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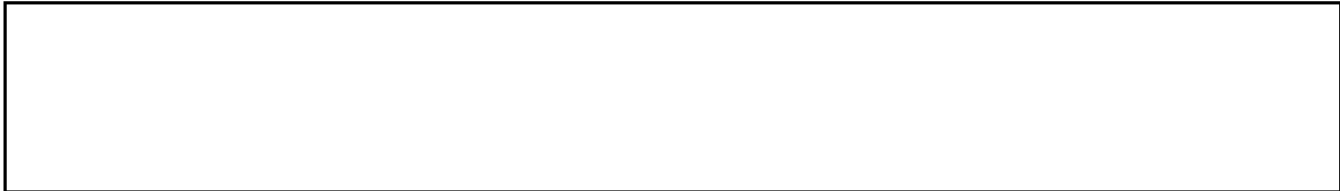
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THE SOVIET WORLD

Malenkov's answers to the questions of an American foreign correspondent and a New Year's Eve speech by the chairman of the Presidium of the Supreme Soviet hailing the now familiar "new course" in the Soviet Union set the tone for the gayest celebration in Moscow in many years.

As concrete expressions of their new program, the Soviet leaders started a 10-day series of New Year's tree parties in the Kremlin for school-age children, staged an elaborate masquerade ball in the Kremlin for Soviet youth, and, for the general population, threw open railroad stations for New Year's Eve celebrations at considerably lower prices than those charged at hotels. In addition there was a marked increase in the supply of most foods in Moscow state stores during the holidays, including imported foods such as pineapples, oranges, lemons, bananas, fish, and canned meat.

In contrast, Soviet propaganda continued to regard the forthcoming Berlin conference pessimistically. Pravda recently alleged that the Western preliminary meeting in Paris "would lead to a collapse of negotiations."

At the same time there were additional indications of the means by which the USSR hopes to obtain a propaganda advantage from the conference. In an interview with Churchill and Eden on 23 December, Soviet ambassador Malik expressed interest in the security guarantees to the USSR which have been discussed in the press, indicating that European security is a subject likely to be exploited in Berlin. Malik also developed the line, similar to that of Soviet propaganda, that Britain and the Soviet Union, as European powers, are disposed to mutual understanding, whereas non-European powers could not understand European problems.

A Pravda comment of 31 December alleged that the West is evading significant questions regarding the German problem and cited as an example the question of easing Germany's economic and financial burdens, suggesting that this will be one of the points that the Soviet delegates will raise at the conference. Reports that the Soviet ambassador to Austria will attend the Berlin meeting indicate that the USSR will be prepared to defend its position on Austria.

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END OF JANUARY WILL BE CRITICAL
PERIOD FOR KOREAN ARMISTICE

The Korean armistice faces a period of severe strain with the approach of the scheduled date for the release of the prisoners of war on 22 January and the expiration on 27 January of President Rhee's agreement not to obstruct the truce. Incidents involving American forces could be caused by Communist insistence that the prisoners must undergo a full 90 days of explanations and that their fate be discussed in a political conference prior to their release, by the Indian government's indecision on whether to hold the prisoners, and by Rhee's growing antagonism toward the Indians.

General Thimayya, chairman of the Neutral Nations Repatriation Commission, has stated repeatedly that the Indian custodial forces cannot legally hold the prisoners after 22 January. New Delhi apparently backs Thimayya, as indicated by Krishna Menon's late December statement to Ambassador Allen that a phased withdrawal of the POW's from the demilitarized zone could begin on 23 January. Prime Minister Nehru, however, is reportedly under strong pressure from Peiping and from certain advisers in the Indian Foreign Ministry who favor the Communist viewpoint, and this could induce him to delay the release pending discussions at the UN General Assembly.

