

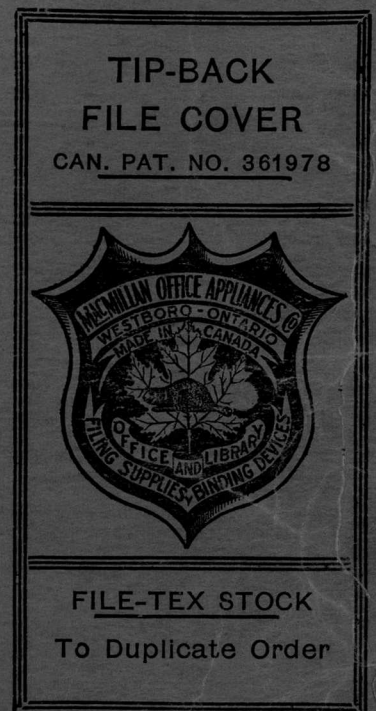
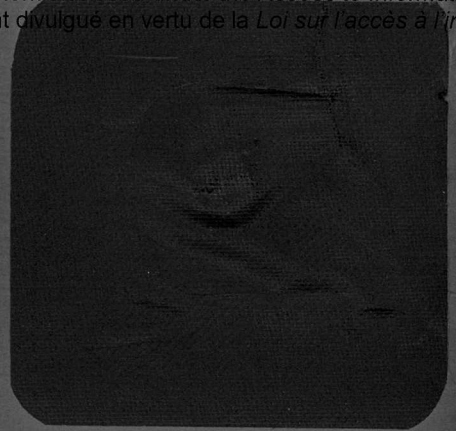
50028-B-40
(VOL. 5)

File-Tex Vertical
Folder No. Sp. 2394-10



To MARCH 31, 1956

ACCESS TO INFORMATION
L'ACCES A L'INFORMATION
EXAMINED BY / EXAMINE PAR
Doyle
DATE / DATE:
Dec 5/94



No. Sp. 2970

File No. 50028-B-40 Vol. FIVE

**FOR SUBSEQUENT CORRESPONDENCE
SEE NEXT PART OF FILE**



IN REPLY PLEASE QUOTE

NO. CG 1374-1 (JIC)

Department of National Defence

SECRET

JOINT INTELLIGENCE COMMITTEE

21 Mar 56

50028	B-40
90	58

p. 23

DMI

Intelligence - Soviet Equipment

1. Attached for retention is a copy of SHAPE letter AG 0937/1 ID dated 9 Mar 56, together with one copy each of photographs ID-A 32 to 51, inclusive, showing Soviet equipment.

2. As only one set of these photographs has been received, may they please be made available to other Directors on request.

(Signature)
(J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.

Encs.

JCM/5459/ff

c.c. G.G. Crean, Esq.,
Dept. of External Affairs.

DAI
DNI
DSI
RCMP
JIB

D-2

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

MAR 22 1956

(Signature)



IN REPLY PLEASE QUOTE

No. CC 1374-5 (JIC)

Department of National Defence

CONFIDENTIAL

JOINT INTELLIGENCE COMMITTEE

13 Mar 56

8.20

50028-B-40	
55	50

MEMORANDUM FOR THE JIC:

Standard Nomenclature of Soviet Weapons,
Equipment and Vehicles

1. Attached for information is a copy of SHAPE document AG 0937/1-2 ID dated 5 Mar 56, which contains ~~the~~ standard nomenclature of Soviet weapons, equipments and vehicles.

14 MAR 1956

*File
JIC
D441*

*filed
with
119-70 docs.*

J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

Enc.

JCM/5459/ff

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

*file
mm*TO: FAR EASTERN DIVISION... *[Signature]*Security SECRET

Date ... March 2, 1956

FROM: ... DEFENCE LIAISON (2) DIVISION

File No.

50028-B-40

REFERENCE:

90

90

5-18

SUBJECT: Semi-Annual Review of Intelligence

The JIC has instructed the Joint Intelligence Staff to prepare a new draft of the Semi-Annual Review of Intelligence to cover the period October to February inclusive. It would be appreciated if, as on previous occasions, your Division would prepare a draft dealing with "Internal Developments in Communist China." We should also be grateful to have material for the section "Developments in Troubled Areas of the World of Significance in the Cold War", dealing with Communist China's activities in the Far East.

The Review will continue to have sections dealing with internal developments in the Soviet Union and developments in the troubled areas of the world. There is also a section dealing with the International Communist Movement. The JIC has asked that more attention be paid in this study to pointing out the trends or changes in Sino-Soviet policy and I would appreciate if you would bear this in mind. The material for the study should be ready by March 29 and I would ask your co-operation in letting us have your contribution by that date.

I think we should have something on Indochina: fighty in Laos, subversion in Vietnam, etc. Please take up with Mr. Bellamy

[Signature]
Defence Liaison (2) Division.

BEST AVAILABLE COPY

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

TO: EUROPEAN DIVISION.....

Security ...SECRET.....

Date ...March 2, 1956.....

FROM: ...DEFENCE LIAISON (2) DIVISION.....

File No. 50028-B-40		
90		90

REFERENCE:

SUBJECT: ...Semi-Annual Review of Intelligence.....

5-17

4731
51-30

The JIC has instructed the Joint Intelligence Staff to prepare a new draft of the Semi-Annual Review of Intelligence to cover the period October to February inclusive. It would be appreciated if, as on previous occasions, your Division would prepare drafts on the first two sections of the Review dealing with "Developments in Troubled Areas of the World of Significance in the Cold War" and "Internal Developments in the Soviet Union".

In view of the present Soviet policy of "competitive co-existence" in the Middle East and South and South East Asia, you might wish, in preparing the first section of your contribution, to ask Commonwealth and Middle Eastern Division for their views.

The Review will continue to have sections dealing with Chinese Communist policy and the International Communist Movement. The JIC has asked that more attention be paid in this study to pointing out the trends or changes in Sino-Soviet policy and I would appreciate if you would bear this in mind. The material for the study should be ready by March 29 and I would ask your co-operation in letting us have your contribution by that date.

c.c. Commonwealth and
Middle East Division

[Signature]
Defence Liaison (2) Division.

BEST AVAILABLE COPY



IN REPLY PLEASE QUOTE

NO. CSC 1735-2 (JIC)

Department of National Defence

RESTRICTED

JOINT INTELLIGENCE COMMITTEE

24 Feb 56

50028-B-40	
90	50

MEMORANDUM FOR THE JIC:

JIC Semi-Annual Review

1. Members will recall that at the 466th meeting (Item VIII) it was decided to reconsider the scope and format of the Semi-Annual Review, including the requirement for a general statement on trends in defence policy, before the preparation of the next issue.
2. This matter, together with the cut-off date for contributions to the JIS, will be considered at the meeting to be held 29 Feb.

FEB 24/56

Miss Hynes
to Mr. McLean

Feb 27

W.H.
Guz
Dew

JCM/5459/ff

c.c. CJS
GB NRC
JIS

J.C. McGibbon
J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

BEST AVAILABLE COPY

TOP SECRET

DOWNGRADED TO SECRET
REDUIT A SECRET

50028.13-40
94-50

OTTAWA, January 25, 1956

Secretary,
Joint Intelligence Committee,
Department of National Defence,
O T T A W A.

JIC Semi-Annual Review of Intelligence

I am enclosing a despatch from our
Embassy in Djakarta commenting on the JIC
Semi-Annual Review which might be of interest
to the Directorates.

(Signed) G. G. CREAN.

G.G. Crean,
Chairman, JIC.

NUMBERED LETTER

CANADIAN JAMES C. HENRY
Security: SECRET

TO: Canadian Embassy,
..... Washington, D.C.

No: Y-70

FROM: THE UNDER-SECRETARY OF STATE FOR
EXTERNAL AFFAIRS, OTTAWA, CANADA.

Date: January 18, 1956

Enclosures:

Air or Surface Mail: Surface

Post File No:

Reference: Your Letter No. 2069 of Dec. 28-55...

Subject: JIC Semi-Annual Review of Intelligence

Ottawa File No.	
50078-B-40"D	
8	8

References

Thank you for your helpful comments on the Semi-Annual Review. We are glad that you found it to be of interest.

2. With regard to the comments contained in paragraphs 3-7 of your letter, we have the following observations to make:

Paragraph 3

/was We agree that the information divulged by Admiral Radford at the recent Meeting of Consultation is relevant to paragraphs 79 to 82 inclusive of the Review, and will no doubt find its way into the next edition of the Review. As you will appreciate, however, it/provided after the Review dated November 22 had been drafted and approved by the JIC.

Paragraph 4

In giving it as our impression that United States policy towards Communist China had become less rigid during the period, we were thinking more about the fact that American and Communist Chinese representatives had sat down to a series of talks in Geneva than about the possibility that there had been a relaxation in the United States policy of containment. We would agree, especially after seeing the record of the Meeting of Consultation and Mr. Dulles' recent statements in "Life", that the containment policy has not altered very much, if at all.

Paragraph 5

There was, in fact, quite a significant decrease last summer in Chinese internal propaganda agitating for the "liberation" of Formosa. We obtained our information on this point from the Fort-nightly Summaries of the British Embassy in Peking. The Summary dated August 31, 1955, for example, stated that "the relative silence of the

Internal
Circulation
Def.Liaison(2)

Distribution
to Posts

BEST AVAILABLE COPY

- 2 -

press on the Formosa issue, which set in over two months ago, has become more marked during the period. There has also been diminution of slogans about Formosa in the streets of Peking."

Paragraphs 6 and 7

On re-reading the Korean section in the Review, we would agree with you that the blame for the situation there might have been a little more equitably distributed. In referring to North Korea as an "area . . . of Chinese defence" we meant that this is how we believe the Chinese themselves regard it, that is to say the Chinese in all probability consider that North Korea in unfriendly hands would be a direct and dangerous threat to their own security. We think they would maintain a strong influence in North Korea even if they had no plans whatsoever to expand against the South.

A.R. Menzies

for the

Under-Secretary of State
for External Affairs

BEST AVAILABLE COPY



Department of National Defence

JOINT INTELLIGENCE COMMITTEE

IN REPLY PLEASE QUOTE

NO. CC 137-1 (JIC)
Nato Secret
CONFIDENTIAL

Without Enclosure

16 Jan 56

50028.15.40	
PH	SD

DMI

filed with NATO docs.

Intelligence - Soviet Equipment

1. Attached for retention is a copy of SHAPE letter AG 0937/1 ID dated 4 Jan 56, together with one copy each of photographs ID.A 16, 18, 19, 20, 21, 22, 23, 24, 25, 29, 30 and 31, showing current Soviet equipment.

2. As only one set of these photographs has been received, may they please be made available to other Directors on request.

J.C. McGibbon
J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

Encs.

JCM/5459/ff.

c.c. G.G. Crean, Esq.,
Dept. of External Affairs.

DAI
DNI
DSI
RCMP
JIB

1	✓
2	✓
3	
4	
5	✓
6	
7	
8	
9	
10	
11	
12	

1 JAN 17 1956

file
guy
DLW

NUMBERED LETTER

ERS CANADA
DOWNGRADED TO SECRET

REDUIT. A SECRET

Security:.....TOP SECRET.....

No: 21

Date: January 11, 1956.

Enclosures:

Air or Surface Mail: Air Courier...

Post File No: 165,7 and 165,20...

50028-B-40

90

2

The JIC Semi-Annual Review of Intelligence for the period March 1 - September 30, 1955, has been read with considerable interest. It appears to be a thorough and thoughtful analysis.

2. We assume that we have been asked to comment on the section dealing with Indonesia, i.e., paragraphs 91 to 94. On the whole, these paragraphs contain an accurate general appraisal of the extent of Communist influence in Indonesia. Nevertheless, any general survey is bound to contain certain misleading statements owing to the necessity of having to over-simplify. Our detailed comments on each of the four paragraphs follow.

