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7 November 1950

SUMMARIES OF TRENDS AND DEVELOPMENTS

USSR

1. The USSR is exploiting the reported Chinese Communist invasion of Tibet in order to demonstrate support of Peiping in this action and to impress upon India and other Tibetan border areas the inevitable success of Communism in Asia. Reported plans to coordinate a revolt in Nepal with Chinese Communist invasion of Tibet may indicate further Soviet aggression in this part of Asia.

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2. The Soviet proposal for a Foreign Ministers' Conference to discuss the Prague declaration as a basis for the settlement of the German problem is apparently only another step in the USSR's diplomatic and propoganda effort to obstruct a West German military contribution to Western defense. The USSR apparently hopes that its proposal for a CFM on Germany, as well as its recent note to the Western Powers on German rearmament and the Prague Communique, will arouse hope in West Germany of obtaining unity by peaceful means, and will strengthen French and Western fears of provoking Soviet military action by Western German rearmament.

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3. There is no firm indication as to Soviet intentions regarding the current attempt of the Austrian Government to purge Soviet Zone and Sector police of disloyal officials. Statements and actions of local Soviet Commanders indicate intransigence; the Soviet High Commissioner has, however, made unofficial statements which may indicate a desire to find a way out of the present difficulty without too great a loss of prestige to the USSR.

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4. The UK still ranks as the Soviet Orbit's most important trading partner in the West. Moreover, the USSR is absorbing an increasing share of this trade.

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5. The presently stymied negotiations between the UK and the USSR for the purchase of coarse grains portends possible failure in the forthcoming East-West grain trade conference at Geneva.

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EASTERN EUROPE
POLAND

6. Integration of the Polish economy with that of the USSR will be facilitated by the revaluation of the Polish zloty on 28 October 1950 which wiped out a considerable portion of public purchasing power.

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YUGOSLAVIA

7. Yugoslavia's inability to maintain an independent economy, which has been accentuated by the drought induced crisis, has led to a more conciliatory attitude toward its neighbors to the West.

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INTERNATIONAL COMMUNISM
AND PROPAGANDA ANALYSIS

8. Reliable reports deny that the illnesses of Togliatti and Thorez, leaders respectively of the Italian and French Communist Parties, were timed or "manufactured" for ulterior Soviet motives. While Thorez's absence probably will not involve any fundamental change in the French

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CP policies, Moscow may make use of Togliatti's incapacitation to effect certain changes in the leadership of the Italian CP.

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SPECIAL ARTICLE

9. Two important Soviet personnel shifts announced 28 October provide a basis for certain reflections on the state of both agricultural procurement and security inside the USSR.

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EASTERN EUROPE

U S S R

Soviet Union exploits reported
Chinese Communist invasion of Tibet

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The alacrity with which the USSR and its Satellites highlighted Peiping's announcement of the unconfirmed Chinese Communist invasion of Tibet suggests that Moscow finds this development highly useful as a means to: (1) support Communist China's tactics against Tibet; and (2) demonstrate to India and other Tibetan border countries the inevitable success of the Communist drive in Asia. Additionally, the USSR probably hopes to focus interest on Tibet in order to assuage Chinese Communist frustration caused by the blocking of the Taiwan invasion and to distract attention from the Soviet setback in Korea.

The USSR and Communist China have undoubtedly taken into account the adverse effect of such action on India and are, therefore, prepared to accept the Government of India's expressions of "shock" and "concern." However, the fact that the USSR is still prepared to accept a calculated risk likely to alienate Indian friendship, may reflect Moscow's estimate of Indian incapability for strong resistance as well as the importance to the USSR of extending Communist influence to the Indian border.