Despite Chou En-lai's recent statement to the Indian ambassador at Peiping that the Communists would never agree to the release on 22 January, there is no evidence that they would risk a renewal of the war by attempting by force to block the release of the 22,000 anti-Communist prisoners. If the release takes place on schedule, the Communists may limit their action to a world-wide propaganda blast at the United States and possibly at India, stressing the "illegality" of the move.

Since the anti-Communists recognize their dependence on the UN Command and South Korea for their initial support and resettlement, their transfer from Indian custody should be accomplished without major difficulty. There is a strong possibility, however, of disorders among the prisoners.

If the Indian government decides not to release the POW's, the Communist governments could be expected to exploit the decision. There would probably be a violent reaction among the prisoners, who are fully informed on the release timetable.

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General Thimayya is aware of this danger, and states that he has informed New Delhi that failure to release the prisoners will force the Indian troops to give up all control over them and stand humiliated, or far worse, to kill hundreds in an attempt to hold them back.

President Rhee's conviction that India is pro-Communist, newly reinforced by the unfavorable NNRC majority report and Indian screening of the POW's, and his emotionalism over the detention of Korean nationals by a foreign power, would impel him to take strong action to effect their release. His action in releasing the Korean prisoners last June demonstrates that he would encourage a breakout and stand by to harbor any escapees. He has threatened publicly to use force against the Indians if the prisoners are not released automatically on 23 January.

While Rhee would be reluctant to risk a conflict with American forces stationed between South Korean troops and Panmunjom, he might well gamble that the UN Command would choose not to uphold the armistice rather than shoot down South Koreans. The fact that such action would violate the armistice would not deter him since he considers himself released from its obligations as of 27 January.

Another possibility is that Rhee would use nonrelease of the prisoners as justification for carrying out his threat of independent military action against the Communists. His recent public statements, however, have emphasized the "right" rather than the "intention" to attack northward. It is also probable that he is now less convinced of his ability to involve the United States in renewed fighting, which is undoubtedly the major determinant of his decision.

Nevertheless, the emotional impact of the prisoner issue, combined with the continuing build-up of the North Korean forces, the increasing Chinese influence in the north, and the planned withdrawal of two American divisions could spur him into an irrational "now or never" decision. If he decides on this course, an all-out attack would be less likely than a series of small-scale actions designed to provoke the Communists to retaliate.

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PROSPECTS OF EGYPTIAN NEUTRALISM

Egypt's recall for consultation of its envoys to Moscow, Washington, London, New Delhi, and Karachi suggests an attempt by the Nagib regime to reassess its strategy toward the West.

The regime's frustration over its inability to obtain British evacuation of the Suez base and American economic aid has led it to promote the idea that Egypt might adopt a neutral position in the East-West struggle.

This attitude may be expected to express itself in reduced cooperation and increased anti-Western propaganda rather than in closer relations with the Orbit. Egypt apparently considers that the threat of neutralism and closer relations with the Soviet Union is a potent lever on the United States and Great Britain.

Recent evidence indicates Egypt's inability to fulfill its threat of closer ties with the Orbit. Despite Cairo's efforts to enlarge commercial relations -- an economic mission is now touring the Satellite states and the USSR -- there is no indication that significant success will be achieved. Official relations have been desultory and the Orbit has not responded in the past to Egyptian requests for arms. There is also little likelihood that the Soviet Union will grant Egypt any important economic aid, or that a closer political alignment will materialize, except for occasional opportunistic collaboration in the United Nations.

In line with a policy of reduced cooperation with the West, however, Egypt may recognize the Communist regimes in Albania and China. The Egyptian press has hinted lately at the possibility of recognition, a subject reportedly to be discussed at the Arab League Council meeting scheduled for early January.

25X1 Egypt intends to push for an Arab states' declaration of neutrality at the meeting, but the other Arab governments are not likely to associate themselves with such a declaration. Egypt may be expected, however, to continue its propaganda efforts to promote neutralism among them.