Paragraph 91:

3. It is undoubtedly true that the Communist Party made gains during 1955. It is generally accepted that the primary objective of the Communist Party, in the Parliamentary elections, was to win one-third of the seats at stake, so that the policies of the PKI could not be ignored by the next coalition Government. The Communists did, in fact, come dangerously close to achieving their goal and, when the final distribution of seats is made, they may be allotted one-fifth of the total number of seats. To keep the record straight, however, it should be pointed out that, although they scored a large number of votes, they never at any time were higher than fourth place among the various parties contesting the election. Although present indications are that they may receive even more votes in the election for the Constitutional Assembly on December 15 than they had in the Parliamentary elections on September 29, the PKI still is only the fourth largest party in both Assemblies.

4. It is now reasonably certain, moreover, that PKI Ministers will not be seated in the next coalition Cabinet. The most active collaborator with the Communists among the Nationalist Party leaders was the ex-PNI Chairman, Sidik, who, rather fortuitously for the West, died a few months ago. His successor as Party Chairman,

... .. 2

000110

Ext. 182A (Rev. 2/52)

JAN 20 PM 3:31
NO ENCLOSURES

SECRET & SECRET
DOMAGNE DED TO SECRET
000111

BEST AVAILABLE COPY

- 2 **DOWNGRADED TO SECRET**
REDDUIT A SECRET

S. Mangunsarkoro, in a press interview on January 6, 1956, warned that the participation of the PKI in a future coalition cabinet "might endanger our country's good relations with the countries of the United States bloc". The Masjumi Party has, in addition, made it quite clear that they will not enter any coalition Government in which the PKI is represented. The Communists themselves also seem to realize that their role in the next Parliament will be an opposition one. Most political observers believe that the next coalition cabinet will be composed of members chosen from the Masjumi, Nationalist and Nahdatul Ulama parties. While it is true that the Secretary-General of the Communist Party, D.N. Aidit, is Chinese-trained, he scrupulously avoids any public association with the Chinese Embassy in Djakarta. At some PKI rallies, the rostrum is decorated with both Indonesian and Soviet flags. The five stars of Communist China, however, are never seen at the public meetings of the Indonesian Communist Party.

Paragraph 92:

5. In paragraph 92, mention is made of the "considerable evidence" that "the PKI has successfully penetrated the Chinese schools". This is not, strictly speaking, correct. The ideological conflict in the Chinese schools is between the supporters of the Taipeh and Peking regimes and is not directly related to the activities of the Indonesian Communist Party. A Chinese Nationalist official estimated in July, 1954, that the political affiliation of the 1,250 Chinese schools in Indonesia is almost equally divided between the Chinese Nationalist and Chinese Communist parties. This ratio may have changed to the advantage of the Communists since then. The final control over the Communist-oriented schools is reputed to be in the hands of a Committee in Djakarta, of which one of the members is an official in the Chinese Embassy.

Paragraph 93:

6. There is no doubt that the Chinese in Indonesia are an unpopular minority group. For this reason primarily, the Indonesian Communist Party tends to make ideological obeisance to Moscow rather than to Peking. It is also true that many Indonesians admire, on non-political grounds, the achievements of the Peking regime. But the Dual Nationality Agreement has not, on the whole, drawn Peking and Djakarta any closer. Many Indonesians have grave misgivings about the Dual Nationality Agreement negotiated by ex-Premier Ali Sastroamidjojo and Chou En-lai. The Masjumi and Socialist Parties, which dominate the present Harahap Government, have been particularly adamant against it because they foresee the possibility of a large number of Chinese resident in Indonesia electing to be citizens of an alien Communist state. As long as the Harahap Government remains in office, there is no possibility of the Dual Nationality Agreement being introduced in Parliament for ratification. Whether it will be introduced at a later date by a new Government is problematical. However, if the Communists are excluded from the coalition Cabinet, formed as a result of the general elections, the

BEST AVAILABLE COPY

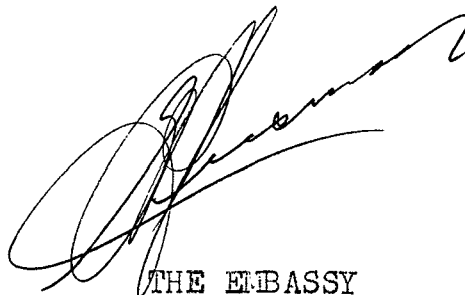
- 3 **DOWNGRADED TO SECRET**
REQUI A SECRET

only party in the coalition which normally would press for the Treaty's ratification would be its authors, the Nationalists, and it is unlikely that more than one-third of the Ministers in the new Cabinet will be from the PNI.

7. Trade agreements have been in force between Indonesia and China for several years. Nevertheless, although the commercial relations between the two countries continue to be satisfactory, Indonesia has scrupulously observed the United Nations' embargo on the export of rubber, oil and tin to China - which constitute Indonesia's main exports. China can hardly be termed an "excellent customer" of Indonesia's in any absolute sense, although, compared with other non-Communist countries, Indonesia has been able to develop an appreciable market in China. The total value of the Indonesian exports to China in the period from January to October, 1955, was Rp.50,552,202 and the total value of goods imported from China amounted to Rp.98,696,221 (\$1.U.S.equals 11.40 rupiah). This is not a very significant fraction of Indonesia's total exports and imports, which were valued, in the same period, at Rp.8,357,866,471 and Rp.5,515,731,786 respectively. Indonesia's exports to China consisted mainly of sugar, copra, pepper and sisal hemp while Indonesia imported from China textiles, glass, light machinery and chemicals.

Paragraph 94:

8. The last two sentences of paragraph 94 provide the necessary corrective to the widespread impression that the Ali Sastroamidjojo Government was completely Communist-dominated. Although it accepted the support of the 21 Communist-controlled Members of Parliament in crucial votes of confidence, several of the Ministers in Dr. Ali's coalition Cabinet were alert to the danger of flirting with the Communists. Now that the other major parties have observed the strength of the Communists at the polls, all the non-Communist parties appear to be disturbed by the support given to the PKI. The growth of an effective anti-Communist movement in Indonesia has been hampered in the past by the obsession of the Indonesian revolutionary leaders with the evils of colonialism. Many Indonesians are only now realizing that Communist imperialism is just as great a menace to the people of Indonesia as colonialism.



THE EMBASSY



BEST AVAILABLE COPY

IN REPLY PLEASE QUOTE
No. CSC 1735-2 (JIC)

Department of National Defence

TOP SECRET
CANADIAN EYES ONLY

JOINT INTELLIGENCE COMMITTEE

8.4

50028-13-40

94 | 50

5 Jan 56

DOWNGRADED TO SECRET
REDUIT A SECRET

MEMORANDUM FOR THE JIC:

JIC Semi-Annual Review

1. Attached for information is a copy of Letter No. 2069 dated 28 Dec 55, from the Canadian Embassy, Washington, which contains comments on the JIC Semi-Annual Review (JIC 154/1(55)).

J. C. McGibbon
J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.

Enc.

JCM/5459/ff

c.c. JIS

(Mr. Black: assume
that W'tor Letter 2069
has already been
circulated in Dept)

Mr. Freeman has seen the
original and European and
Far Eastern have been asked
for their comments.

CSE 1735-2576

OPY

TOP SECRET
CANADIAN EYES ONLY

BEST AVAILABLE COPY

Jan 5/56
50028-15-40

DEPARTMENT OF EXTERNAL AFFAIRS

NUMBERED LETTER

DOWNGRADED TO SECRET
REDUIT A SECRET

TO : THE UNDER-SECRETARY OF STATE FOR EXTERNAL
AFFAIRS, OTTAWA, CANADA.

No. 2069

FROM: THE CANADIAN EMBASSY, WASHINGTON, D.C.

December 28, 1955

Reference: Your letter DS-1672 of December 5, 1955.

Subject : JIC Semi-Annual Review

Thank you for sending us a copy of this paper which we have read with great interest. It is quite apparent that a good deal of effort has been put into it and we hope it will be possible for you to send us a copy of similar reviews in the future.

2. The only comment we have to make on the section devoted to the Soviet Union is the absence, in paragraph 50, of any reference to the Soviet Union permitting Finland to become a member of the Nordic Council. Our files do not indicate exactly when this change of Soviet policy took place. Our impression, however, is that it occurred prior to the survey's cut-off date of September 30. If we are wrong no doubt this significant event will be taken into account when the next survey is being drafted. The State Department's preliminary reaction was contained in our Letter No. 1937 of November 30 and their further views on this point will be contained in a letter which we hope to send to you later this week.

3. A few comments on Sections III and IV of the paper dealing with Communist China occur to us. With respect to paragraphs 79 to 82 of Section III we would draw your attention to our Despatch No. 2047 of December 21 to which was attached the record of the most recent meeting of consultation between Canadian and United States officials. At that meeting Admiral Radford made a number of factual comments on the size of the Chinese Communist military services which supplement the facts contained in the paragraphs under reference. We found of particular interest his comment that the Chinese Communists were getting to a position of strength opposite Formosa such that they could cause difficulty even for United States air power in the China coastal area.

4. Without wishing to challenge the general impression given in Section IV of the paper that there is reason for optimism on our part in the recent development of a less threatening Communist Chinese foreign policy, we are inclined to believe that this generally optimistic view would not be shared by the United States authorities; nor would we be inclined to agree that "United States policy towards Communist China is becoming less rigid" if by that it is meant that there has been a relaxation in the United States policy of containment of Communist China.

5. We were somewhat surprised at the finding in paragraph 86 that "there has been a marked diminution of Chinese internal propaganda agitating for the 'liberation' of Formosa". This is a matter of fact which the writers of the paper are in a better position to know than we are; on the other hand, we have had no impression from our discussions with the United States authorities here that there had been a significant change in the "liberation" propaganda.

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

- 2 -

6. Our most substantial comment would be reserved for paragraph 89 of the paper, which concerns Korea. The paragraph, it seems to us, lacks the balance which is evident in the paper as a whole. The impression one gets in reading this paragraph is that President Rhee and his government are the real and only potential trouble-makers on the Korean peninsula. It is true that President Rhee "longs to see the reunification of his country and considers that the military Armistice Agreement stands in the way". Surely it is equally true that the Communist regime in the North, with Chinese backing, longs to reunify Korea under Communist control and have paid somewhat less attention to the Armistice Agreement than President Rhee.

7. The ROK government may be guilty of "low and deteriorating standards" in terms of Western governmental standards but, whether such a harsh judgment is valid in terms of Asian counterparts, seems to us a moot point. The finding is made in paragraph 89 that "the United Nations countries continue to have little control over the policies and attitudes of President Rhee". We would be inclined to question such a flat statement for the reason that, up to now at least, Rhee has not been able to do what his heart desires, namely, reunify his country by force. Finally, we are not certain what is included in the concept "this area (North Korea) is considered one of Chinese defence". We are inclined to believe that if given the opportunity the North Koreans with Chinese support would become pretty offensive in spreading their influence southward.

G.P. de T. Glazebrook

for
The Embassy.

BEST AVAILABLE COPY DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

~~DOWNGRADED TO SECRET~~
~~REBUT A SECRET~~

TO: FAR. EASTERN. DIVISION..... *Mr. Macdonald* *AM*

SecurityTOP. SECRET.....
FOR CANADIAN EYES ONLY
Date...January.4..1956.....

FROM: ...DEFENCE LIAISON..(2)..DIVISION..... *g:2*

File No.		
50028-B-40		
94	-	-

REFERENCE:

SUBJECT:JIC.Semi-Annual.Review.....

I am enclosing a copy of comments made by our Embassy in Washington on the JIC Semi-Annual Review, which the Embassy has found useful and of great interest.

I should like to draw your attention to the comments contained in paragraphs 3 - 7 of the despatch. In view of the fact that we are now reviewing Canadian policy towards China, you will no doubt wish to answer the comments raised by our Embassy.

[Signature]
Defence Liaison (2) Division

BEST AVAILABLE COPY

COPYNUMBERED LETTERFOR CANADIAN EYES ONLYTOP SECRET

TO: THE UNDER-SECRETARY OF STATE FOR
EXTERNAL AFFAIRS, OTTAWA, CANADA

No. 2069

December 28, 1955

FROM: THE CANADIAN EMBASSY, WASHINGTON, D.C.

Reference: Your Letter DS-1672 of December
1955

DOWNGRADED TO SECRET
REDUIT A SECRET

Subject JIC Semi-Annual Review

Thank you for sending us a copy of this paper which we have read with great interest. It is quite apparent that a good deal of effort has been put into it and we hope it will be possible for you to send us a copy of similar reviews in the future.

