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3 October 1950

SUMMARIES OF TRENDS AND DEVELOPMENTS

USSR

1. Although the failure of Soviet objectives in Korea is probably regarded by the Kremlin as the greatest setback in its post-war policy, it appears unlikely that there will be any basic change in USSR foreign policy or in the tactics of the international Communist movement. Furthermore, the impact of the Korean defeat probably will not threaten the stability of the Soviet or Satellite regimes.

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EASTERN EUROPE
GENERAL

2. The signing, in quick succession, of joint declarations by Eastern Germany with Bulgaria and Rumania is another step in the rapid formal integration of the Soviet Zone of Germany within the Soviet bloc. Published declarations on the treaties stress their identical political interests and indicate that the treaties will provide for the exchange of foodstuffs in return for German technical assistance.

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3. Detention in the American Zone of "properly" licensed strategic goods transiting West Germany to Hungary and Rumania may mark a new trend in East-West trade. Present imports of both countries from Western Europe consist largely of essential strategic goods. Thus any extensive use of this type of action could force a major re-adjustment in the non-Orbit trade of both Hungary and Rumania. Hungary's concern is evidenced by the pointed reference to forthcoming trade negotiations with West Germany, which accompanied their

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formal protest against the detention of the goods.

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CZECHOSLOVAKIA

4. Terms of a proposed Czech-Norwegian trade pact point up the difficulties in weighing the value of East-West trade, and demonstrate the subjective approach used by Communist countries in non-Orbit trade. The Czechs are offering \$3,000,000 worth of sugar in exchange for \$1,000,000 worth of industrial raw materials, particularly ferro-alloys, aluminum, silicon carbide, and pyrites. Such an exchange would follow the pattern of previous trade. Although none of these proposed Norwegian exports are on the international export control list, (several are embargoed by the U.S.) all are in short supply in Czechoslovakia, and are essential to the Czech economy.

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FINLAND

5. No settlement of the strikes in Finland is yet in sight despite a proposal by the Government mediator. From the point of view of the worker, the proposal is unrealistic economically and could result in lower wages.

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HUNGARY

6. A further step in the process of eliminating the middle class through economic pressure is evidenced by the action of the Hungarian Government in stopping payment of all pensions to civil servants of pre-1945 regimes. Removal of this last source of income for many families will further deprive the middle class of its means of livelihood, which has already been affected by discriminatory taxes, nationalization without compensation, expropriation of private property, and

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prohibitory employment practices.

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SPECIAL ARTICLE

7. In response to better trade opportunities, vessels of the Polish merchant fleet, formerly engaged in regular service to the Western Hemisphere, are being placed in operation on routes to the Middle East and Asia. There are indications that this transfer is closely related to the formation of the so-called "Comintern Shipping Company" and that its significance, while to some degree strategic and political, may be largely economic.

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EASTERN EUROPE

U S S R

Impact of Korean Setback on Soviet Policy

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Although the failure of Soviet objectives in Korea is probably regarded by the Kremlin as the greatest setback in its post-war policy, it appears unlikely that there will be any basic change in USSR foreign policy or in the tactics of the international Communist movement. Furthermore, the impact of the Korean defeat will not threaten the stability of Soviet or Satellite regimes.

It now appears that the USSR has written off Korea and will make no direct effort militarily to preserve the integrity of North Korea. Diplomatically, the USSR will seek to obstruct UN action but a serious Soviet effort to achieve a settlement appears unlikely. The USSR apparently considers that overt military intervention constitutes a greater risk than it is prepared to assume. While the USSR would still welcome the reestablishment of the status quo, the rapid successes of UN troops have destroyed any favorable bargaining position which either the USSR or the North Korean regime once possessed. The USSR is apparently reconciled to a UN-dictated settlement but intends to make the UN victory as costly as possible.

In view of the Korean debacle, the USSR must be seriously concerned over: (1) the united reaction of the non-Communist world to Communist aggression in Korea and the rapid strides undertaken by the West to rearm; (2) the possible repercussions within the Satellites and the Communist movement to the revelation of the Kremlin's fallibility and the subsequent failure of the USSR to rescue one of its Satellites; (3) the setback to the Communist propaganda claim of the early success of colonial liberation movements, led by

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the Communist parties; (4) the demonstration by the West that Soviet power and influence in Asia will not go unchallenged.