Another indication of willingness of the Soviet bloc to employ aggressive tactics in this area of the Far East is revealed by the report of 30 September 1950, which indicates that the Nepal Congress apparently is not only buying arms and recruiting guerrillas in India, but also has finalized plans for a revolt to coincide with the Chinese Communist invasion of Tibet. (SECRET)

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Probable significance of Soviet proposal
for Foreign Ministers' Conference on Germany

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The USSR has made a proposal to the Western Powers to hold a Foreign Ministers' Conference to discuss the Prague Declaration as a basis for settlement of the German problem. The Soviet Union is undoubtedly aware that the Prague declaration, which makes no provision for free elections in all Germany and demands a Constitutional Assembly with parity representation of East and West Germany, is not acceptable to the Western Powers. Thus the proposal is apparently only another step in the Soviet Union's diplomatic and propaganda effort to obstruct a West German military contribution to Western defense and was well-timed to coincide with 7 November anniversary and the Second World Peace Congress.

In its effort to obstruct or at least delay West German rearmament, the USSR is apparently attempting to exploit the opposition in France and West Germany. The current proposal, as well as the recent note to the Western Powers on German rearmament and the declaration of the Prague Conference, give a surface indication of Soviet "willingness" to settle the German problem and, at the same time, serve as a warning to the West regarding West German rearmament. The USSR apparently believes that such tactics will arouse hope in West Germany of obtaining unity by peaceful means, and will strengthen French and West German fear of provoking Soviet military action by West German rearmament. (SECRET)

Soviet interference in Austrian Government's
jurisdiction over police force

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The Austrian Government is currently attempting to rid the Soviet Zone and Sector police of those officials who proved disloyal in the recent disturbances. Soviet authorities (local commanders) have stated that the Austrian Government will not be permitted to dismiss, transfer, or take any

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disciplinary action against these officials. Furthermore, the five Communist Police Chiefs of the Soviet Sector in Vienna are continuing, by Soviet order, to exercise their official functions despite an Austrian order suspending them from office.

The Austrian Government, realizing that any concession to the USSR on police jurisdiction would invite further Soviet encroachment on Austrian political autonomy, is proceeding with the judicial investigation of the five police chiefs and apparently intends to carry out the verdict of the disciplinary court. Minister of Interior Helmer has intimated that the decision of the court will be dismissal for three of them and lesser penalties for the other two.

There is not, at present, any firm indication as to whether the USSR will remain intransigent or will be willing to compromise on this issue. The statements and actions of local Soviet commanders would appear to indicate intransigence. On the other hand, Soviet authorities have made such statements in the past and retreated from them upon encountering vigorous reaction on the part of the Austrian Government. Furthermore, in the recent meeting (requested by the Soviet authorities) of Soviet High Commissioner Sviridov, Chancellor Figl and Minister Helmer, Sviridov asked if the investigation of the five Communist Police Chiefs could not be cancelled, or at least terminated with reprimands rather than removal from office. This may indicate a Soviet desire to find a way out of the difficulty without too great a loss of prestige. (SECRET)

USSR and Soviet Orbit continue
to exploit UK trade

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The UK still ranks as the Soviet Orbit's most important trading partner in the West. Moreover, the USSR is

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absorbing an increasing share of this trade. The following table, based on British statistics, reveals that Eastern Europe imports from the UK declined during the first seven months of 1950, as compared with the same period of 1949, but that Soviet exports rose sharply and that those of Poland and Czechoslovakia also increased substantially.

EE TRADE WITH THE UK

| | <u>January-July 1949</u> | | <u>January-July 1950</u> | |
|----------------|---------------------------|-------------------|--------------------------|-------------------|
| | <u>EE Imports*</u> | <u>EE Exports</u> | <u>EE Imports*</u> | <u>EE Exports</u> |
| | (in 1000 pounds sterling) | | | |
| USSR | 7,027 | 3,584 | 6,923 | 17,058 |
| Poland | 6,402 | 6,822 | 4,288 | 11,796 |
| Hungary | 2,451 | 5,606 | 1,283 | 362 |
| Czechoslovakia | 3,700 | 1,124 | 3,110 | 4,727 |
| Bulgaria | 485 | 146 | 323 | 39 |
| Rumania | <u>1,278</u> | <u>1,497</u> | <u>1,104</u> | <u>554</u> |
| Totals | 21,316 | 18,779 | 17,031 | 34,536 |

*Including UK reexports.