2. The only comment we have to make on the section devoted to the Soviet Union is the absence, in paragraph 50, of any reference to the Soviet Union permitting Finland to become a member of the Nordic Council. Our files do not indicate exactly when this change of Soviet policy took place. Our impression, however, is that it occurred prior to the survey's cut-off date of September 30. If we are wrong no doubt this significant event will be taken into account when the next survey is being drafted. The State Department's preliminary reaction was contained in our Letter No. 1937 of November 30 and their further views on this point will be contained in a letter which we hope to send to you later this week.

3. A few comments on Sections III and IV of the paper dealing with Communist China occur to us. With respect to paragraphs 79 to 82 of Section III we would draw your attention to our Despatch No. 2047 of December 21 to which was attached the record of the most recent meeting of consultation between Canadian and United States officials. At that meeting Admiral Radford made a number of factual comments on the size of the Chinese Communist military services which supplement the facts contained in the paragraphs under reference. We found of particular interest his comment that the Chinese Communists were getting to a position of strength opposite Formosa such that they could cause difficulty even for United States air power in the China coastal area.

4. Without wishing to challenge the general impression given in Section IV of the paper that there is reason for optimism on our part in the recent development of a less threatening Communist Chinese foreign policy, we are inclined to believe that this generally optimistic view would not be shared by the United States authorities; nor would we be inclined to agree that "United States policy towards Communist China is becoming less rigid" if by that it is meant that there has been a relaxation in the United States policy of containment of Communist China.

5. We were somewhat surprised at the finding in paragraph 86 that "there has been a marked diminution of Chinese internal propaganda agitating for the 'liberation' of Formosa". This is a matter of fact which the writers of the paper are in a better position to know than we are; on the other hand, we have had no impression from our discussions with the United States authorities here that there had been a significant change in the "liberation" propaganda.

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

6. Our most substantial comment would be reserved for paragraph 89 of the paper, which concerns Korea. The paragraph, it seems to us, lacks the balance which is evident in the paper as a whole. The impression one gets in reading this paragraph is that President Rhee and his government are the real and only potential trouble-makers on the Korean peninsula. It is true that President Rhee "longs to see the reunification of his country and considers that the military Armistice Agreement stands in the way". Surely it is equally true that the Communist regime in the North, with Chinese backing, longs to reunify Korea under Communist control and have paid somewhat less attention to the Armistice Agreement than President Rhee.

7. The ROK government may be guilty of "low and deteriorating standards" in terms of Western governmental standards but, whether such a harsh judgment is valid in terms of Asian counterparts, seems to us a moot point. The finding is made in paragraph 89 that "the United Nations countries continue to have little control over the policies and attitudes of President Rhee". We would be inclined to question such a flat statement for the reason that, up to now at least, Rhee has not been able to do what his heart desires, namely, reunify his country by force. Finally, we are not certain what is included in the concept "this area (North Korea) is considered one of Chinese defence". We are inclined to believe that if given the opportunity the North Koreans with Chinese support would become pretty offensive in spreading their influence southward.

(sgd.) G. de T. Glazebrook

The Embassy

BEST AVAILABLE COPY DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

DOWNGRADED TO SECRET
REDUIT A SECRET

TO: EUROPEAN DIVISION.....

Security... SECRET.....

FOR CANADIAN EYES ONLY

Date.... January 4, 1956....

FROM: ...DEFENCE LIAISON (2) DIVISION.....

REFERENCE: *pl* *l.3*

File No.

50028-B-40

SUBJECT: JIC Semi-Annual Review..... *BF March 20th*

J.B. SEABORN
European Division

S	
1	✓
2	
3	
4	
5	✓
6	
7	
8	
9	
10	

I am enclosing a copy of
comments made by our Embassy in Washington
on the JIC Semi-Annual Review, which the
Embassy has found useful and of great
interest.

GAIS
Defence Liaison (2) Division.

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

FOR CANADIAN EYES ONLY

50028-B-40	
9/1	50

January 4, 1956

Secretary,
Joint Intelligence Committee,
Department of National Defence,
O T T A W A.

I am enclosing a copy of
Letter No. 2069 of December 28, 1955,
from the Canadian Embassy, Washington
on the JIC Semi-Annual Review, which,
I think, would be of interest to the
members of the JIC. I should appreciate
it if you would circulate it.

(Signed) G. G. CREAN.

G.G. Crean,
Chairman, JIC

DEPARTMENT OF EXTERNAL AFFAIRS, CANADA.

NUMBERED LETTER

FOR CANADIAN EYES ONLY

TOP SECRET

TO: THE UNDER-SECRETARY OF STATE FOR
EXTERNAL AFFAIRS, OTTAWA, CANADA.

FROM: THE CANADIAN EMBASSY, WASHINGTON, D.C.

Security:.....

No:..... 2069

Date: December 28, 1955.

Enclosures:.....

Air Mail:.....

Post File:.....

Reference: Your Letter DS-1672 of December 5, 1955.

Subject: JIC Semi-Annual Review.

Ottawa File No.

50028-B-40

94

50

References

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	
31	
32	
33	
34	
35	
36	
37	
38	
39	
40	
41	
42	
43	
44	
45	
46	
47	
48	
49	
50	
51	
52	
53	
54	
55	
56	
57	
58	
59	
60	
61	
62	
63	
64	
65	
66	
67	
68	
69	
70	
71	
72	
73	
74	
75	
76	
77	
78	
79	
80	
81	
82	
83	
84	
85	
86	
87	
88	
89	
90	
91	
92	
93	
94	
95	
96	
97	
98	
99	
100	

JAN 3 1956

Will be circulated
to JIC and others
with a copy memo
will go to European and
Far Eastern Divisions.
Internal
Circulation

Circulation

Distribution
to Posts

Thank you for sending us a copy of this paper which we have read with great interest. It is quite apparent that a good deal of effort has been put into it and we hope it will be possible for you to send us a copy of similar reviews in the future.

2. The only comment we have to make on the section devoted to the Soviet Union is the absence, in paragraph 50, of any reference to the Soviet Union permitting Finland to become a member of the Nordic Council. Our files do not indicate exactly when this change of Soviet policy took place. Our impression, however, is that it occurred prior to the survey's cut-off date of September 30. If we are wrong no doubt this significant event will be taken into account when the next survey is being drafted. The State Department's preliminary reaction was contained in our Letter No. 1937 of November 30 and their further views on this point will be contained in a letter which we hope to send to you later this week.

3. A few comments on Sections III and IV of the paper dealing with Communist China occur to us. With respect to paragraphs 79 to 82 of Section III we would draw your attention to our Despatch No. 2047 of December 21 to which was attached the record of the most recent meeting of consultation between Canadian and United States officials. At that meeting Admiral Radford made a number of factual comments on the size of the Chinese Communist military services which supplement the facts contained in the paragraphs under reference. We found of particular interest his comment that the Chinese Communists were getting to a position of strength opposite Formosa such that they could cause difficulty even for United States air power in the China coastal area.

4. Without wishing to challenge the general impression given in Section IV of the paper that there is reason for optimism on our part in the recent development of a less threatening Communist Chinese foreign policy, we are inclined to believe that this generally optimistic view would not be shared by the United States authorities; nor would we be inclined to agree that "United States policy towards Communist China is becoming less rigid" if by that it is meant that there has been a relaxation in the United States policy of containment of Communist China.

5. We were somewhat surprised at the finding in paragraph 86 that "there has been a marked diminution of Chinese internal propaganda agitating for the 'liberation' of Formosa". This is a matter of fact which the writers of the paper are in a better position

....2

NO ENCLOSURES DEC 3 AM 10:29

REF ID: A66666
CONFIDENTIAL TO SECRET

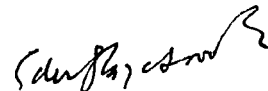
- 2 -

DOWNGRADED TO SECRET
REDUIT A SECRET

to know than we are; on the other hand, we have had no impression from our discussions with the United States authorities here that there had been a significant change in the "liberation" propaganda.

6. Our most substantial comment would be reserved for paragraph 89 of the paper, which concerns Korea. The paragraph, it seems to us, lacks the balance which is evident in the paper as a whole. The impression one gets in reading this paragraph is that President Rhee and his government are the real and only potential trouble-makers on the Korean peninsula. It is true that President Rhee "longs to see the reunification of his country and considers that the military Armistice Agreement stands in the way". Surely it is equally true that the Communist regime in the North, with Chinese backing, longs to reunify Korea under Communist control and have paid somewhat less attention to the Armistice Agreement than President Rhee.

7. The ROK government may be guilty of "low and deteriorating standards" in terms of Western governmental standards but, whether such a harsh judgment is valid in terms of Asian counterparts, seems to us a moot point. The finding is made in paragraph 89 that "the United Nations countries continue to have little control over the policies and attitudes of President Rhee". We would be inclined to question such a flat statement for the reason that, up to now at least, Rhee has not been able to do what his heart desires, namely, reunify his country by force. Finally, we are not certain what is included in the concept "this area (North Korea) is considered one of Chinese defence". We are inclined to believe that if given the opportunity the North Koreans with Chinese support would become pretty offensive in spreading their influence southward.



The Embassy.

DEPARTMENT OF EXTERNAL AFFAIRS - CANADA

NUMBERED LETTER

DOWNGRADED TO SECRET
REDUIT A SECRET

(SEE COPY)

TO: PERMANENT DELEGATION OF CANADA TO
THE NORTH ATLANTIC COUNCIL, PARIS

FROM: THE UNDER-SECRETARY OF STATE FOR
EXTERNAL AFFAIRS, OTTAWA, CANADA.

Reference: Our letter No. D-407, May 9, 1955

Subject: JIC Semi-Annual Review of Intelligence

Security: TOP SECRET

No: DS- 885 ✓

Date: December 5, 1955

Enclosures: 1

Air or Surface Mail: Air

Post File No:

Ottawa File No.

50028-B-40

94

50

References

Attached is copy No. 116 of a JIC paper entitled "The JIC Semi-Annual Review". This review deals with Soviet and Communist Chinese policy trends from March 1, 1955 to September 30, 1955.

2. In addition to its distribution to other missions abroad, copies of this paper are being circulated to the United Kingdom JIC, the United States IAC, the Australian JIC and the New Zealand defence authorities.

3. Any comments which you might wish to make on this paper would be read with interest in the Department and by our JIC.

I. SOUTHAM

Internal
Circulation

Under-Secretary of State
for External Affairs

Same letter to the
following missions:

Perm Del. New York
Canadian Legation, Vienna
Canadian Embassy, Brussels
Canadian Legation, Copenhagen
Canadian Legation, Helsinki
Canadian Embassy, Paris
Canadian Embassy, Bonn
Canadian Embassy, Athens
Canadian Embassy, Rome
Canadian Embassy, The Hague
Canadian Embassy, Oslo
Canadian Legation, Stockholm
Canadian Embassy, Ankara
Canadian Embassy, Moscow
Canadian Embassy, Tokyo
Office of H.Comm'r, New Delhi
Canadian Legation, Warsaw
Canadian Legation, Prague
Canadian Embassy, Belgrade
Canadian Embassy, Djakarta

Copy No. 117

" 118

119

120

121

122

123

124

125

126

127

128

129

233

130

131

132

230

231

232

, Letter DS- 600 ✓

585 ✓ 393 ✓

456 ✓

214 ✓

1263 ✓

729 ✓

484 ✓

563 ✓ 664 ✓

413 ✓

405 ✓ 369 ✓

531 ✓

925 ✓ 764 ✓

636 ✓

466 ✓

528 ✓

396 ✓

000125

Distribution
to Posts

DEPARTMENT OF EXTERNAL AFFAIRS, CANADA.

(FILE COPY)

NUMBERED LETTER

CANADIAN EYES ONLY

TO: THE OFFICE OF THE HIGH COMMISSIONER
FOR CANADA, LONDON

Security: TOP SECRET

No: DS-1699

Date: December 5, 1955

Enclosures: 1

Air or Surface Mail: Air

Post File No:

Ottawa File No.

50028-B-40

94.

