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26 September 50

SUMMARIES OF TRENDS AND DEVELOPMENTS

USSR

1. It is improbable that organized units of either the Soviet Union or the Chinese Communists will be committed to action in Korea. It appears that the Soviet Union is willing to write off North Korea militarily rather than risk the possibility of global war with the UN powers, which the open intervention of Soviet or Chinese Communist troops in North Korea would entail. Although it would appear logical to expect some peace proposals at this juncture, the USSR probably will not itself attempt to negotiate a peace settlement in Korea in an effort to preserve the integrity of North Korea, and any peace offers will probably come from the North Koreans themselves or from a third party. The Kremlin, for its part, will seek to thwart any UN efforts to unify Korea through its usual tactics of obstruction in the UN, and guerilla warfare, subversion, sabotage and propaganda within Korea, but will probably forego any more decisive action.

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2. In a Soviet attempt to strengthen the political position of the North Korean government, Communist China and the Mongolian People's Republic recently sent diplomatic missions to Pyongyang and negotiations were initiated for the exchange of diplomatic representatives between North Korea and Poland and Czechoslovakia.

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3. The USSR and East German Communists have recently intensified their harassing tactics in Berlin. The primary

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purpose of the intensification appears to be the usual one of undermining the confidence and morale of the West Berlin and West German population. The Communists may also estimate that a display of strength on the eve of the 15 October elections will reemphasize to the East Germans the futility of resistance measures, such as non-participation in the voting.
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4. Creation of new Soviet Administrative units in the construction industry, changes of top personnel, and underfulfillment of construction schedules in some republics indicate that the USSR is attempting to raise productive capacity in construction work for heavy industrial installation preparatory to greater effort, probably for the next five years, 1951-1955.

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5. A further indication of the use by the USSR of inferior grades of fuel, in this case by the merchant marine, has recently been revealed. By insisting that marine Diesels, being built in Belgium for the USSR, be modified to burn lower quality fuel, the Soviet Union has indicated that they are conserving their supply of higher quality Diesel oil for high priority consumers, such as the Army, or for stockpiling.
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6. The USSR has increased the assembly of tanks at the Nizhni-Tagil Freight Car Plant in the Urals while maintaining freight-car production. A pattern has thereby been developed for the simultaneous growth of tank and freight-car output in the same plant and throughout the transport equipment industry.

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7. Increased attention to cotton in the USSR during recent months indicates that stronger efforts will be made to reduce present deficiencies by expanding barter agreements with other cotton producing countries.

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GENERAL

8. By means of complicated barter arrangements, Poland and East Germany have contracted for 206,000 tons of Spanish pyrites. Dependence on outside sources for this strategic mineral is temporary. However, it is currently of great importance to the economies of the Eastern European countries.

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HUNGARY

9. The Hungarian government has not delayed in using the 29 August Church-State agreement to further its aim of destroying the Roman Catholic Church. Even those provisions which appeared to be victories for the Church are being twisted by the Government into weapons with which to attack the episcopate.

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EASTERN EUROPE

U S S R

Soviet policy toward Korea

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It is improbable that organized units of either the Soviet Union or the Chinese Communists will be committed to action in Korea. It appears that the Soviet Union is willing to write off North Korea militarily rather than risk the possibility of global war with the UN powers, which the open intervention of Soviet or Chinese Communist troops in North Korea would entail. With the success of UN action in the Seoul area impending, it would appear logical to expect some efforts by the North Koreans or the USSR to achieve a negotiated settlement preserving the identity of North Korea. Peace proposals of this nature might be forthcoming from the North Koreans or perhaps some third party, but it appears doubtful that the USSR itself will make any such move.

While there is no evidence available indicating conclusively that a decision has been made by Soviet leaders to write off North Korea militarily, the courses of Soviet conduct both before and after 25 June indicate such a course of action is likely. The Soviet Union, prior to the Korean conflict, cautiously avoided creating any incident with the US which could lead to a general war. Such incidents as were provoked were planned to give the Soviet Union control and freedom of action, enabling the USSR to back down, if necessary. When confronted by determined Western Action, these dangerous situations of Soviet creation were solved by a Soviet about face. Nowhere in Soviet actions prior to Korea had there been any firm indication that the Soviet Union was prepared to run a substantial risk of an East-West war.