To counteract these possible consequences, the USSR can be expected to exert additional efforts to minimize the UN victory and to distract attention from its loss of Korea. While the USSR may have planned the Korean aggression as the first in a series of aggressive moves utilizing Satellite troops, the unexpected world reaction to the Soviet-sponsored aggression and the unwillingness of the USSR to commit its own troops to rescue the North Korean regime makes reasonably clear that the Kremlin is unlikely to stage similar overt aggression in the near future. Since Soviet strategy is notably long-range, the Kremlin will probably regard this setback as only temporary and not necessitating drastic counteraction. Any diversionary moves, therefore, will consist of a continuation and possibly intensification of current tactics. An effort is apparently already underway to step up the guerrilla warfare in Indo-China with increased covert assistance in military supplies and training from the Chinese Communists. The threat of a Communist attempt to invade Formosa will be maintained and an intensification of guerrilla activities in the Philippines and Malaya may also be attempted. In Europe and the Near East, where indigenous Communist forces are not capable of successful guerrilla operations, or launching military attacks without Soviet participation, Soviet diversions will probably take the form of increased political agitation and harassing tactics, with particular emphasis on increasing their covert capabilities.

KOREA: In Korea the USSR will probably continue its "non-involvement" policy and the North Korean Army will continue fighting until its organized units have been totally defeated in both North and South Korea. Guerrilla operations will probably continue in Korea supported from Manchuria. The USSR apparently intends to force UN troops to destroy an extensive area of Korea, thereby facing the new UN-sponsored government with tremendous problems of reconstruction and economic recovery. The USSR will then maintain that the UN-sponsored government is a US puppet without popular Korean support. The present North

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Korean government will probably be retained as a government-in-exile charged with the responsibility for directing continued guerrilla warfare inside Korea and providing instructions and directives to Korean Communists in their efforts to infiltrate and subvert the new government.

CHINA: The mistake of the USSR in underestimating world reaction to North Korean aggression, coupled with present ineffectiveness of Soviet policy in Korea may serve to emphasize to the Chinese Communists the blunder made by the USSR in initiating hostilities in Korea, which in turn has apparently postponed a Chinese Communist invasion of Taiwan. There is no evidence, however, that the Korean affair has occasioned serious disagreements between the USSR and the Chinese Communists or that the Chinese Communists are less willing to pursue a policy for the communization of China along Soviet lines. It appears that Chinese Communist leaders, have turned with renewed effort to domestic issues, emphasizing the building of a large standing army and a strong economy as the main task before the Chinese people.

INDO-CHINA AND SOUTHEAST ASIA: As a result of its Korean setback the USSR may be expected to increase pressure on Communist China to accelerate aid to the Viet Minh in Indo China, but short of overt Chinese intervention. In Hong Kong, the Philippines, and other areas of Southeast Asia, the USSR may be expected to create further internal unrest in an effort further to counter the adverse results of its Korean venture.

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IRAN: Soviet strategy towards Iran has been one of intermittent pressure and conciliation, combined with aid and encouragement to local subversive groups. For the past several months the USSR has been pursuing an official policy of conciliation in order to promote pro-Soviet sentiment and intensify

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anti-western sentiment. Simultaneously, however, the USSR has continued its efforts to incite disaffected groups in Iran. Although the USSR may revert to a policy of unfriendliness and external pressures, western commitments in Iran and the inability of local pro-Soviet groups to launch successful guerrilla warfare without overt Soviet assistance probably precludes any basic change in Soviet tactics in Iran in the near future.

GREECE: The Soviet setback in Korea will have little effect on Soviet policy towards Greece. Since the termination of the guerrilla warfare a year ago, Soviet strategy vis-a-vis Greece has aimed at strengthening the Communist Party by rebuilding its underground apparatus and reestablishing a broad popular support through the infiltration of leftist political parties, labor unions, cultural organizations, and the Greek National Army. Former guerrillas, after specialized training in the northern Satellites, are being prepared to return in small groups with instructions to help rebuild the KKE network in Greece. In this manner the USSR probably hopes that the Communists may be able at some future date to seize power either by revolutionary tactics or by a resumption of the guerrilla war, if events in the Balkans make a renewal of such warfare feasible.

YUGOSLAVIA: The Kremlin, as a result of the Korean debacle, will be most unlikely to undertake military action against Yugoslavia. However, Cominform-inspired internal pressures against the Tito Government, in conjunction with Yugoslavia's developing economic crisis, are likely to increase. For the present, the Kremlin may be content merely to continue its propaganda warfare against the Tito Government, which is faced with growing popular hostility as a result of food shortages and a declining standard of living. Within the Yugoslav Communist Party itself, an increase in popular antagonism and the problems created by severe economic difficulties are likely to develop differences of opinion and internal tensions. These could undermine the cohesiveness of the Party and especially the latter's confidence in Yugoslavia's ability to "build socialism" alone.

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Although the Kremlin has so far given no sign of intensifying its effort to exploit the current situation in Yugoslavia, it is anticipated that, as the full extent of the crisis becomes known in Moscow, the USSR will step up its efforts to infiltrate subversive agents into the country. While carefully coordinated external pressures will also be continued to maintain the "war of nerves" against Tito, the Kremlin may well estimate that deteriorating internal conditions will serve in the long run to accomplish the weakening and eventual overthrow of the Tito Government without the need of risking involvement with the West through open aggression against Yugoslavia.