50

DOWNGRADED TO SECRET
RÉDUIT À SECRET

References

Attached is a copy (No. 17) of a JIC paper entitled "The JIC Semi-Annual Review". This Review deals with Soviet and Communist China policy trends from March 1, 1955 to September 30, 1955.

2. We would draw your attention to the special classification of Appendix "A" which is being circulated outside Ottawa to your mission and to Washington only. Copies of the paper, without Appendix "A" are being referred to other missions abroad, to the Australian and New Zealand defence authorities through our missions in those two countries, and to the United Kingdom JIC and the United States IAC through service channels.

3. Any comments which you might wish to make on the attached paper would be read with interest in the Department and by our JIC.

G. H. SOUTHAM

Under-Secretary of State
for External Affairs

Internal
Circulation

Distribution
to Posts

Defence Liaison (2)/E.P. Black/mh

DEPARTMENT OF EXTERNAL AFFAIRS

BEST AVAILABLE COPY

MEMORANDUM

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

TO: The Under-Secretary, Mr. Macdonnell,
Mr. Holmes, Mr. ~~Macdonnell~~, Mr. Worsker,
Mr. Ignatieff, Mr. Ford, Mr. ~~Merrill~~

Date December 5, 1955

FROM: Defence Liaison (2) Division

File No.

50028-B-40

REFERENCE:

SUBJECT: JIC Semi-Annual Review of Intelligence

file copy

Attached for your information is a copy (No. 16) of a JIC paper entitled "The JIC Semi-Annual Review". This Review deals with Soviet and Communist Chinese policy trends from March 1, 1955 - September 30, 1955.

2. Copies of this paper are being circulated to missions abroad, to the United Kingdom JIC, the United States IAC, the Australian JIC, and the New Zealand defence authorities. Copies containing Appendix "A" are being referred only to our missions in London and Washington.

*Offered A
removed for distribution
copy*

G.H. South

Defence Liaison (2) Division

6.12.12(55)

Copy No. _____

16

**DOWNGRAD'D TO SECRET
REDUIT A SECRET****TOP SECRET****JIC 154/1(55)****22 November 1955**

BEST AVAILABLE COPY

THE JIC SEMI-ANNUAL REVIEW

(1 Mar 55 - 30 Sep 55)

CONTENTS

I. <u>INTERNAL DEVELOPMENTS IN THE SOVIET BLOC</u>	<u>Para</u>
Internal Politics	1
The Economy	9
Transportation	16
Aircraft Production	18
Land Armaments Production	21
Naval Shipbuilding	22
Atomic Energy and Nuclear Weapons	23
Guided Missiles	24
Biological-Chemical Warfare	25
Military Electronics	26
The Army	27
The Navy	30
The Air Force	32
European Satellite Forces	35
II. <u>SOVIET FOREIGN POLICY AND ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR</u>	
General	39
The Geneva Conference of Heads of State	42
German-Soviet Relations	44
Soviet-Austrian Relations	46
The Warsaw Pact	47
Scandinavia	50
Relations with Japan	51
Middle East	52
Relations with China and the Far East	54
Disarmament	57
East-West Contacts	60
Position of Yugoslavia	61
"Return to the Homeland" Movement	67
III. <u>INTERNAL DEVELOPMENTS IN COMMUNIST CHINA</u>	
Internal Politics	70
The Chinese Economy	74
Chinese Communist Army	79
Chinese Communist Navy	80
Chinese Communist Air Force	81
Airfield Construction	82
IV. <u>COMMUNIST CHINESE FOREIGN POLICY AND ATTEMPTS TO EXPLOIT TROUBLED AREAS IN ASIA</u>	
General	84
Formosa	86
Indo-China	88
Korea	90
Japan	91
Indonesia	92

TOP SECRET

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET
JIC 154/1(55)
22 November 1955The JIC Semi-Annual Review
(1 March 1955 - 30 September 1955)I. INTERNAL DEVELOPMENTS IN THE SOVIET BLOCInternal Politics

1. Since the resignation of Malenkov three major trends have been evident in the internal politics and government of the USSR. The relaxed nature of Soviet leaders and their apparent rejection at least for the time being of one-man dictatorial rule have demonstrated the success of the policy of "collective government". A second important feature has been the determined drive towards economic and administrative efficiency. The third trend has been a tendency by the new regime to end many of the old arbitrary injustices and create a feeling among the people of an increase in their individual freedom.
2. In the apparent maintenance of "collective leadership" no single individual has emerged to take the place of Stalin. At Belgrade, at Geneva, and in Moscow Soviet leaders seemed to act spontaneously as a team, and not as men who are waging a life and death struggle for dictatorial supremacy. While on occasions Bulganin seems to wield more authority, Khrushchev now is considered to be the key man of the Soviet regime. But while Khrushchev may be first among equals, apparently neither he, Bulganin nor anyone else exercises sufficient control to wield absolute authority.
3. Recent appointments within the Party generally reflect Khrushchev's influence. Both Kirichenko and Suslov, appointed to the Party Praesidium in July, have served under Khrushchev. D.T. Shepilov, the chief editor of Pravda who was appointed to the Party Secretariat and who, it has been rumoured, may assume the position of Foreign Minister if Molotov resigns, has been an outspoken advocate of Khrushchev's agricultural policy. The delegation which accompanied Chancellor Adenauer to Moscow had the definite impression that Molotov, who is primarily associated with rigid Stalinist policies, was no longer a member of the inner circle, and that foreign policy was now largely decided by Khrushchev and Bulganin.
4. Changes in the Council of Ministers emphasize the government's concerted efforts to improve administrative efficiency, economic planning and production. Of the four new Deputy Chairman, Kucherenko, Zavenyagin and Krunichev are thoroughly experienced in the administration of heavy industry while Lobanov is an expert in agricultural administration and has been an ardent supporter of Khrushchev's virgin lands campaign. Their appointments underline the current policy of selecting as Deputy Chairman men who are skilled technicians and who will operate under the political direction of the Praesidium of the Council of Ministers. In line with this policy the Government has somewhat reduced its own central authority and granted greater autonomy to industrial directors and local leaders. At the same time however, the Party has exerted an increasing influence at lower levels of administration, so that any reduction of strict government control has been offset by closer supervision of Party authorities. Recent official statements lend force to the suggestion that under Khrushchev there has been a considerable transfer of authority from the Council of Ministers to the Central Committee of the Party.
5. The pattern of production has been altered, with renewed emphasis on increased investment in capital goods industries rather than on consumer goods. Efforts are being made in industry to cut costs, re-adjust wage rates and overhaul the entire structure of industrial planning. This increased emphasis on greater practical planning and per capita

TOP SECRET

...../2

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET
- 2 -TOP SECRET

productivity has led to widespread criticism of production methods and industrial slackness. Bulganin, in a major speech, highly praised certain industrial aspects of American capitalism, and the government has established an Institute of the Economy of Modern Capitalism to examine Western production methods and to re-appraise the entire structural bases of capitalist economics. In order to raise man-hour productivity working norms are being increased, wages re-adjusted and normal increases of nominal wages stopped. At the same time the Soviet labour newspaper Trud has severely criticized executives who discharge workers without adequate cause, who force workers to work overtime without meeting legal requirements, or who otherwise exercise arbitrary authority over their employees.

6. The government has continued its policy of increasing collectivization and cultivation of marginal lands, and of raising agricultural production. To produce the hoped for results and increase party control over the farms Khrushchev has appointed 30,000 party officials as chairmen of collective farms. In its enthusiasm for Khrushchev's virgin land policy, however, the government seems to have gambled with the basic instability of the new lands as a potential dust bowl area--a period of adverse climatic conditions would be disastrous for the success of the programme.

7. The government has issued a number of decrees liberalizing the structure of the Soviet legal system and providing greater protection to the rights of the individual. The role and the power of the Secret Police has been considerably reduced and its dreaded Special Board liquidated; prosecutors no longer exercise investigatory powers, and provisions for arbitrary arrest and imprisonment have been tightened up and curtailed. Penalties for minor political or administrative misdemeanours have been lightened and authorities are now overhauling the structure of the whole legal apparatus. On September 18, Izvestia announced a general amnesty for alleged collaborators during World War II. All but the most serious sentences have been revoked. The amnesty is directly related to the agreement to return to Germany 10,000 "war criminals", and to the "return to the homeland" movement. For such nationalities as the Crimean Tartars, the Volga-Germans and the Chechen-Ingush who were exiled for having supported the Germans, the announcement if taken literally means rehabilitation and the restoration of status as free citizens. Such measures are in line with a shift away from "Russification" to encourage those minority traditions and folkways which do not directly clash with government policy or fundamental Communist doctrine.

8. A significant aspect of the "new Look" is the greater degree of scientific and intellectual freedom permeating Soviet life. While Marxist-Leninism is still fundamental, the present regime has not found it necessary to lay down strictures on all points of differences. This is especially the case in the scientific fields. Since Geneva, Soviet press reports of events in Western countries have been much less belligerent. Diplomats and correspondents in the USSR enjoy a greater degree of personal freedom of activity. Visas are now fairly easily obtained, and less arbitrary restrictions encumber foreigners travelling inside the country. Cultural activities also exhibit a greater degree of intellectual freedom. The recent stage productions, "Wings" by Korneichuk, and "Personal Affair" by Shtein, both make strong attacks on the position of the Secret Police and the misuse of the organs of law and order to promote personal ends. Leading composers are denouncing the "dogmatism" and "orthodoxy" imposed on composers of popular music, and the Russian radio now broadcasts an increasing number of popular American, British and Western tunes. The "...better use of foreign experience..." in radio, television and other branches of science has been urged. Several Soviet writers who were once condemned as "ruthless cosmopolitans" are again actively at work in Moscow.

TOP SECRET

...../3

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
~~REDUIT A SECRET~~

TOP SECRET

The Economy

9. Probably the most significant development in the Soviet economy during the period under review has been the increasing emphasis attached to the improving of industrial efficiency and the raising of productivity in all sectors of the economy. The regime apparently fully realizes that continued industrial expansion at a high rate during the Sixth Five-Year Plan will depend to an even greater extent on increasing the productivity of capital and labour. During the present five-year plan, the regime was able to overcome the deficiency in labour productivity by the unplanned absorption of a higher number of persons into industry. However, due to the impact of the war on birth rates, the net increment to the labour force during the next five years will be substantially lower than during the past five years. Bulganin laid great stress on the need for higher productivity when he warned the Central Committee of the Communist Party that "we shall encounter difficulties in supplying the economy with labour".

10. In his report on industrial problems delivered at the plenary session of the CPSU Central Committee on 4 July, Bulganin was remarkably frank in his analysis of the shortcomings of Soviet industry. He reaffirmed the policy of preferential development of heavy industry,--and outlined the direction in which further industrial development must proceed if a continued high rate of economic growth is to be sustained. These include improved technical equipment, accelerated application of science and technology, the production of new tools, wider use of automatic and mechanized processes, fuller use of present equipment, higher labour productivity, lower costs, improved planning and industrial leadership, and better location of industry in relation to material supply.

11. In support of these programmes, the regime has re-organized the GOSPLAN into two commissions, one for short-term planning, and one for long-term planning, and has set up a State Committee on New Technology and a State Committee on Labour and Wages. The separation of the GOSPLAN into two Commissions is probably motivated by the need to give greater effort to long-term planning, especially of the energy base. The problem of industry location has been stated by Bulganin as being a major task of the long-term planners, particularly in the Eastern regions. The minimization of transport and the fullest use of indigenous materials are to be key criteria in new industry location. The State Economic Commission for long-term planning has been placed under Baibakov, the former Minister of the Oil Industry, and will concentrate on plans of a five, ten, and fifteen year nature. While the relationship between the two Commissions for planning is still somewhat obscure, it would appear that the State Commission for current planning under Saburov, the former GOSPLAN head and a First Deputy of the Council of Ministers, is to concentrate on yearly, quarterly, and monthly planning. The State Committee on New Technology under Malyshev, a production engineer and a Deputy Chairman of the Council of Ministers, is to supervise the planning for and introduction of advanced technological methods into industry. The State Committee for Labour and Wages, under Kaganovich, has probably been set up to undertake a complete overhaul of the wage structure and to work out a new set of labour norms, which are long overdue.