Note: Figures are presented in pounds sterling rather than US dollars, in view of the devaluation of the pound in September 1949 from \$4.03 to \$2.80. Conversion to dollars does not, therefore, present a completely accurate picture. On the other hand, devaluation was followed by an increase in prices in some cases.

The sharp rise in Soviet exports was due to increased shipments of grain and timber, which are imports of fundamental importance to the UK economy. The value of grain exports exceeded £13 million during the first eight months of 1950. Exports of timber rose to more than £2 million as compared with £381,086 during the corresponding period of 1949. In view of current timber contracts and pending negotiations on grain, it seems likely that the increase for the entire year of 1950 will be still greater as compared with 1949.

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In addition to serving as an important buyer of Soviet grain and lumber, the UK also provides valuable imports for Eastern Europe. Despite the decline in total Eastern European imports, purchases of machinery of all types rose from £8 million in the first eight months of 1949 to £11 million in the same period of 1950, with the Soviet share rising from £5 million to £7 million. Purchases of machine tools rose slightly, to £1.2 million, but the Soviet share jumped from £111,775 to £509,493. These are mostly goods which were ordered from British manufacturers one to three years ago. Similarly, Soviet purchases of rubber directly from the UK rose from £52,124 to £322,519 although those of the Satellites decreased.

This export balance of trade in favor of Eastern Europe continues to provide an important source of sterling with which to purchase strategic raw materials elsewhere in the sterling area. In contrast to a small unfavorable balance for the first seven months of 1949, British figures show that Eastern Europe enjoyed an export balance of £17.5 millions in the same period of 1950, of which more than £10

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East-West grain trade talks
not expected to succeed

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The presently stymied negotiations between the U.K. and the Soviet Union for purchase of coarse grains portend possible failure in the forthcoming East-West grain trade conference at Geneva. The Geneva grain conference, sponsored by ECE, will be held 14 November when discussions will be held on the multilateral exchange of cereals from the East for Western goods or currencies. The unilateral talks now taking place in Moscow between the U.K. and the Soviet Union have been deadlocked by price disagreement and Soviet insistence that sterling proceeds be usable for purchase of certain sterling area commodities.

If the present Moscow negotiations with the U.K. indicate the kind of concessions the Soviet Union will demand at Geneva, only negative results can be expected. Western European countries may be looking forward to a price concession by the East, similar to the relatively low prices agreed to in the International Wheat Agreement by wheat trading nations outside the Orbit. Furthermore, conflict may arise over whether or not Western goods will be guaranteed in return for the grain. Originally, the ECE indicated that the Soviet Union would accept Western currency without asking for specific commodities. The Soviets are now demanding in the unilateral talks with the British that proceeds from grain sales be used for purchase of rubber, wool and other strategic commodities. If, on the other hand, the talks are successful and these demands are carried over to the Geneva Conference they may result in an embarrassing situation because of the policy of the West in retarding the flow of strategic materials to the Orbit countries. (SECRET)

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EASTERN EUROPE

POLAND

Poland equates the zloty to the ruble

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Integration of the Polish economy with that of the USSR will be facilitated by the revaluation of the Polish zloty on 28 October 1950, which wiped out a considerable portion of public purchasing power. The immediate effect on relations with the West will be a minimum threefold increase in the cost of diplomatic and commercial representation in Warsaw.