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Since the Korean War began, Soviet policy toward Korea has scrupulously sought to localize the conflict. The failure of the Chinese Communists to launch an assault on Taiwan thus far, the Soviet return to the UN without its minimum terms, and Soviet propaganda which has avoided identifying the outcome of the Korean War with Soviet national interest, point to a reluctance on the part of the Soviet Union to take any action which would lead to the spread of the war beyond Korea.

That the occupation of North Korea by either Chinese Communist or Soviet forces entails a grave risk of global war is probably evident to the Kremlin. With the UN air and naval harassment of lines of communications in North Korea, the Soviet Union would probably not expose either its own or Chinese Communist troops without providing them with substantial air cover. Defensive air units could easily become engaged in battle with UN aircraft, leading to a situation which, in Soviet opinion, would be beyond the ability of the Soviet Union to control, short of a general war. While the Soviet Union might be able to lessen the possibility of such a development by a prior warning of its intentions, it has no assurance that the warning would lead to the cessation of UN air activities over North Korea. Soviet or Chinese Communist aid to the North Koreans in the form of troops would also leave Chinese and Manchurian supply routes and possible industrial installations, open to air attack.

Soviet reluctance to take any decisive action, political or military, with regard to Korea has been emphasized by the UN landing at Inchon. The success of the operation places UN forces dangerously near the 38th Parallel, while the major portion of North Korean troops are engaged in the South. Once Seoul has fallen, neither the North Koreans nor the Soviet Union have any assurance that UN forces will not move northward along the principal supply routes as well as to the south to complete the defeat of

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North Korean forces there. So far as is known, North Korea does not possess substantial effective combat units north of the 38th Parallel. The most logical timing, from a psychological standpoint, for any Soviet move to defend the 38th Parallel or to preserve it by diplomatic measures, would have been as an immediate reaction to the Inchon landing. It appears logical to assume that any basic decision to employ or not to employ non-Korean forces in support of North Korea has already been made. Therefore, Soviet failure to act at this juncture is another indication that the USSR is probably prepared to permit the complete defeat of the North Korean field forces rather than to accept the risk of war with the US and its UN allies.

In view of the above considerations, Soviet re-occupation of North Korea, either with its own troops or with Chinese Communist forces for the purpose of preventing UN ground forces crossing the 38th Parallel, is considered unlikely.

If the UN capture of Seoul succeeds in isolating the North Korean armies in the South, neither North Korea nor the USSR will have any firm position from which to bargain for a settlement. North Korea might indicate a willingness to fulfill the terms of the UN cease fire order; this, however, would be readily recognizable as merely an effort to withdraw the North Korean Army from its untenable position in the South and preserve it as a military force. The UN cease fire order was applicable in June but the North Koreans have no assurance that its terms are still acceptable. However, some third party, perhaps under Soviet influence, may attempt to mediate the conflict. In any event, the North Korean position would be so weak that the terms of settlement could virtually be dictated by the UN.

A Soviet effort to negotiate a settlement preserving North Korea would, of necessity, have to go beyond a pious call for a "peaceful settlement" and include specific

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terms. Any such Soviet effort would not only proceed from a weak position, but also would entail a complete reversal of the Soviet attitude towards Korea to date. The Soviet position has thus far rested on two principal allegations: (a) that the Korean conflict is a civil war in which the Soviet Union has no part and (b) that UN intervention is illegal and constitutes aggression against Korea. Although a Soviet peace effort might be so presented as to preserve the first fiction, the USSR could hardly negotiate with the UN without recognizing the legality of the latter's actions. The weakness of the Soviet bargaining position would seem to preclude a favorable settlement from the Kremlin's viewpoint, and an unfavorable settlement would further depress Soviet prestige throughout the world.

It seems probable, therefore, that the USSR will not itself attempt to negotiate a peace in an effort to preserve the integrity of North Korea, but may encourage the North Koreans or a third party to attempt such a settlement. Inasmuch as military action by either the USSR or Communist China to preserve North Korea apparently entails a greater risk of global war than the USSR is prepared to accept, the Kremlin probably is prepared to permit the military defeat of North Korea and the unification of Korea under UN auspices. The Kremlin, however, will probably seek to thwart UN efforts through its usual tactics of obstruction in the UN, and guerilla warfare, subversion, sabotage, and propaganda within Korea, but will probably forego any more decisive action.
(SECRET)

Soviet orbit attempts to strengthen
political position of North Korean regime

"B"

In a Soviet attempt to strengthen the political position of the North Korean Government, Communist China and the Mongolian People's Republic recently sent diplomatic missions to Pyongyang and negotiations were initiated for the

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exchange of diplomatic representatives between North Korea and Poland and Czechoslovakia.