12. The carrying out of the new programme for industrialization, particularly the introduction of automatic processes, will require a continuing high level of investment in new plants and equipment. The programme of expanding agricultural output will also require a heavy outlay of resources if it is to achieve some degree of success. In addition, the tremendous cost of the new weapon systems in terms of medium and heavy jet bombers, the series production of new fighter aircraft, and an enlarged guided missile programme, would also indicate that defence

TOP SECRET

.... /4

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

expenditures may be expected to rise further. With the priority in the allocation of resources remaining with investment and defence, it is thought that the rate of growth of per capita consumption will be slowed down in the foreseeable future. The heavy demands on the domestic economy will in all likelihood impose a limitation on the capability of the USSR to increase substantially its exports of industrial equipment and materials to China, the Satellites, and underdeveloped countries.

13. The Soviet 1955 mid-year plan report indicates that the recent measures to improve organization and planning, and the emphasis on the introduction of new technology, have already resulted in some improvement in efficiency. The report confirms previous announcements that the goal for total industrial output of the original Fifth Five-Year Plan was fulfilled about eight months ahead of schedule. Impressive gains are claimed in the expansion of the energy base in terms of coal, oil, and electric power production, while the sharp rise in oil production suggests that the original plan of 70 million metric tons by 1955 may now be attainable. Production of steel and production in many sections of the engineering industry (especially agricultural machinery) indicate a rate of growth higher than in the first half of 1954. As expected, the rate of increase for consumer goods was somewhat lower than a year ago. The seven percent increase in industrial labour productivity coupled with the 12 percent increase in industrial output indicate a further rise of five percent in the industrial labour force. While the capital investment plan was under-fulfilled by seven percent, it apparently represented an increase of 11 percent over the corresponding period of 1954. Investment in heavy industry accounted for a large proportion of the increase. In the field of agriculture, a substantial expansion of the area under cultivation was achieved. Some 50 million acres of new lands were sown, 17 million acres more than the original objective. The total area under spring crops was stated to be 53 million acres greater than in 1954. The area under maize, 45 million acres, is 34 million acres greater than last year. Despite the serious drought conditions in the new land area, there is every indication that a record grain crop will be achieved in 1955.

14. Although strains and stresses have developed in the economy due to the competing demands of defence, investment and consumption, it would appear that the defence and investment goals are being largely achieved by enforcing a somewhat lower rate of growth of consumption. The inflationary danger inherent in the slower rate of growth of consumer goods was to some extent offset by the increase in the state loan and the failure to reduce retail prices this year. On the whole, it would appear that the Fifth Five-Year Plan for industrial production has been eminently successful, with a rate of progress some 6 percent above the original plan. Despite the spectacular new lands programme, it is obvious, however, that the Fifth Five-Year Plan for agriculture, especially in grain production, has failed. Although agriculture continues to be the weakest link, it is thought that a modest degree of success in the new programme will maintain the supply and demand picture for grain on an even keel for at least the foreseeable future.

15. In the European Satellites there would appear to have been no major revision in the general economic policies adopted in 1954. Military budgetary allocations, after a decline in 1954 have risen in most countries, but are still below the 1953 level in Bulgaria, Roumania and Hungary. Plan fulfilment reports suggest that increases in consumer goods have been maintained rather better than in the USSR. Despite increased support, agriculture is lagging and is in a particularly serious condition in Poland, while there has been under-fulfilment in Czechoslovakia over a long period and no sign of improvement in Roumania. Heavy industry is still beset by shortages of ores and scrap and production in the heavy industrial sector remains stagnant in Czechoslovakia and Hungary.

TOP SECRET

...../5

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT-A SECRET

TOP SECRET

Transportation

16. Throughout the period under review, all countries of the Communist Bloc have continued the rehabilitation and expansion of their transport systems and associated services. Although no one development noted has outstanding strategic importance, all developments collectively point to a steady improvement of their economic and strategic positions. The major developments have occurred within the USSR and China. The satellite areas of Europe and Asia have been less interesting.

17. The over-fulfilment of transport plans within the USSR has shown that the existing system has been adequate to support an expanding economy. The tonnages moved have increased, particularly in the Soviet North, and between the USSR and China. Little new construction has taken place, although certain improvements have been made to the lines of ~~Communication~~ ^{Communication} between Central and Northern Russia. With the exception of slight but not negligible developments to pipe-lines and in dieselization and electrification, the main effort has gone into the improved use of existing surplus capacity. The Soviet merchant marine has demonstrated a capacity to deliver oil in bulk to Arctic ports and an increased capacity to make similar deliveries to Chinese ports. Commercial aviation has continued a modest programme of experimentation with jet aircraft, and has greatly expanded its services in various areas. Both commercial and military aviation have proven capable of the wider use of large transports in the high Arctic than was previously known.

Aircraft Production

18. The most significant development during the past six months was the appearance in the pre MAY day air rehearsals of a large swept wing bomber approaching the BISON (type 37 heavy bomber) in size, and powered by four large turbo prop engines. Seven of these aircraft, designated BEAR for identification purposes, were seen at the Tushino Air Show in July, indicating that this type is being produced serially, although the location of production has not been determined. The BEAR is the first Soviet bomber to appear having a truly inter-hemispheric capability without refueling, and it is estimated that it may be introduced into operational service early in 1956. Sufficient numbers of the BISON have already been observed to indicate that series production is well advanced and that introduction into operational units may also be expected early in 1956.

19. Series production of BADGER, the medium bomber is continuing and is believed to be approaching peak peacetime rates. Cumulative BADGER production as of 30 September is estimated to be of the order of 300-350 aircraft.

20. FRESCO and its variants continues to be the main fighter in production. In spite of this, the Soviet Union was able to commence serial production last year of two new fighters. In the MAY Day air rehearsals a new swept wing day interceptor, designated FARMER, and the long awaited swept wing all weather fighter, designated FLASHLIGHT were first seen and at least 50 of both of these aircraft were displayed at the Tushino Air Show in July.

Land Armaments Production

21. Modernization and re-equipment of the Soviet Army continues. Five new artillery weapons were shown on the MAY Day Parade. It is likely that standardization of armaments is proceeding in the Satellites, although for the most part these countries continue to utilize obsolescent Soviet Weapons. Hungary is producing a high speed artillery towing tractor, the first such vehicle to be made in any of the Eastern European countries, while Czechoslovakia has introduced a new semi-automatic rifle believed to be of native design. The T 34/85 medium tanks are believed to be still in production in Czechoslovakia and Poland.

TOP SECRET

.... /6

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

Naval Shipbuilding

22. Shipbuilding activity and in particular the construction of submarines has continued at a high rate. No assessment can yet be made of the type of the large vessel which has been under construction in Leningrad since mid-1952, except that it is larger than a Sverdlov class cruiser. It is not known whether Sverdlov class cruisers will continue to be built in Leningrad. The twelfth and last known Sverdlov laid down in Leningrad was launched in June. However, these cruisers are also being built at Nikolaev, in the Black Sea and Molotovsk in the White Sea. Two classes of anti-submarine vessels now in production have been distinguished: the Kola class and the Riga class, both of 1,500 tons. The production of Z and W class long range submarines continued at an estimated rate of about 70 a year. This does not represent a net gain for the submarine force, as some older submarines are going into reserve and some are being transferred to Satellite navies. A motor torpedo boat, the first naval vessel built in East Germany apart from small minesweepers and patrol boats, may have been completed.

Atomic Energy and Nuclear Weapons

23. The period under review was noteworthy for the changes in the Soviet attitude to the release of information on the peaceful uses of atomic energy. While the first indications of this new policy appeared in December 1954, its full impact was not felt until the two international conferences held in Moscow in July and Geneva in August. The latter of these two conferences was the more important because of the much broader international representation. At Geneva Russian scientists gave details of four different types of experimental reactors, as well as the details of their 5000 kw atomic electric station. There were also a considerable number of papers dealing with the results of fundamental research in the fields of nuclear physics. The testing of Soviet atomic weapons was recommenced during the late summer, with two explosions at the atomic testing ground at the beginning of August. These explosions appeared to be of weapons of small and medium yield, and are thought to represent the standard tactical and medium yield air weapon of the Soviet forces. It is considered that these weapons were exploded for weapon effects studies, and had an appreciable Service participation. Late in September a further nuclear explosion occurred in the Barents Sea area near Novaya Zemlya, and is thought to have been an underwater explosion for the testing of the effects of an atomic explosion on ships. It is considered that the 1955 nuclear test program may well extend beyond the end of the period of this report.

Guided Missiles

24. There is little more positive evidence concerning Soviet guided missiles than was available six months ago. There are indications that the Soviet Union has a continuing, high priority guided missile programme, and there is reason to believe that research and development work is being conducted in surface-to-surface, air-to-surface, and surface-to-air missiles. There have been unconfirmed reports of the Soviet launching experimental missiles from submarines, and although a requirement exists for the Soviets to possess an all-weather air-to-air missile no evidence of such development has become available. One of the more interesting developments in recent intelligence has been the increasing number of sightings of grid-like construction sites in the vicinity of Moscow. To date 60 of these sites have been reported, some of which may be duplicates. It has also been reported that objects which could be surface-to-air missiles of the Wasserfall type, have been observed in the vicinity. It is therefore possible that these are launching sites for surface-to-air guided missiles, although the number of sites, their close juxtaposition, and the scale of effort involved would appear to be excessive for this purpose. Alternatively, it has been suggested that these sites are locations for unguided anti-aircraft rockets designed primarily to give protection against low-flying aircraft. It is also still possible that these sites have been constructed for some other, as yet undisclosed, purpose.

TOP SECRET

.... /7

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

Biological - Chemical Warfare

25. Evidence has now accumulated to confirm the belief that the Soviet BW program is intimately connected with their work on anthrax. The Soviets have also produced aerosol filters which would be primarily suitable for use in the rapid sampling of BW clouds. Activities reported from the Soviet Far East may support the anticipated extension of the Soviet BW program to that area, but firm evidence on this point is still lacking. The possibility of Soviet military research into the use of psychogenic drugs is suspected.

Military Electronics

26. The output of military electronics has tripled since 1950, and continues to rise at the same rate. The length of Soviet bloc perimeter covered by effective radar warning and control is over 7000 miles, and includes an estimated 700 radar stations of which some 400 have been detected. New name radars have continued to be observed; the total number of these is 15, most of which show evidence of original native design, and fully modern capabilities. There is some evidence that the Soviets have now developed an air intercept radar for single seater fighters; if this proves a success in air operations it is an example of radar research work at an advanced level. An increasing amount of Soviet published material on missile guidance techniques has appeared in the last six months which may well indicate a requirement for operating and servicing personnel. These advances in military electronics have been accomplished by severely limiting civilian electronic production. In Canada 73% of the electronics output goes into civilian products, and the remaining 27% into military equipment. In the Soviet Union military requirements have been consistently absorbing 70% of the electronics product, and there has been to date no indication of slacking off.

The Army

27. On 12 March 1955 the Soviet Union created 10 new marshals, and one airforce marshal, Zhigarev, was promoted to the rank of Chief Marshal of the Soviet Air Force. This was the first group promotion since the war. All but one of these are known to have served at one time or another in the Ukraine during the Second World War, an area in which the present Minister of Defence, Marshal Zhukov, campaigned with some distinction. Four of the new marshals are native born Ukrainians. This close association with the Ukraine may not be mere coincidence. It may reflect close association with Zhukov or possibly an attempt by Khrushchev, wartime party leader in the Ukraine, to strengthen his position within the Armed Forces. Although these promotions enhance the prestige of the Soviet Army, there is no evidence that the Party hierarchy intends to relax firm control of the Armed Forces.

28. There has been no change in the estimated strength of 2½ to 3 million men organized into about 175 line divisions given in the last semi-annual review. On 13 August 1955 the Soviet government announced its intention to reduce the Soviet armed forces by 640,000 men. Even if this reduction is carried out and is applied preponderantly to ground forces and security troops, it is considered that it could be effected without appreciably reducing the Soviet Army's value or readiness for war. The military commitments of the army have been considerably diminished by the withdrawal of forces from the Kwantung Peninsula, Porkkala and Austria and further cuts could be made by reduction or elimination of cadre units in the Soviet Union. The Soviets have continued energetically to build-up the military effectiveness of their forces in East Germany by large scale importations of the latest types of heavy equipment. By the end of the period under review approximately 2000 T-54 tanks had arrived in East Germany, sufficient to equip fully all tank divisions and to commence distribution to mechanized divisions.. Substantial improvement has also been made in both quality and quantity of motor transport. It is believed

TOP SECRET

...../8

000135

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

that most of the major Soviet units in East Germany are now at or close to war establishment in motor vehicles, but that Rear Services are still deficient of third line transport.