The initial internal effect will be to reduce the purchasing power of currency in circulation. Wages, prices, forward contracts, deposits in financial institutions, and government bonds and funds will be converted at the rate of three gold zloties for one hundred paper zloties. Cash in the hands of the public will be converted at a rate of one for one hundred. The new zloty is equated to the ruble, having a content of 0.222168 grams pure gold (US-\$0.25). No limit is imposed on the amount of cash which may be converted at the 1/100 rate, but, unlike the Soviet monetary reform of 1947, no preferential rate for holders of small balances was allowed.

It appears that more damage will be done to the "working classes" than to the remaining capitalistic segment of the Polish economy, because of the relative purchasing power of bank deposits will be unchanged by the deflation. Because checking accounts are not extensively used by the working population of Eastern Europe, the urban worker personally retains his savings in cash. Savings and working capital of the small remaining segment of the capitalistic Polish economy will retain undiminished purchasing power to the extent that these funds were held in banks. Cash in tills, as well as that in pockets, will lose two-thirds of its value.

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The official declaration does not make the new zloty a gold standard currency, nor will it produce a stable price level. Neither will a Governmental statement as to the gold content of a currency necessarily increase domestic savings nor produce international confidence in the zloty. Trade with the West is, and will continue to be, conducted in terms of Western currencies and on a world price basis.

The effect of the deflation of relations with Moscow will probably not have more than minor reactions on daily Polish economic activity. Adjustments in norms, prices, and plans may be expected in Poland, but major adjustments seem to have been already consummated. The net immediate effect of the revaluation will be reduction of the Polish standard of living and the facilitation of Soviet control of Polish affairs for Soviet benefit. In addition, if Poland is ever converted into a Soviet Socialistic Republic, the most essential single step remaining in its economic preparation has now been accomplished. (CONFIDENTIAL)

YUGOSLAVIA

Drought crisis bringing about Yugoslav economic
reapproachment with its non-Communist neighbors

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Inability to maintain an independent economy, which has been accentuated by the drought-induced crisis, has led to a more conciliatory Yugoslav attitude toward its neighbor to the West. This is evidenced by the improvement in Yugoslav-Italian economic relations. Recent Yugoslav restrictions on relations between the Yugoslav and Allied Zones of Trieste have been relaxed. Yugoslav cooperation in determining valuations of former Italian properties will probably lead to a settlement of Italian reparations to Yugoslavia under the 1947 Peace Treaty. The urgent need for food imports to the drought stricken areas of Macedonia and Southern Serbia may cause Tito to become somewhat more conciliatory toward Greece, in order to facilitate the reopening of communications through Salonika. Other actions

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designed to overcome long outstanding problems are the return of German PWs and the apparent soft-pedaling by the Belgrade Government of its claims to Austrian Carinthia.
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INTERNATIONAL COMMUNISM
AND PROPAGANDA ANALYSIS

Togliatti's illness is real; may eventually result "B"
in strengthening activist group

Reliable reports deny that the illnesses of Togliatti and Thorez, leaders respectively of the Italian and French Communist Parties, were timed or "manufactured" for ulterior Soviet motives. While Thorez's absence probable will not involve any fundamental change in French CP policies, Moscow may make use of Togliatti's incapacitation to effect certain changes in the leadership of the Italian CP.

Palmiro Togliatti, at 57, has been the effective leader of the Italian CP since 1926, despite frequent rumors that he was losing power to one of his subordinates or falling into disfavor with Moscow. His incapacitation again raises the question of the future leadership of the Party. During his illness, Party matters will probably be directed by a Triumvirate, which includes Longo, para-military chieftain of the Party, Secchia, the organizational expert and one other prominent member of the Party. Should Togliatti recover from the serious brain operation he has undergone, Moscow may delegate him to the position of "elder statesman" of Italian, if not of European, Communism. He enjoys the admiration and respect of the rank and file of Communists throughout Western Europe and his permanent removal from the Italian CP leadership would result in a distinct setback to the mass party in Italy.