Since Egypt is the recognized Arab leader, its position accordingly limits the freedom of action of pro-Western Arab leaders in the area. Cairo's adoption of neutralism would make it difficult for the United States to obtain support for regional defense plans in the other Arab states.

Any policy of neutralism adopted by the Nagib regime will probably be limited to noncooperation with the West and increased public stress on Egypt's independence of action.

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IRAN APPROACHES CRITICAL PERIOD

The next few months will probably determine whether or not the present Iranian government can continue in office. A government victory in the elections, expected before the end of January, will provide the semblance of popular support. Zahedi needs in order to start oil negotiations with the British. His position may still be endangered, however, by opportunism in the new Majlis, by independent maneuvers of the shah, and by the expiration of American aid next April.

Prime Minister Zahedi has yet to win the confidence of a large part of the population, and feels the need of a properly elected parliament to share his responsibilities. The shah and Zahedi have drawn up a joint list of the candidates they will covertly support. In addition, they reportedly will soon replace provincial officials by army officers, a move which would strengthen the government's control over the voting.

The elections for each chamber are scheduled for completion within a 24-hour period, and this haste reduces chances for the formation of a united opposition. Although government backing will not assure a candidate's election, most of the government-supported candidates probably will be successful. For the first time in several years, there may be a full Majlis and Senate.

The election of a progovernment Majlis, however, will not solve all of Zahedi's parliamentary problems. After the elections many deputies are likely to support the government only when this is personally profitable and expedient. Should some pro-Mossadeq deputies from the previous Majlis, including the extreme nationalists Baghai and Makki, be elected, they would provide a rallying point for such opportunism.

The first task of Zahedi and the new Majlis will be to pursue oil negotiations with Britain. Zahedi must not give any indication of submitting to British pressure if he wishes to carry the country with him. His caution will be increased by the fact that his government has imprisoned former prime minister Mossadeq, the father of oil nationalization, who is still popular. Iran is expected to take no stand prior to the opening of direct negotiations with Britain and will wait for definite British proposals.

The future of the present regime is also endangered by the possibility of an open break between Zahedi and the shah.

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The latter has always distrusted a strong prime minister, and his behind-the-scenes intrigues have made difficulties for previous governments.

Any intrigues by the shah, following his earlier insistence on assuming control of the army and his intervention on Mossadeq's behalf, would heighten the tension which already exists, but an immediate open break between the two men is unlikely as their cooperation is necessary to elect a friendly Majlis.

Up to the present, the \$45,000,000 of emergency American aid has enabled the government to meet its monthly payrolls and other current obligations. The expiration of this aid in March or April poses an immediate problem for Zahedi, as his government's finances will not be sufficiently improved by then to meet monthly deficits. Until Iran again receives substantial income from oil sales, Zahedi has no chance of mastering the financial problem or of undertaking the economic and social reforms he has promised.

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MOTIVATIONS AND CONSEQUENCES OF SOVIET GOLD EXPORTS

Soviet gold exports, which in the past three months have increased to about five times the rate of recent years, have coincided with marked changes in the internal economic program of the USSR. Not only has the government's pledge to improve Soviet living standards increased internal requirements for such dependable foreign exchange earners as grain and timber, but the regime has also committed itself to expand imports of consumer goods.

Faced with a reduction in foreign exchange receipts, the Soviet government has shifted the pattern of its exports. In contrast with the Stalinist view that gold should be hoarded as a reserve for emergency use only, the new Soviet leaders apparently regard it as a source of foreign exchange like any other exportable commodity.

This shift in attitude is apparently based on a cautious economic calculation. With fixed investment and a prisoner labor force already assigned to gold production, it is advantageous for the USSR to procure many types of goods abroad through the proceeds of gold sales instead of manufacturing the goods domestically.

The value of the USSR's current gold production is estimated as high as \$500,000,000 per year. With this scale of output, the USSR could maintain its present rate of gold exports without dipping into its stockpile.