WESTERN EUROPE: The loss of North Korea is not likely to have any substantial effect on Soviet strategy in Western Europe in the near future. In Germany, the USSR will continue to: (1) consolidate Communist power in East Germany; (2) strengthen the paramilitary forces, and (3) integrate East Germany into the Satellite orbit. The USSR will continue its harassing tactics in Berlin and West Germany. Although the Kremlin will undoubtedly threaten to encroach on the sovereignty of the Austrian Government from time to time, it will probably maintain the status quo in Austria. The French and Italian Communist Parties, in order to retard economic recovery and military production in the two countries, have begun a campaign to increase their control of labor. The two parties are stressing the exploitation of legitimate labor grievances and are preparing for a series of fall strikes.

U.N.: Through its return to the United Nations the Soviet Union has indicated that it will attach even more importance to its policy of obstruction and division. Having miscalculated the unity and strength of UN reaction to the invasion of South Korea, the Soviet Union will take care to be in a position to block future UN actions. The USSR will oppose the US program to strengthen UN capabilities for prompt, effective action with charges of illegality and indirect threats of Soviet withdrawal from the UN. The USSR is not likely to withdraw, however,

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since UN membership in any event still provides broad capabilities for obstructing action inimical to Soviet interests and important propaganda opportunities.

INTERNAL USSR: The Korean setback will not cause any great changes in the USSR's internal affairs. The Kremlin will try to cover up by concentrating all propaganda media on Soviet desires for peace. The newly announced, planned construction of three gigantic dams for hydroelectric power will be presented as evidence that of late the Politburo has been concerned only with such peaceful objectives as the Soviet people's welfare. Inasmuch as the USSR's Korean policy was made on the highest political level and the propaganda emphasis was on the Kremlin's disassociation with the affair, it is unlikely that the failure will result in a serious personnel shakeup.

SOVIET PROPAGANDA: In order to explain the loss of North Korea, the following major propaganda lines will probably be exploited: (1) UN crossing of the 38th Parallel "proves" that American imperialists -- using South Korean stooges -- were the real aggressors in Korea. Soviet propagandists will state that these American imperialist ambitions are "unlimited" and are a particularly grave threat to the Chinese people; (2) the "Peace Partisans Campaign" will receive increasing emphasis, stressing particularly that the Soviet Union and the People's Democracies must be strong, in order to checkmate the "American warmongers" and that greater efforts on the part of "progressive forces" outside the Soviet orbit must be made; (3) in Western Europe Soviet propaganda will intimate that war destruction caused by American bombing in Korea is a fate which could easily befall the Europeans.

INTERNATIONAL COMMUNIST TACTICS: The International Communist movement is well inured to "minor" defeats such as were suffered by the North Koreans, and probably will not adopt different tactics as a result of the defeat. While small-scale defections among some Communists and fellow travellers may occur as a direct result of the Korean defeat, these will not be sizeable enough to affect appreciably Communist strength either nationally or internationally. (SECRET)

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EASTERN EUROPE

GENERAL

Integration of East Germany into Soviet Orbit
Aided by East German Treaties with Bulgaria and Rumania

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The signing, in quick succession, of joint declarations by Eastern Germany with Bulgaria and Rumania is another step in the rapid formal integration of the Soviet Zone of Germany within the Soviet bloc. The treaties were concluded during visits of high ranking East German officials to Bucharest and Sofia during 20-25 September, and follow similar pacts in June with Poland, Czechoslovakia, and Hungary.

The published declarations disclose that the treaties are political and economic in nature. The political aspects include the stated intention of the signatory powers to: (1) cooperate to maintain the "independence, freedom and culture of the respective countries against the imperialist powers;" (2) prevent the remilitarization of Western Germany; (3) create a united Germany; and (4) sign bilateral cultural conventions.

Economically, the treaties provide the instruments whereby, in return for foodstuffs from the Balkans, the GDR will aid in the development of the Rumanian and Bulgarian economies. The provisions call for: (1) A trade treaty between East Germany and Rumania to be signed shortly. Under its terms, Rumania will deliver to the GDR meat, wheat, maize, fruit, sheepskins, special woods for musical instruments, and "other commodities;" (2) a convention on scientific and technical cooperation providing for East German assistance to the Rumanian Government in the development of the chemical, soda, dyestuffs, and metallurgical industries, and the mining of zinc, lead and tin; (3) a special agreement on the financing of non-commercial transactions which will afford an opportunity to arrange an exchange of delegations "from all spheres of life;" and (4) Bulgaria is to supply East Germany with pyrites, tobacco, grapes

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and apples; also, East Germany is to help Bulgaria with its electrification program, the development of its pig iron production, and of a chemical industry.