By keeping Togliatti in the position of the "grand old man" of Italian Communism and giving the active leadership

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to the Longo-Secchia group, the Party would seek to: (1) retain a symbolic leader important for mass allegiance, and (2) facilitate the achievement of organizational changes which are badly needed. Should such a leadership remain in control, greater emphasis may gradually be placed on the strengthening of cadre organization, underground preparations, and direct action tactics. (SECRET)

SPECIAL ARTICLE

Important personnel shifts within USSR

Two important Soviet personnel shifts, announced in the Soviet press on 28 October, provide a basis for certain reflections on the state of both agricultural procurement and security inside the USSR. P. K. Ponomarenko, since 1948 a member of the all-important five man Secretariat of the Party Central Committee, replaced B. A. Dvinsky as Minister of Agricultural Procurement, a position held by the latter for more than six years. Simultaneously, announcement was made that L. Z. Mekhlis, owing to "ill health", had been supplanted as Minister of State Control by V. N. Merkulov, Minister of the MGB until 1946, and more recently in charge of the Administration for Soviet Property Abroad.

As a high Party official, Ponomarenko's appointment to a specific ministerial post appears particularly important. The relationship between Party and Government in the USSR is based on the idea that the Party, naturally has collected at the top of its hierarchy the ablest personnel available and, therefore, is most capable of determining policy and checking on its correct execution. Theoretically, the Party guides rather than interferes in administrative detail. This ideal is openly contradicted only in such times of stress as the last war when most Politburo members headed specific Ministries. Ponomarenko's appointment would appear, therefore, as an administrative job to

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troubleshoot what must be very important shortcomings in the Ministry of Procurement.

This Ministry is a vital clearing house, collecting from the Ministry of Agriculture and supplying the Ministry of State Reserves. Both of these actions proceed according to planned production and planned needs. Since available evidence indicates that grain procurements for 1950 are above those of 1949 and evidently satisfy the requirements, apparently the trouble does not lie with agricultural production per se.

The two most logical alternatives which might account for this suddenly increased emphasis on Procurement are: (1) Because of the close liaison required between the Ministry of Agriculture and the Ministry of Procurement on the one hand and the Ministry of State Reserves and Ministry of Procurement on the other hand, the Kremlin may have decided that in order to attain better coordination of production, procurement, and reserves, a top Party man was needed as, at least a temporary administrator, to strengthen the procurement program. (2) There is some reason to believe that the Government has embarked on a plan to increase state reserves rapidly. This may well have caused local food shortages by way of heavier procurements. Since the officials of the Ministry of Procurement have control over local food supplies they have undoubtedly been exposed to graft as a result of these shortages. The appointment of Ponomarenko might foreshadow a general "tightening up" of the procurement system, further increases in procurements in 1950-1951, and even a purge in those regional offices where procurements have proved unsatisfactory.

In considering this second alternative, it is interesting to note that one of the duties of the Minister of State Control is the checking on the fulfillment of planned procurements. Merkulov, with his experience in secret police techniques and his obvious connections with the MGB, is well

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suites to liquidate any illegal practices which might be interfering with planned procurement. He should also prove adept at extorting newer and inordinately heavy procurements.

Merkulov's appointment will have the effect of more closely linking State Control with the MVD and MGB. Even in the Administration for Soviet Property Abroad, it is probable that Merkulov was still primarily engaged in MGB work. Indeed, the background of other personnel in his Administration, such as V. G. Dekanozov former Deputy Minister of Military Intelligence, hardly emphasized the supposedly economic interest of this organization.

The removal of L. Z. Mekhlis as Minister of State Control may well have occurred at an earlier date. He was last publicly identified in this position on the occasion of Dimitrov's funeral, 4 July 1949, and was one of three supposed members of the Party's important Orgburo who were not given the honorary appointment to the Commission which prepared Stalin's 70th birthday celebration in December of the same year. Whether his release was in fact because of ill health or because he is now in political decline is not yet apparent. (CONFIDENTIAL)

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