Soviet policy prior to the outbreak of the Korean war apparently aimed at diplomatic isolation of the North Korean regime, perhaps to conceal the North Korean military preparations from any resident foreign observers, whether Communist or non-Communist. The present policy, in the face of impending military defeats for the North Korean armies, probably represents an attempt on the part of the Soviet Union to strengthen the position of the North Korean regime through diplomatic measures. If, at the conclusion of the UN operation in Korea, the North Korean regime retains the territory north of the 38th Parallel, the present efforts will prove beneficial in maintaining the fiction of the legality of the regime. On the other hand, if the Soviet Union is willing to write off North Korea in the face of UN military operations beyond the 38th Parallel, as now seems probable, these measures suggest the additional possibility that the USSR intends to maintain the present regime as a government-in-exile. In this event, USSR participation in any negotiations leading to the setting up of a UN-sponsored government for all Korea is virtually precluded. (CONFIDENTIAL)

Soviet harassing tactics intensified in Berlin

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The USSR and East German Communists have recently intensified their harassing tactics in Berlin. The primary purpose of the intensification appears to be the usual one of undermining the confidence and morale of the West Berlin and West German population. The Communists may also estimate that a display of strength on the eve of the 15 October elections will reemphasize to the East Germans the futility of resistance measures, such as non-participation in the voting.

Recent harassing tactics have included Soviet interference in West Berlin barge traffic, a Soviet attempt to seize a small piece of territory within the British sector, an East Berlin decision to cease supplying West Berlin with electrical

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power, and the arrest of West Berlin policemen. British and Soviet officials have not yet reached agreement on the disputed border point, and British troops have, from the beginning of the dispute, kept Soviet troops from taking possession of it. Although the Communists claim that the refusal by West Berlin to pay for electrical power already delivered is the reason for the recent cut-off, present evidence indicates it to be essentially an harassing tactic rather than a breakdown in present commercial negotiations. The power cut-off may foreshadow further Communist interference in Berlin utilities. The series of arrests and counter-arrests of policemen which have recently taken place between East and West Berlin seems to have subsided. The majority of the East German police have apparently now been released by the West Berlin authorities, and East Berlin will probably release the West Berlin policemen in the near future. (SECRET)

USSR construction industries preparing for sharply increased production - 1951-55

"A"

Creation of new Soviet Administrative units in the construction industry, changes of top personnel, and underfulfillment of construction schedules in some republics indicate that the USSR is attempting to raise productive capacity in construction work for heavy industrial installations preparatory to greater effort, probably for the next five years, 1951-1955.

A new committee with representation in the Council of Ministers was recently established "for affairs of construction." At the same time, S. Z. Ginsberg, head of the Ministry of Construction Materials Industry, was replaced by P. A. Yudin, former Minister of the Construction of Heavy Industrial Enterprises, which is now headed by the former deputy minister, D. G. Reizer.

Ginsberg was replaced because his ministry thus

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far has failed to raise production and particularly to meet the 1950 cement quota, which was increased from 10 million to 13.5 million metric tons. Ginsberg was also unsuccessful in replacing worn machinery, and procuring replacement parts in connection with the responsibilities of his ministry. Failure of the Construction Materials Industry to meet new 1950 goals will have serious cumulative effects on industrial production in the next five-year plan. Yudin, who had successfully managed for his ministry the production of heavy industrial equipment, was brought in to provide the Construction Materials Industry with necessary plants and machinery for increased production schedules.

Underfulfillment of construction plans for the first six months of 1950 occurred largely in light industry, which had a low priority for construction materials. Because of the large volume of planned construction for 1950, the available materials were inadequate for the program. Consequently, the high priority assigned to heavy industry caused a syphoning of construction material from consumer goods ministries.

The next Five-Year Plan undoubtedly will emphasize sharply increased production schedules which must be met, in part, by adding new plants and facilities. This will place a heavy burden on the construction industry which must be geared to maximum efficiency for increased construction plans. (SECRET)

Belgium built Soviet marine diesel engines
modified to burn low quality fuel

"B"

A further indication of the use by the USSR of inferior grades of fuel, in this case by the merchant marine, has recently been revealed.