29. Generally speaking training in the Soviet forces in Germany has followed the usual pattern established by the training cycle. Again this year there was some indication of emphasis on movement and in March and April short movement exercises were conducted at regimental or higher level. The move to summer training areas began in the third week of April and it appears that certain divisions moved to areas different from those occupied in past years. Toward the end of August and the beginning of September divisional exercises were conducted in at least five of the six Soviet armies in Germany. In the last semi-annual review it was indicated that the Soviet Army was conducting limited training in atomic warfare and that emphasis was on defensive aspects. A recently acquired summer training schedule for subordinate units of a rifle regiment lists two topics concerning atomic warfare training. The significance of this document lies in the fact that it provides the first evidence that training is being carried out in offensive as well as defensive operations under conditions of atomic warfare.

The Navy

30. During the period under review the largest transfer of Soviet warships ever recorded between fleet areas took place when 2 cruisers, one large destroyer, 12 destroyers, 12 submarines, 12 anti-submarine vessels 12 fleet minesweepers and one submarine depot ship transferred from the Northern to the Pacific Fleet area via the Northern Sea route. A number of ships and aircraft were turned over to the Chinese at the time Port Arthur was given back to the Chinese Peoples Republic and as well the Chinese received 2 Gordy class destroyers, 2 MV class short-range submarines, 2S class Long range submarines, and possibly 6 Kronstadt class anti-submarine vessels. 2 Gordy class destroyers and 5 MV class submarines were transferred to the Roumanian Navy. General exercise activity has continued at a high level and each Soviet fleet has carried out at least one major exercise. The theme of these exercises appears to emphasize co-operation between forces. In the Black Sea emphasis appeared to be on combined operations, in the Baltic on surface-air co-operation, and in the North submarine, surface and air co-operation, and in the Pacific long range submarine patrol. In all fleet areas the intensity of training in submarine warfare has increased. Air activity during recent months suggest the use of advanced electronic airborne equipment by naval fighters.

31. Admiral Sergei Georgevich Gorshkov has been appointed First Deputy C-in-C Naval Forces in Naval Headquarters, Moscow. This officer was formerly C-in-C Black Sea Fleet. At the end of the period arrangements were made for and exchange of visits between six Russian ships and six British ships to visit Portsmouth and Leningrad respectively.

The Air Force

32. The most significant development was the appearance of a large swept wing four engine, turbo-prop bomber, designated the BEAR and the continued modernisation of the Soviet and Satellite Air Forces primarily through conversion to jet aircraft. An estimate of the strength of the Soviet and Satellite Air Forces has been reduced by over 1000 aircraft because of a reassessment of unit strengths and a reduction in the number of ground attack units. This has been offset by an increase in jet aircraft. The overall strength of the Soviet Long Range Air Force increased during the period with addition of approximately 100 BADGER (Type 39) jet bombers making a total 160 BADGERS in the possession of the Soviet LRAF. Overall capability however still depends on the BULL (TU4).

TOP SECRET

.... /9

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

33. The most significant developments in the Tactical Air Force have been indications of increased jet fighter capabilities through the use of airborne intercept radar equipment. Introduction into the TAF of single seat (FARMER) and two seat (FLASHLIGHT) jet fighters, which appeared in numbers at the Tushino Air Show, should increase the offensive and defensive capabilities of this force. In the Naval Air Forces the conversion from Mig 15 fighters to FRESCO (Mig 17) is 80% completed while two engine flying boats (similar to the Martin Mariner) are believed to be replacing Catalinas in naval reconnaissance units, and helicopters are being introduced in increasing numbers.

34. It is extremely difficult to give a true assessment of airfield developments in the Soviet Union, however, during the past six months there were indications that the Soviets were extending and improving runways to accommodate the new aircraft of the Long Range Air Forces. It is believed that this development work has been largely concentrated in the more exposed areas extending from the Kola Peninsula in the North, along the western border area of the Soviet Union, to the Caucasus in the South. Some evidence also suggests that a similar airfield development programme has been instituted in the Far East, particularly in the Southern Maritime District. One of the salient features of the airfield development programme in the European Satellite Area during the period under review has been the continued emphasis placed on Poland and Eastern Germany. Although construction of new airfields in most of the other Satellite Countries has almost stopped, the development programme in Poland has continued, with 35 airfields with paved long runways; out of 118 in all the European Satellite Countries. In addition, there are nine (possibly fourteen) other airfields currently under construction in Poland, four which are being built in Eastern Germany, one in Roumania, and one in Albania.

European Satellite Forces.

35. The strength of the East European Satellite armed forces, including security troops, has remained relatively constant over the past six months with an estimated total strength of 1,500,000 men. The Satellite ground forces consist of approximately 1,100,000 men organized into an estimated 80 line divisions. However, following the lead of the Soviet Union, all of the Satellites except East Germany have announced plans for reducing their armed forces by the end of 1955. If these forces are actually reduced in accordance with announced figures, a reduction of about 170,000 men will occur by the end of the year--about 11 percent of the total personnel. The manner in which such a reduction will be accomplished is not known but it is not believed that it will change the number of basic formations or greatly decrease the effectiveness of the armed forces of these countries.

36. A Joint Soviet-Satellite command structure came into being when the Soviet Union and Satellites signed the Warsaw Treaty in May of this year placing the forces committee to this treaty under the direction of Marshal Konev of the Soviet Union. The treaty provided for unity of action in the event of attack on any signatory and provided the right for the Soviet Union to station its forces in the Satellites. A Soviet-East German Treaty of Mutual Relations was concluded in Moscow during September and following this action, the East German Parliament (Volkskammer) passed an amendment to the Constitution which provided a legal basis for the creation of national armed forces. Recent evidence indicates that the East German police, including ground, naval, and air elements now have a common headquarters at Strausberg, East of Berlin. It is believed that Strausberg will be the home of the East German Defence Ministry and that Willi Stoph, who recently gave up his position as Minister of the Interior, will head the East German Ministry of Defence.

37. The senior Soviet generals who were withdrawn from positions as Military Attaches in the Satellite countries have now been replaced by colonels. It is not believed that this represents any relaxation in the

TOP SECRET

....10

000137

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET ¹⁰ TOP SECRET

degree of Soviet control but, rather, was a prelude to the Warsaw Treaty and the beginning of a new system of training and inspection under Soviet direction.

38. Corps level field training has been observed in Czechoslovakia and Poland; however, there have been no other notable developments in Satellite Army training except the increasing frequency of reports of training in atomic warfare which, to date, has consisted of training in defensive measures. In East Germany, field training reached a slightly higher level than noted in the preceding years. The Satellite armies still are short of heavy equipment and are dependent upon the Soviet Union for air and logistic support. No significant items of Soviet postwar equipment has appeared in the Satellite armies.

TOP SECRET

..../11

BEST AVAILABLE COPY

- 11 -

TOP SECRET

II. SOVIET FOREIGN POLICY AND

ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS

OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR

(As at 30 Sep 55)

DOWNGRADED TO SECRET
RÉDUIT À SECRET

General

39. During the period under review, it became apparent that a major shift in Soviet foreign policy tactics had taken place. From the death of Stalin there were indications that the new leaders might be willing to abandon the tough policy toward the West which dated from 1947. The events of the last seven months suggest that the drive for "normalization of relations" with the non-Communist world is to be the new tactic to attain what the tough policy had failed to attain. The long-term aims remain the same. In the West, these are to prevent the incorporation of a re-armed Germany (Western or united) into the Western alliance; to lessen U.S. influence in Europe and cause the withdrawal of U.S. armed forces; and by isolating the U.S. from its friends to destroy the Western alliance. In the East, it is similarly to isolate the U.S. from its friends; by lessening U.S. influence to cause the withdrawal of U.S. and allied strategic bases on the periphery of the Sino-Soviet bloc; and to expand the area of Communist influence by legal or illegal means short of major war in the uncommitted countries. In this connection, an article on the "Spirit of Geneva" which appeared in the August issue of Communist, the organ of the Central Committee of the Communist Party, is revealing. This exposition of the post-Geneva "party line" continues to insist on the "annulment of NATO" as the essential precondition to German re-unification; gives no indication that the U.S.S.R. is ready to accept a fool-proof system of control in the field of disarmament; ascribes the current thaw to popular world-wide insistence on peaceful policies; puts the full blame for violation of the Geneva Agreement on South Vietnam; and gives no indication that it would agree to a Korea united through genuinely free elections held under the supervision of an impartial international agency or commission. In short, evidence is still lacking that the Soviet Union is willing to concede on really fundamental issues.

40. In the main, the aggressive Stalinist policy had had exactly the reverse effect to that desired. The Soviet Union could probably have maintained the status quo of the cold war by a continuation of the tough policy. But it was apparent that no further advance could be made by these methods. In addition to the failure of the tough policy, there were other reasons which made a return to negotiation and diplomacy seem desirable. In the first place, there is the internal problem. Not only is agriculture in particular in a serious state, but it has become apparent that there is not available an endless supply of labour and resources to meet all the demands on the economy. The economy cannot indefinitely meet the needs of heavy industry, re-armament caused by the situation in Europe and the Far East, atomic energy development, consumer goods, and Chinese industrialization. Added to this is the unsettled problem of the leadership, as no one of Stalin's stature has emerged to enforce rigid control. The economic and political pressures within the country require a relaxation of international tension in order to lessen the demands on the economy. Secondly, there are the demands of Communist China. If China is to be turned from a primitive economy into a powerful industrial state, it must have outside assistance. Failure to get that substantial assistance from the Soviet Union would seriously weaken Moscow's influence over Peking, tend to turn over Communist leadership in Asia to China, and perhaps run the risk of war as a result of Chinese rashness. Thirdly, there is the re-emergence of Germany as a major European power which, with the ratification of the Paris Agreements, was obviously allying itself firmly with the West. Its potential military

TOP SECRET

..../12

DOWNGRADED TO SECRET
REDUIT A SECRET

BEST AVAILABLE COPY

- 12 -

TOP SECRET

and industrial strength could tip the European balance heavily in the West's favour and thus posed the spectre of a revived threat to the Soviet Union. Finally, there is the factor of the atomic and hydrogen bombs. Ideologically correct statements to the contrary, the Soviet leaders are increasingly aware of the vulnerability of all countries, including the Soviet Union, to the annihilative effect of nuclear warfare. If any major war may develop into a thermo-nuclear war, then it constitutes a threat to the Soviet system, and policies less likely to lead to war must be adopted.

41. A combination of these motivations and a variety of lesser ones has led to a number of developments in the past months all designed to give the impression of a return to normal and friendly relations with the West: the disarmament proposals at London on May 10th; the signing of the Austrian State Treaty; the visit of the Soviet delegation to Yugoslavia; the opening of Soviet-Japanese peace treaty negotiations in London; the Geneva Conference of Heads of State; the reduction of Soviet armed forces; the agreement to establish diplomatic relations with the Federal Republic of Germany; and the return to Finland of the Soviet base at Porkkala. There has also been a marked lifting of the Iron Curtain permitting a freer flow of visitors to and from the Soviet Union.

The Geneva Conference of Heads of State

42. The Soviet Union made it quite clear before the Geneva Conference in July that it was not prepared to discuss either the position of the satellites or the role of international communism. Discussion was in fact limited to German re-unification, European security, and disarmament. With the exception of President Eisenhower's proposals on the exchange of military blue-prints, neither side advanced new proposals, and neither side abandoned any of its positions. However, the problems were clearly defined in a joint directive which would permit the Foreign Ministers to continue negotiations in October, and the conference seems genuinely to have led to the relaxation of tensions and the creation of an atmosphere in which negotiation and diplomacy are possible. President Eisenhower's performance seems to have done a great deal to convince the Russians and the rest of the world that the aim of the Western alliance is peace with security.