Walter Ulbricht, leader of the East German delegation has disclosed that the delegates encountered some difficulty in negotiations on economic matters. Ulbricht stated that they could not be solved "with one country but would have to be clarified with the Soviet Union and the other People's Democracies in the Council of Mutual Economic Aid." The admittance of the GDR to CEMA, gives a formal method for the solution of these and similar problems.

Mutual military assistance pacts are not mentioned in the agreements. The special agreement on the "financing of non-commercial transactions," not connected with the technological, scientific and commercial agreements, may be the method by which the two Balkan countries will pay for East German military materiel exports and, perhaps, technical military assistance.

The published statements regarding the treaty do not indicate any significant increase in the flow of commerce between East Germany and the Balkan area satellites, but they do stress the expansion of technological developments in the latter countries, to be effected through aid rendered by the GDR. Because the GDR is experiencing great difficulty in meeting Soviet reparations delivery schedules, it is hardly in a position to supply more goods to the Balkans, unless some of the Soviet reparations goods are delivered to the Southeastern satellites or the reparations required by the USSR are reduced.
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FINLAND

No settlement in sight for Finnish strikes

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The Finnish Government mediator in the Metal Workers Union strike has submitted a proposal which will probably be

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rejected by vote of the union members. The proposal is not realistic from the workers' point of view and they feel that it leaves the door open for employers to make future reductions in the take-home pay of the workers.

Aside from the political considerations which in part motivated the strike, the primary economic issue has been the establishment of a basic minimum hourly wage scale. It is on this pay scale that extra allowances, such as cost of living increases, piece work differentials, and others, are computed. The Government mediator proposed the establishment of a basic minimum hourly wage of 95 Finnmaks, which would include in it previously awarded allowances.

The average hourly wage of the metal workers is 120 Finnmaks, according to union statistics. If the workers accept the 95 Finnmak proposal they suffer a decrease in their take-home pay since the employers would be computing the allowances on a smaller basic pay. The proposal contains no provision to prevent the employer from computing on this lesser base pay.

It seems likely that there must be substantial wage increases if there is to be a settlement of the strike. This would be inflationary, and if put into effect would force the Government to impose some form of partial price control.
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SPECIAL ARTICLE

Foles expand shipping service to the Middle and Far East

A steady reduction, beginning over a year ago, in Polish merchant marine service to the Western Hemisphere, has been accompanied by a corresponding increase in Polish shipping to the Middle and Far East. The most recent development along this line is the reported complete withdrawal of Gdynia-America Line vessels from regular South American service and

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their replacement by chartered vessels. This reorientation of Polish shipping is probably associated with the formation of the so-called "Comintern Shipping Company."

At the beginning of 1949 seven Polish vessels operated regularly to the Western Hemisphere and another was added in March. By the middle of 1950 four of these vessels were transferred to other areas or sold to the USSR. They are now operating on routes to the Middle East and Asia. One of the three other ships was last reported in the South American trade in April, 1950 and is currently completing its initial voyage to China while the other two are at present en route from South America, prior to their reported transfer to the Far Eastern trade.

This transfer of Polish shipping from the Western Hemisphere is believed to have been motivated primarily by economic considerations. Basically, the Poles have not been able to obtain trade agreements with South American countries which are as satisfactory, in terms of commodities and prices, as are the agreements which they and the Czechs have successfully concluded with India, Pakistan, and China. Further, shipping service, as such, now encounters stiffer competition in the Atlantic than along the route to the Middle and Far East.

However, there are also some political and strategic considerations. Clandestine shipments of arms to Communist groups in the Middle and Far East are being made, but this military traffic has been incidental to the general increase in shipping motivated by the conclusion of satisfactory trade agreements. It is not anticipated that Polish charter operations in the Atlantic will involve as many vessels as the Poles themselves assigned to those routes. Neither the trade nor the political potentialities of the area warrant it. On the other hand, a steady increase in Polish shipping to the Orient may be expected.

Also, it appears probable that there is a connection

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between this shift in Polish shipping and the formation of the Soviet-controlled "Comintern Shipping Company," which has been in the process of organization for the past year. Its purpose is the expansion and exploitation of shipping between countries of the Soviet Orbit and areas of North Africa, the Middle East and Asia. Soviet domination of the Polish merchant marine is virtually complete, and the shift of Polish vessels to the Far Eastern trade is certainly Soviet-directed. This may indicate that operations of the "Comintern Shipping Company" have actually begun.

The overall significance of these developments is probably economic, inasmuch as Soviet Orbit shipping is being expanded into areas where increasing commercial activity has been assured by the conclusion of satisfactory trade agreements. (SECRET)

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