In tests completed the latter part of July by Soviet technicians in Belgium, it was found that the type of

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Diesel engine installed in the first of seven trawlers being built for the Soviet Union by a Belgian shipyard worked satisfactorily on high quality fuel but gave faulty performance when run on the lower quality fuel supplied by the USSR. As a result, experiments were undertaken to determine what changes would be necessary to make the engines perform satisfactorily on Diesel oil supplied by the USSR and it was found that modification of the engine was required. The necessary alterations were made, and the vessel was turned over to the Soviet Union on 17 August.

The fact that the USSR insisted on modifying these engines to use a low quality Diesel oil indicates that, while the availability of high quality Diesel fuel in the USSR may be large enough to permit its use, if necessary, by the merchant marine, the Soviet Union is, in fact, conserving it for high priority consumers, such as the Army, or is stockpiling it.

It is significant that the USSR will not allocate even a minor amount of high quality Diesel fuel for such uses as trawler operations. (SECRET)

USSR increases tank assembly at
Nizhni-Tagil Freight Car Plant

"A"

The freight-car plant at Nizhni-Tagil in the Urals, the largest in the USSR, has steadily increased the production of freight-cars so that in mid-1949 between 60 and 70 large American-type cars were being produced daily. At that time, the assembly of tanks was increased from about five, to between ten and fifteen per day without, however, decreasing the production of freight cars.

This action is significant. Nizhni-Tagil is the only major transport equipment plant producing armaments on any large scale, and in the last war, prior to the conversion to

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freight-car production in mid-1946, this plant assembled up to 40 tanks per day. Consequently tank output, although increased, is far below the present total production capacity under all-out conversion to tank manufacture. Moreover, although freight-car production met planned requirements in 1949, it will be necessary to increase freight-car production in 1950 to about seventy-five cars per day. Apparently, Nizhni-Tagil had that capacity in 1949 but the relative priority of tank production kept freight car manufacture within planned limits.

An estimate of 1950 and future armament expansion in the important transport equipment production industry must take into account the fact that a pattern has been set for the development of armament production without conversion or cut-back of freight-car manufacture. A 1950 freight-car production of 75 cars per day may be accomplished without seriously disturbing the present assembly of tanks at Nizhni-Tagil. In 1951, the anticipated easing of Soviet freight-car requirements may, in fact, permit an increase in the production of tanks at Nizhni-Tagil which may have serious implications. (SECRET)

Cotton interests by the USSR
indicates supply weakness

"B"

Increased attention to cotton in the USSR during recent months indicates concern over the need for reducing shortcomings of domestic and satellite cotton requirements.

Past actions, designed to effect a long range improvement of the situation, have been the implementation of a cotton growing program in Hungary and the creation of a New Ministry of Cotton in the USSR. The immediate outgrowth of the latter movement was in the scheduled planting of 540,000 additional hectares of cotton in the Soviet Union this year.

A broader and more indicative action is in progress on the external cotton markets. Partially because of the lack

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of dollar exchange, purchases of cotton for the Orbit countries during the past year have been largely financed by direct payments from Moscow, with the resulting effects noted in a decline in the total volume of purchases. In order to offset this loss, present activity is directed toward a greater extension of barter agreements as a means of acquiring supplies without the expenditure of foreign exchange.

Examples of this trend during the past months have been noted in the three cotton barter agreements arranged with the Egyptian Government by the USSR. More specific was the completion by Poland of a barter agreement with Austria which, according to the 1949 trade agreement, would guarantee American cotton under ECA financing in exchange for Polish coal. This exchange is noteworthy, in view of the fact that, prior to the agreement, Poland was buying Brazilian cotton, but apparently lacked dollars, hence could arrange no further purchases. Cessation of Brazilian cotton purchases by Poland has enabled the Czechs to maneuver into a favorable position in the Brazilian market, and under a two year agreement will secure cotton supplies without dollar expenditures. Hungary also has expressed interest for renewing a barter agreement with Austria in order to secure American cotton through ECA approval.

In addition to the above transactions, heavier purchases of Pakistan cotton by the USSR, Poland, and Czechoslovakia indicate designs for further penetration into this area as a source of future supplies.