43. Leaders on both sides appear to have convinced one another that German re-armament will not be allowed to lead to war. The Russians clearly prefer the status quo to the jettisoning of Communism in Eastern Germany and the resultant shock to the satellites. They may therefore be expected to reject any European security system which has as a pre-condition German reunification. They prefer to establish direct contact with the Germans in order to increase the flexibility of their position, and then gradually let the movement towards unification on Soviet terms develop inside Germany.

German-Soviet Relations

44. Before the entry of the German Federal Republic into NATO the Soviet Union warned that this action would make further negotiations about the future of Germany impossible. The eleven fold increase in road tolls between West Germany and West Berlin on April 1 seemed to indicate that the Soviet threat was to be taken seriously. Actually the Soviet Union's German policy remained flexible, as the invitation extended to Chancellor Adenauer on June 7 to visit Moscow demonstrated. Chancellor Adenauer went to Moscow in September, after an exchange of notes, in which the Soviet Union emphasized that it wished to discuss the establishment of diplomatic relations and the promotion of Soviet-German trade and cultural exchanges, while the German Federal Republic insisted on discussions on German reunification and the return of prisoners held by the Soviet Union.

TOP SECRET

..../13

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

45. The negotiations in Moscow resulted in agreements for the establishment of diplomatic relations and the release of nearly 10,000 German "war criminals" held by the Soviet Union. Although the Soviet Union agreed to recognize a Government it had considered illegitimate and honoured a man it had attacked for his alleged revanchist policies, it gave away no ground on the major question of reunification. Both before and after Adenauer's visit, in fact, the Soviet Union stressed its support for its East German satellite. Khrushchev and Bulganin had visited Berlin after the Geneva Conference in July, and immediately after Adenauer's departure from Moscow the East German leaders were invited to Moscow for discussions which led to a formal grant of sovereignty to the German Democratic Republic. At Geneva the Soviet Union resisted suggestions that an early settlement of the German problem was essential. Rather, the Russians appeared to consider the continuance of the present division of Germany as better than any of the practicable alternatives. They probably hope that eventually, by direct negotiations with the West Germans, it might be able to wean them away from their present allies.

Soviet - Austrian Relations

46. After years of refusing to conclude a settlement for Austria separately from a German Peace Treaty, the Soviet Union suddenly reversed its stand. Discussions were begun with the Austrian Ambassador in Moscow late in February and then, in a dramatic move, continued directly with Chancellor Raab, who accepted an invitation to come to Moscow in April. The treaty which emerged from these talks and Four-Power negotiations in Vienna, although based on the draft treaty negotiated among the Four-Powers between 1947 and 1950, was more favourable to Austria than anything the Soviet Union had previously been willing to consider. Austria was forbidden to enter a political or economic union with Germany, agreed to remain militarily neutral, and had limits put on the sort of military equipment its armed forces might use. The Soviet Union, however, gave up its earlier insistence on maintaining occupation forces in Austria until a German Peace Treaty was signed and, in fact, withdrew its forces well within the 90 day period allowed under the Treaty, which came into effect on July 27. The Soviet Union also agreed to give back certain factories and oil fields it had been operating, although the compensation upon which it insisted will be a heavy burden on the Austrian economy.

47. In agreeing to the Treaty, the Soviet Union evidently hoped to gain the gratitude of the Austrians and to impress public opinion elsewhere. In particular, before the German Federal Republic had yet created an army to meet its new NATO commitments the Soviet Union may have wished to demonstrate to the German public the advantages of direct negotiations with the Soviet Union and to suggest that neutralization might be a solution to the German problem. The Russians no doubt also had in mind the desirability of an allied military withdrawal from Austria, creating a neutral zone between the German and Italian areas of NATO.

The Warsaw Pact

48. The signing in mid-May of an East European treaty patterned after NATO, with a Joint Command under Marshal Konev, is expected to do little to change Soviet-Satellite armed strength and the balance of power. There was no indication of the increase of armed forces (integration itself, apparently, is to increase "effectiveness"), and since then reductions of armed forces have been announced with due fanfare. Nevertheless, the Treaty and the Joint Command provide the rudiments of a useful political and military structure which can be developed if need be. It may make more palatable any necessary redeployment of Soviet forces consequent upon the withdrawal from Austria. According to the signatories, this purely defensive grouping had had to be created in answer to the threat of German re-armament. It is allegedly open to any European nation.

TOP SECRET

.../14

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

49. The Warsaw Pact structure is seen primarily as a propaganda move and a bargaining point in Soviet discussions of European security, German re-armament and the disbandment of NATO. It may be a negotiable element in a drive to get U.S. forces out of Europe in return for some combination of a general European security pact and a German settlement. When the Pact was signed, the question of East German forces was set aside for later consideration. Under the Soviet-East German agreement signed in Moscow in September, granting "independence" to East Germany, that Government will now contribute forces to the joint command but Soviet troops will continue to be stationed in East Germany.

Scandinavia

50. The visit of the Finnish President and Prime Minister to Moscow in September resulted in the return to Finland of the Soviet naval base at Porkkala and an agreement to extend for twenty years the Soviet-Finnish Treaty of Friendship which was due to expire in 1958. The return of Porkkala does little to diminish the security of the U.S.S.R., but serves a propaganda purpose in emphasizing the peaceful intentions of the Soviet Union. The U.S.S.R. has drawn unfavourable comparisons with the U.S.A. and has again demanded the withdrawal of U.S. bases, ignoring the essential difference in the strategic importance of Porkkala and the U.S. bases in Europe. The Porkkala move is no doubt meant to reassure the Scandinavian countries in particular, to encourage whatever neutralist and anti-NATO sentiment exists in Denmark and Norway, and to confirm Sweden's belief in the rightness of its foreign policy.

Relations with Japan

51. Discussions between the U.S.S.R. and Japan opened in London in May with the object of restoring normal relations and concluding a peace treaty. The discussions are still in progress. The Soviet initiative is in line with its policy of restoring normal relations with ex-enemy countries. The purpose is, in general, to re-establish Soviet freedom of diplomatic action in order to be in a position to influence Japanese policies. In particular, the U.S.S.R. hopes to lessen U.S. influence and ultimately bring about the removal of American bases, in effect neutralizing Japan on the Austrian pattern. Discussion centres around a Soviet draft peace treaty which was presented on June 14. One article would set limitations on Japan's freedom to enter military alliances and another would close certain straits around Japan to the warships of countries other than the Soviet Union, Japan and Korea. Japan is proving a hard bargainer, and has rejected both these articles. Indications that the Soviet Union may not insist on the abrogation of the mutual defence treaty with the U.S.A. and minor Soviet territorial concessions, suggest that the U.S.S.R. attaches considerable importance to reaching agreement with Japan.

Middle East

52. The Soviet Union is still making moves towards normalization of its relations with states in the area. These include ratification of the financial and frontier agreement with Iran, a barter agreement with Egypt (oil for cotton), agreement with Syria for an exchange of parliamentary delegations, an offer to the Sudanese Government to supply technical experts to assist in Sudan's development, and an offer to exchange diplomatic missions with Libya and Saudi-Arabia. Col. Nasser has been invited to visit the U.S.S.R. Opposition to military alliances which are friendly to the West continued to be expressed. This was particularly true of the Baghdad Treaty (Turkey, Iraq, Pakistan), which was denounced in an official Soviet Government statement and in Pravda.

TOP SECRET

..../15

BEST AVAILABLE COPY

DOWNGRADED TO SECRET TOP SECRET
REDUIT A SECRET

53. Of serious concern to the Western Powers has been the announcement by Colonel Nasser that Egypt has concluded a deal for the acquisition of arms from communist supplies. It now seems clear that the transaction is with Czechoslovakia and that the Soviet Union will supplement the supplies when Czechoslovakia cannot provide the necessary arms. They are reported to be substantial and include jet aircraft, destroyers, submarines and tanks. It is too early to judge now whether this presages a Soviet move to interfere more actively in Middle Eastern affairs. The major Western Powers have made representations to Egypt and the Soviet Union, drawing attention to the dangers of upsetting the military balance between Israel and the Arab states and precipitating an arms race between them. If the deal goes through it will become necessary for the Western Powers to reappraise their policies with regard to the shipment of arms to the Middle East. The question of the type of aircraft to be maintained on bases in the Middle East would also have to be reviewed.

Relations with China and the Far East

54. It has been suggested that one external reason for the soft policy may be the demands of Communist China for arms and industrial goods, and the necessity of not letting Communist initiative in the Far East slip into Chinese hands. The Soviet Union needs better relations with the West, especially in Europe, if it is not only to build up its own economy, but also to make substantial contributions to the Chinese economy and at least token contributions to both Communist and non-Communist countries in Asia. Agreements to provide economic assistance to Afghanistan and to Northern Vietnam are examples of the extension of Soviet influence in the Far East. It fits in well with its desire to lessen U.S. influence in Asia and not to leave the provision of economic assistance entirely in Western hands.

55. There is no indication that there has been any change in the Soviet desire to discourage Chinese bellicosity over Formosa. The U.S.S.R. may well have helped persuade the Chinese that a period of peaceful relations with the non-Communist world would be most conducive to extending Communist influence in the uncommitted countries, and also Chinese admission to the United Nations. In any event, the U.S.S.R. gave its blessing to the Bandung Conference, at which the Chinese took pains to please and be reasonable, as an example of the co-operation which is possible among countries with differing social systems.

56. Attendance of the Chinese Minister of Defence as an observer at the Warsaw Conference of May 11-14 was further evidence of Sino-Soviet co-operation. He assured the delegates that "peace and security in Asia and in Europe are indivisible" and pledged that "if peace in Europe is undermined China will struggle against aggression jointly with the peoples and Governments of our fraternal countries". But there was no suggestion that the Warsaw defence organization should be extended beyond Europe. The pledge was similar to the one given by the Russians over Formosa, that is, one intended to have the maximum deterrent effect on the West short of automatic commitment to involvement in any war on the lengthy periphery of the Moscow-Peking Axis.

Disarmament

57. The Russians have made substantial concessions to the Western point of view on disarmament in the last few months. On May 10, at the disarmament talks in London, the Soviet representative tabled a document (a) insisting on a rigid time-table which would see the whole disarmament programme implemented by the end of 1957; (b) accepting the Anglo-French compromise that the prohibition of the use of nuclear weapons should go into force upon the completion of 75% of the reduction of conventional armaments;

TOP SECRET

..../16

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

(c) including the Anglo-French proposals on the levels of armed forces for the great powers (1 to 1½ millions for the U.S.S.R, U.S.A. and China, and 650,000 for the U.K. and France); and agreeing with the Western suggestion that nuclear weapons should not be used except in defence against aggression subject to Security Council approval. These proposals represented a substantial advance, particularly as they abandoned the previous position that the total prohibition of thermo-nuclear weapons must precede any general disarmament. But the Soviet position on the essential question of an effective inspection and control system was not clear, and the Soviet plan was linked with a number of political proposals (military bases, occupation troops, war propaganda, trade) which were unacceptable to the Western powers and in any event went well outside the field of disarmament.

58. Most of the May 10 proposals were reiterated by Bulganin at Geneva. In addition, he announced that the Soviet forces withdrawn from Austria would be demobilized, and suggested that the other occupying powers should follow suit; suggested that pending a disarmament convention the Big Four undertake not to be the first in the use of atomic weapons against any nation; and proposed that the armed forces of countries other than the Big Five be limited to 150,000 to 200,000 men. This plan was stripped of the unacceptable political proposals. In addition, the Russians have agreed to make a contribution to the proposed international atomic energy agency "as soon as an agreement on setting up the agency has been reached". In a recent letter to President Eisenhower, Bulganin commented on the President's Geneva proposals concerning the exchange of blue-prints of military installations and aerial reconnaissance. There is partial acceptance of the Eisenhower scheme and some Soviet suggestions for inspection teams. But the Soviet proposals on inspection and control certainly do not go far enough to ratify the requirements of Western security. The post-Geneva announcement that the armed forces of the U.S.S.R. were to be reduced by 640,000 troops was followed by similar announcements from the satellites. It must be seen primarily as a propaganda move, and its significance is considerably reduced due to the failure to make mention of the total armed strength of the U.S.S.R. and the satellites.

