeable number of the Greek children still in Yugoslavia.

## GERMANY

**Sovzone Police** The East German paramilitary Alert Police are gradually but steadily being shaped into an elite military force. All personnel are now well grounded in combat operations up to company level, and the force is ready for additional training. The morale of both officers and enlisted men is good and security screening has increased

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## GERMANY

reliability. The system of allocation of weapons to the Alert Police apparently is designed not to equip the Alert Police units fully but rather to provide a broad training base so that personnel may become familiar with all arms likely to be used in war. (Large stocks of combat-serviceable weapons from Soviet Army depots could be issued with little delay if the need existed.) Major administrative changes to make a more efficient military organization are likely in the near future. Whether these changes will be followed by an expansion of the force is presently not clear. If an expansion is desired, however, it is believed that the Alert Police organization would be capable of absorbing and training large numbers of recruits and could probably ready a combat-fit force totalling 250,000 in six to eight months.

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