The new Soviet gold policy probably does not foreshadow any "dumping" of gold, fears of which have been expressed in Western financial circles. Soviet planners, despite their desire to acquire Western currencies, are not likely to reduce the value of their gold by exporting it in such volume as to precipitate a sharp fall in its price or create any serious disturbance in Western markets. The Soviet government's awareness of its better interests is reflected in its recent propaganda favoring an increase in official gold prices.

Soviet gold exports offer financially hard-pressed Western governments an opportunity to replenish their gold reserves as well as to expand their market outlets. The USSR is thus placing itself in a more favorable position to break Western resistance to trade with the bloc.

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COAL-STEEL ASSEMBLY FACES BASIC DIFFICULTIES AT JANUARY MEETING

Growing producer opposition to the long-term program of the European Coal-Steel Community (CSC) poses a challenge to the CSC High Authority's leadership at the special session of the community's assembly called for 14 January in Strasbourg. The High Authority is itself divided on tactics to be pursued at this meeting with the 78 delegates from the national parliaments of France, Italy, West Germany, and the Benelux countries.

High Authority president Monnet, who is convinced of the necessity of extraordinary efforts by publicity and discussion to win the full support of all interested governments and economic groups, plans to lay before the assembly detailed measures for directing investments and negotiating with Britain on institutions for promoting trade liberalization. He may also present even more controversial plans for eliminating cartels and making prices more competitive.

He feels that the High Authority can no longer defer presenting such plans despite the risk of a showdown with the producers. Its plans have been awaited for over a year and many influential delegates, including assembly president Paul-Henri Spaak of Belgium, have shown their impatience. These plans, in fact, are considered indispensable to enable the community in the long run to meet the growing competition of nonmember countries in world markets.

The producers, on the other hand, have been repeatedly led by their short-term interests to act counter to CSC principles and policies. With the rapid return of a buyers' market in 1953, they insisted increasingly on greater rather than less protection of their marketing position. Many firms offered price concessions to customers in strong bargaining positions while insisting on list prices with those less well situated. The High Authority's announcement that it will investigate these discriminatory practices, which it can penalize with stiff fines, has provoked a bitter reaction among the producers.

In West Germany, where large coal and steel sales organizations survived the Allied decartelization program, industry has recently declared that it cannot meet competition without resorting to the traditional vertical combines, encompassing all steps from raw material production to finished product distribution. There are also indications that the traditionally

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restrictionist French steel combines are maintaining gentlemen's agreements for protection against competition.

The long-standing French-German rivalry for steel markets intensifies the drive toward cartelization. The competitive position of the French steel industry is favored by new integrated steel mills built largely with Marshall Plan funds and also by a High Authority decision ending the Ruhr steelmakers' absorption of part of the freight costs to south German steel fabricators.

The intense French-German rivalry will also embitter the forthcoming discussions on the High Authority's master plan for the community's long-term investments. The French can be expected to balk at the High Authority's reported present plan to concentrate initial investments in the basic Ruhr coal industry.

Though the High Authority has been granted extensive legal means to regulate the producers, the only practical means of enforcement it has is the power to withhold subsidy payments or to refuse to guarantee investment loans to the companies. Otherwise it must depend on the national governments. The producers still wield great political and economic power within the member countries. Thus, they can exert indirect pressure on the CSC through its Council of Ministers and at times have even dominated its Consultative Committee, in which labor and the consumers have with them equal representation. The national governments, moreover, can determine the success or failure of the CSC since they retain full control over the unpooled parts of their economies, such as fiscal, wage, and social security policies.

In the face of these varied obstacles, one faction of the High Authority, led by Monnet, wants a bold policy and was responsible for the official warning to the steel export cartel in November to dissolve or be outlawed. Another group, including the influential Dutch member Dirk Spierenburg, opposes prompt action against this cartel, urging instead the legally safer test of strength of an attack on the restrictive coal and steel sales agencies for trade within the community. It also seeks to mollify steel producers by allowing them to deviate by five percent from their published prices.