The present activity in trade and domestic production has, in all probability, been the result of low reserves of cotton in the USSR. There has been little opportunity to build up stocks during the post war years, and present available supplies are fully utilized in the current production of textiles and exports to Satellite countries.

By 1953 the planned requirements for cotton in the European Soviet Satellites will amount to 2,000,000 bales, which

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is 700,000 more than the present consumption. Of this quantity, domestic production in Bulgaria, Rumania, and more recently Hungary, can supply approximately 162,000 bales. Maximum exportable surplus of the USSR during the past years has been 400,000 bales annually, which indicates the ratio of dependence on other producing areas for supplies.

Because large stocks of cotton are essential for a war economy, the apparent awareness of existing shortages by the USSR indicate that further active interest in obtaining supplies will follow. An examination of past experience of cotton growing in the USSR shows that domestic production gains will not meet future requirements, and, therefore, an expansion of barter agreements represents the most likely method to be followed. (SECRET)

EASTERN EUROPE

GENERAL

Soviet Orbit acquires pyrites from Spain

"B"

By means of complicated barter arrangement, Poland and East Germany have contracted for 206,000 tons of Spanish pyrites (a basic raw material for sulphuric acid manufacture), 106,000 tons of which is to come through Switzerland and 100,000 tons through Austria in exchange for certain chemicals. The greater part of these shipments will be destined for East Germany. This is the first confirmation of the rumors of substantial trade between Spain and the Soviet Orbit countries.

There is some domestic production of pyrites in Poland, but imports are relied upon to a considerable extent. East Germany, however, is almost completely dependent upon imports. Production of sulphuric acid in these countries has been limited during the postwar years not by plant capacity,

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but by the short supply of this mineral. The extent of dependence upon imported supplies is shown by the fact that 200,000 tons are sufficient for 84 percent of the planned sulphuric acid production for East Germany for 1950.

Although indigenous deposits of pyrites are very limited every effort is now being made to exploit them to the maximum and some efforts are being made to develop substitute raw material. Continued imports from outside sources such as Norway, Sweden, Cyprus, and Spain will be essential until about 1955 when it is expected that domestic supplies will be sufficiently developed. (SECRET)

POLAND

Church-State agreement utilized as weapon
against the Roman episcopate

"A"

The belief of Hungarian Catholic Bishops that an agreement with the State was the only way to save what could be saved of religious life in that country is rapidly being proved groundless. No alternative action could save the Church, but an agreement at this date is no guarantee of the Church's continued existence. The first positive indication of how far the Government will go in using the agreement as a framework within which it can further destroy the Church, was evident in the 7 September decree dissolving all except four of the monastic orders in Hungary. Reported to affect 10,000 monks and nuns, the decree excludes only those orders which will teach in the eight schools returned to the Church under the terms of the agreement. It is ironic that the discussions which resulted in the agreement signed 29 August were initiated at the request of the monks and nuns who were being subjected to arrests and deportations, and who believed that a rapprochement with the Government would improve their situation.

As in all such Communist imposed Church-State agree-

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ments, the Government is reaping untold benefits while the Church's gains appear to be primarily academic. For example, although the Church claims as a victory the avoidance of specific reference to the "Stockholm Declaration," Budapest propaganda is already emphasizing the role the Church may now play in support of the "peace" movement. Furthermore, by obtaining the Church's promise not to oppose the collectivization program, the Government has been able to speed up the formation of cooperatives and the elimination of the kulaks. Also ominous is the Budapest press comment that there should be no lack of good will in putting the agreement into effect. This threat is undoubtedly directed at certain of the bishops who have been under attack by the Government as being fascists, agents of the imperialists, and enemies of the people, and whose arrests have now been facilitated.

An additional potential weapon in the hands of the Regime is, paradoxically, the right which the Government has given the Church of trying, under canon law, those members who oppose the "lawful order of the Hungarian Peoples' Republic and the constructive work of its government." Although the Hungarian Episcopate considers this a victory, it will actually mean that the Government can now force the Church to sentence its own episcopate. This will provide the Communists with propaganda material of immeasurable value.

With neutralization of its capacity for public appeal to the people and with its anti-State position undermined, the Church will now be forced to rely exclusively on underground activities in its fight against the Communist regime. (SECRET)

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