The CSC's basic dilemma seems to be that it must choose between risking conclusive defeat in an immediate showdown or gradual failure through a solidification of the old restrictive practices within the new community.

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PROBLEMS FACING THE UNITED STATES AT THE TENTH INTER-AMERICAN CONFERENCE

The Tenth Inter-American Conference which is to convene in Caracas, Venezuela on 1 March promises in several respects to be the most difficult American meeting to date. At present, the most serious of the impending problems appear to be a series of challenges to United States economic policy and possible disagreement over the Washington-sponsored item on Communist intervention in the hemisphere.

Thus far, 28 agenda items have been approved by the Council of the Organization of American States (OAS), but many countries including Brazil, which is frequently the bellwether of Latin American opinion, have announced that the six items listed in the economic section will occupy most of their attention. These items include such questions as commercial relations, development programs, and technical assistance, and all are so phrased as to permit discussion of a wide variety of proposals. The basic Latin American complaint, which Dr. Milton Eisenhower's recent report described as an emotionally charged belief, is that the United States tends to exploit the economies of the other American republics for its own ends.

Latin American resentment of this supposed policy was reflected at the Ninth Inter-American Conference in 1948, the Inter-American Foreign Ministers Conference in 1951, and again at the 1953 session of the Inter-American ECOSOC. Skillful American diplomacy in the first two cases, and determined support from Venezuela and its neighbors in the third, prevented economic problems from becoming acutely embarrassing to the United States. There are now indications that frank discussion of the issues cannot be further postponed and that a showdown on them will be forced at the conference in March.

Many of the Latin American demands and complaints reflect the belief that Washington can and should control the prices of United States imports and exports, and the nature and conditions of its private investment abroad. This idea has been strengthened during the past year by the threat of increased American tariffs and other import restrictions. As a countermeasure most Latin American governments have in recent years made concerted efforts to channel trade toward markets considered less capricious than the United States. More recently some have attempted to expand commercial relations with the Orbit.

On the basis of these attitudes and the recommendations of the Milton Eisenhower report for more economic assistance to Latin America and stabilized trade relations, a majority of the more important countries can be expected to press for basic

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commitments from the United States on tariffs, stable price and purchasing arrangements for raw materials, development loans, and other such matters affecting the stability and growth of their economies.

The chief political problem appears at this time to be the United States-sponsored item "Communist Intervention in the American Republics," which is generally understood to refer to a discussion of possible controls on international travel and propaganda. Several governments lack enthusiasm for a broad discussion of Communism, and some tend to share Uruguay's view that the question is inadmissible without a concurrent discussion of "positive" moves to strengthen democracy and protect the "rights of man."

Guatemala, because of the strong Communist influence in its government, can be expected to react vigorously against the proposal. Its probable argument, that the item is actually designed to create a pretext for intervention in the internal affairs of Latin American states, will sound a note to which most of the OAS countries are very sensitive.

Uruguay's suggestions to include the "positive" aspects of combatting Communism were defeated in the OAS Council, but recent statements by its ambassador to the OAS indicate that attempts may be made to reintroduce them with reference to the controversial items on political asylum, human rights, and colonialism. Such attempts are likely to include attacks on the rightist dictatorships, such as Peru, the Dominican Republic, Cuba, and Nicaragua, which are among the staunchest supporters in Latin America of United States policies.

The broad terms in which the agenda items are drafted hinder the development of well-defined blocs on specific proposals prior to the conference, but may allow the United States to be confronted with certain "surprise" problems. One such possibility lies in the Colombian foreign minister's recent suggestion of an inter-American army. The idea has not yet gained the official support of other governments, but Argentine president Peron has stated privately that he will support any motion in its favor and that he hopes for a NATO-type arrangement.

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POOR RICE CROP AFFECTS JAPAN'S FOREIGN RELATIONS
AND DEFENSE

Japan's poorest rice crop since 1934 not only imposes a heavy economic burden on the government, but will seriously reduce its ability to meet other demands important to defense and foreign relations. The yield for the year ending in March 1954 is expected to be about 17 percent, or 1,700,000 tons, below that of the preceding rice year. Since rice makes up nearly 75 percent of Japan's staple food consumption, the harvest loss caused by floods and bad weather will have serious effects.

The government recognizes that it has no alternative but to make up most of the food deficit, largely by increased imports. Present plans call for total food imports of over 6,000,000 tons for the year ending next July, as compared to 4,800,000 tons in 1952-53. Such a program would provide a daily per capita food intake of 2,007 calories, 81 calories below 1952-53, and would require about 60 percent of Japan's estimated 1954 merchandise exports to pay for food imports alone.

In addition, agricultural relief and rehabilitation have been given a top priority. Japan has already adopted a special "flood relief" budget which adds about 5 percent to the swollen \$2.68 billion regular budget. This supplement diverts funds from regular projects, such as an increase in food production, and absorbs revenues which might have been used for defense, repayment of American aid, and reparations.

The present draft of the 1954-55 budget reflects this situation. Including anticipated unexpended funds from this fiscal year, the potential defense expenditures will amount to about \$440,000,000 in fiscal 1954. This contrasts with the \$517,000,000 which it is estimated will actually be spent this year. Previous Diet slashes of proposed defense expenditures make \$440,000,000 the likely maximum. Japan's draft budget, despite American requests for a settlement, also omits provision for the repayment of American aid furnished during the occupation. In addition, Japan may now want to cut its reparations payments to Southeast Asian claimants. While Japan might have wanted to reduce these payments in any case, the poor rice crop increases the pressure.

The added food and agricultural programs may result in a healthy paring of certain budget items. If past patterns hold, however, defense and other important expenditures are likely to suffer at least as much as less important but politically more palatable appropriations.

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COMMUNIST CHINA SETTLES FOR MODERATE
CONSTRUCTION PROGRAM

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The general goals of China's five-year national construction plan now appear to be modest, and less than Peiping had hoped for. The construction program was hampered from its start, a year ago, by poor planning and a shortage of technicians and some construction materials. Consequently there were several cutbacks in the plan's first-year goals. The five-year goals, which were probably not set firmly until the conclusion of the Soviet aid talks last summer, appear to reflect a Chinese inability to obtain as much aid as originally envisaged.

Absolute production figures and details on plants are lacking for most of the national construction program, although the Soviet ten-year aid program for China through 1959 is known to include the objectives of a fourfold rise in the steel ingot output and 60 percent more coal.

Most industrial construction is in the Northeast Area (Manchuria), where China's heavy industries are to be further concentrated. This is particularly true of the 141 projects which are to receive Soviet aid, some 50 of which have been identified as under way. The Manchurian complex, which has favorably impressed non-Communist diplomats on conducted tours of the area, includes construction or reconstruction of several iron and steel plants at Anshan, many power plants, vehicle and machinery factories, and some synthetic oil refineries.

The electrification program is one aspect of the plan which is fairly clear. The Chinese apparently hope, with Soviet aid, to expand capacity of the electric power industry from 2,400,000 kilowatts to about 3,700,000 between 1952 and 1957. This represents a very gradual approach to industrialization.

None of this expansion is in new hydroelectric plants, but the huge Tafengman hydroelectric station in central Manchuria is being restored and the even larger Suiho (Suiho) plant on the Yalu River is receiving priority under the Soviet program to reconstruct Korea. Two 85,000-kilowatt turbogenerators were installed at Tafengman in 1953 and more will reportedly be delivered by the USSR.

An additional 275,000 kilowatts of power were to be added to Manchurian thermal plants in 1953 and 1954, [redacted] considering the capacity of a dozen large and small thermal plants under construction elsewhere in China, it appears that the five-year electrification program will be about half completed by the end of 1954.

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