59. For the Soviet Union the primary preoccupation, because of its superiority in conventional armaments, remains the prohibition of thermo-nuclear weapons, and secondarily ceilings on the levels of armed forces; for the Western powers, it is an adequate system of inspection and control, with or without prohibition of thermo-nuclear weapons.

East-West Contacts

60. An integral part of the new Soviet tactics has been a determined effort on the part of the U.S.S.R. to encourage exchanges of visits to and from the Soviet Union. A number of Parliamentary delegations from non-Communist countries have visited the Soviet Union, and the Supreme Soviets of the U.S.S.R., the Ukraine and Byelorussia have joined the Inter-Parliamentary Union. Soviet agricultural delegations have visited the U.K., the U.S.A. and Canada; and a construction industry delegation visited the U.S.A. in late September. A Soviet group came to the Canadian International Air Show in Toronto, and subsequently some of the organizers of the Air Show paid a return visit to a Soviet air display. The Soviet Union is proposing an increase in cultural exchanges; France has indicated its desire to expand its cultural and information programme in the U.S.S.R. and the satellites; and the U.K. has set up a special body under the British Council to foster exchanges with the Soviet Union. The Soviet Union is granting some tourist visas; speaks of re-establishing Intourist offices abroad and improving its hotel accommodation; and has granted permission to some of its citizens to visit the satellites and Sweden. Politically, the new liberality on visits is designed to give the impression that the Iron Curtain is being lifted and that the Soviet Union is much the same as other countries.

TOP SECRET

.../17

BEST AVAILABLE COPY

17
1
DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

Position of Yugoslavia

61. A main concern of the Tito regime in the past 6 months has been the re-evaluation and the re-adjustment of its position vis-à-vis both the West and the East as a result of the marked improvement which has taken place in the relations between the U.S.S.R. and Yugoslavia. The visit of the Soviet leaders to Belgrade in May 1955 succeeded in establishing a new basis for closer cooperation between the Soviet Union and Yugoslavia in the political, economic and cultural fields. Marshal Tito made clear to the Kremlin rulers, however, that his country would not go back to the Soviet fold. The communiqué issued at the conclusion of the talks stated that every country was entitled to conduct its internal affairs as it pleased and recognized the possible existence of different kinds of socialist development in the world.

62. The ideological implications of the Soviet visit to Belgrade are of considerable importance. The Soviet apology for the 1948 schism represents an open break with the major point of dogma that the Soviet Union is the fountain-head of all Communist wisdom and the pattern for development toward Communism in all other countries. The rapprochement with Yugoslavia recognizes for the first time the possibility of different paths leading toward the Communist goal, though it is hard to see how the Soviet leaders could have held indefinitely to the infallibility of their approach in view of the different paths which the Chinese Communists had followed. And despite the palpable and cumbrous attempt to blame the 1948 break on Beria, it was an open admission that the Soviet Union had made a mistake. There are dangers for the Soviet position in the satellites in such an admission, but presumably the Soviet leaders are sure enough of their control that they were prepared to run this risk. The main advantage for them, of course, lies in opening the way for a new penetration of the Yugoslav Communist Party and thus re-establishing the sentimental and at the same time intellectual bond between Marxists.

63. After this Soviet visit, talks were held in Belgrade between the Yugoslav leaders and the Ambassadors of the United States, the United Kingdom and France. During these conversations, the Yugoslav regime reiterated its desire to continue its co-operation with the West. However, subsequent development gave rise to some concern in the West about the long-term validity of these reassuring pronouncements. Numerous Yugoslav delegations have since June paid friendly visits to the U.S.S.R.; Marshal Tito has announced that his country was anxious to have contacts with all socialist movements in the world including that of the Soviet Union. After the Kremlin's decision to cancel a Yugoslav debt of \$90 million, an extensive economic agreement was concluded which in 1956 will bring the volume of trade between Yugoslavia and the U.S.S.R. to the 1948 level. All these developments, combined with Yugoslav reluctance to let the U.S. know of the use made of the military equipment and assistance, supplied by the latter, disturbed somewhat the relations between Yugoslavia and the leading Western nations and especially the United States. In order to overcome these differences the State Department recently sent one of its senior diplomats to Belgrade to seek clarification of Yugoslav intentions and policies. The brief statement issued at the end of the conversations, on October 7, says that agreement has now been reached on all outstanding questions between the two countries.

64. Because Tito has of late shown inclinations to play off the Great Powers against one another and because he seems to overestimate his country's capacity to resist all Soviet pressures, a definite assessment of Yugoslav foreign policy would seem hardly possible at the present time. There has been sufficient evidence, however, that Yugoslavia is willing to move away

TOP SECRET

.../18

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

from the pro-Western alignment it chose to take after the break with Moscow in 1948, and to adopt a non-committal attitude in any dispute between the East and the West. This new orientation is in accordance with what seems to have become the constant objective of Tito's policy, which is to avoid any form of foreign interference in Yugoslav destinies.

"Return to the Homeland" Movement

65. During this period almost all the Iron Curtain Governments in Europe made an effort to persuade former nationals living abroad to return to their homelands. Several of these governments proclaimed amnesties for some categories of people who had left the country illegally. Printed appeals were sent out to refugees and former nationals in a number of countries from various centres, particularly from East Berlin, where a Soviet sponsored Committee organized the distribution of such material on a large scale. Some refugees have been lured back from among those who had not fared well in the West. The campaign scored a minor propaganda success when Hugo Hanke, a former Polish Socialist who held the position of Prime Minister in what one Polish group proclaimed to be the Polish Government-in-Exile, was persuaded to return to Poland to his family where he would be free to live quietly without engaging in political activities.

66. The general aims of this "return to the homeland" campaign are considered to be those of scoring whatever propaganda points are possible against the West, unnerving the emigre movements when "liberation" of the satellites seems farther off than ever, deriving information from and making useful contacts among former nationals abroad for the general purposes of the Soviet and satellite intelligence services and, in the case of some Iron Curtain countries, obtaining useful manpower. Printed material from East Berlin has been sent to persons in Canada. The Czech Legation has published a notice about an amnesty in several Canadian newspapers. It is apparent that efforts to persuade former Iron Curtain nationals to return are being directed at persons in Canada as much as in Western Europe and the United States.

East-West Trade

67. Trade within the bloc continues to dominate the Soviet trade position although trade with the West has increased considerably over 1953. From information contained in the Chinese budget speech in July, it is now thought that the U.S.S.R. made a special loan of some \$500 million in 1954 to cover Soviet military material in Port Arthur and Dairen which was handed over to China.

68. Probably the most interesting development in the past six months has been the continued attention being paid to under-developed countries. With the final withdrawal of the French from North Vietnam, both the U.S.S.R. and China have extended economic aid and technical assistance so that North Vietnam is now almost entirely dependent upon the Sino-Soviet bloc. Chinese aid is reported to amount to \$338 million over a five-year period while Soviet aid amounts to \$100 million for 1955 and 1956. The aid being granted by the U.S.S.R. and China appears to be complementary rather than competitive. A new trade agreement has been concluded between Burma and the U.S.S.R. whereby Burma will supply some 200 thousand tons of rice in exchange for industrial machinery. Part of this rice is being delivered to North Vietnam as part of the Soviet aid programme. Communist countries are, for the first time, taking a large portion (about 40 per cent) of Burmese rice exports. Bloc trade is increasing with Iran and Afghanistan. The Afghan-Pakistan dispute provided the opportunity for the Soviet Union to conclude a new transit agreement whereby Afghan exports have been granted free transit within Soviet borders. Egypt and China have concluded a trade agreement whereby Egyptian cotton is to be exchanged for Chinese steel.

TOP SECRET

.../19

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT À SECRET

TOP SECRET

69. In Europe the Soviet rapprochement with Yugoslavia has resulted in an agreement whereby Yugoslavia will receive economic aid in the form of three loans totalling more than \$84 million over the next three years. This aid is to be used to help finance the purchase of raw materials and the establishment of fertilizer and chemical factories. In connection with the Austrian State Treaty agreement was reached on compensation payments by Austria of \$150 million in goods over the next six years and the delivery of one million tons of crude oil each year for the next ten years. A five-year trade agreement has also been signed.

TOP SECRET

...../20

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

III - INTERNAL DEVELOPMENTS IN COMMUNIST CHINAInternal Politics

70. Some details of the first high level purge since the Chinese Communist regime came to power were revealed on March 31 when a National Conference of the Party endorsed measures which had previously been taken by the Central Committee against a so-called "anti-Party alliance" headed by Kao Kang, former chairman of the State Planning Commission, and Jao Shu-shih, head of the Organization Department of the Party. The official charges against Kao were that he plotted to seize control over the Party and Government by obtaining for himself the posts of Secretary-General or Vice-Chairman of the Party and Premier of the Government, that as a former regional administrator in Northeast China and Manchuria he had built up an anti-Party faction and attempted to turn the Northeast into his own independent Kingdom, and that he attempted to win over Party members in the army to his support by making a distinction between "the party of the revolutionary bases and the armed forces" and "the party of the white (liberated) areas" on the basis that the armed forces had created the Party. The charges against Jao were that he supported Kao; that he had used his post as director of the Organization Department to support an intra-party struggle; and that he had followed a "rightist" policy towards capitalists and rich peasants in East China.

71. Although Kao Kang was usually ranked fifth in the Chinese Communist hierarchy, there is no evidence to link his downfall with serious dissension or a major schism in the ranks of the Party. Both he and Jao had built their careers in the regional administrations by which much of China was governed between 1949 and 1952, and both had been recalled to important jobs in Peking, when the regional administrations were abolished. It is possible that his subversion was attributable to his inability to fit into the more circumscribed atmosphere of the Central Government after several years of wide personal authority in North-East China. Whatever his purposes, he evidently failed to gain the support of senior Party members in the armed forces (for whom he made a special play) or of any other member of the Politburo. The affair can probably be explained as a fairly straightforward struggle for power in which Kao, motivated largely by personal ambition, was frustrated in his attempt to climb over Chou En-lai and Liu Shao-chi to a position next to Mao at the top of the Party hierarchy. It does not appear to have damaged the unity of the Party. It has been announced that Kao committed suicide and that Jao has been expelled from the Party. Seven other Party officials were publicly disgraced for alleged participation in the plot.

72. The immediate result of the affair was the setting up of an elaborate system of local and central Control Committees to enforce Party discipline. These committees replace the local and central Discipline Inspection Committees which have been operating since 1949. A member of the Politburo, Tung Pi-wu, has been appointed secretary of the central Control Committee and it is to be assumed that it will be more difficult in future to assail the central authority of the Party. An intensive campaign against "counter-revolutionaries" has been going on throughout most of the period under review. It is difficult to ascribe precise causes to this campaign, but it is at least a fair guess that an internal spy-mania is replacing the previous campaign for the "liberation" of Formosa, which has been progressively abated. Special attention has been directed to the activities of the "anti-Party and counter-revolutionary Hu Feng clique". Hu was a poet and litterateur of the non-Communist left living in Shanghai, and appears to have had fairly extensive influence on modern Chinese letters. He and his associates were accused of discouraging the writing and publishing of progressive literature and of not stressing Marxism-Leninism, but in reality his main fault appears to have been a disinclination to cut himself off from the traditional subjects of Chinese art. The affair reached a climax in July with the arrest of Hu and the Communist Vice-Mayor of Shanghai on charges of counter-revolutionary activities.

TOP SECRET

..../21

BEST AVAILABLE COPY

DOWNGRADED-TO SECRET
REDUIT A SECRET

TOP SECRET

73. There has been some reorganization of the Government. The National People's Congress held from July 5-July 30 approved the abolition of the Ministry of Fuel Industries and the creation of Ministries of Coal Industry, Electric Power Industry, Petroleum Ministry, and a Ministry for the Purchase of Agricultural Supplies.

The Chinese Economy

74. In July a new draft of the First Five-Year Plan (1953-57) was presented for approval to the second session of the National Peoples Congress of Peking. The Plan reaffirmed the long-term goal of the regime, to develop a powerful industrial state combined with large scale collectivization of agriculture. The principal difference from the original plan is that the time-table for the revised plan is on a more realistic basis. Chinese leaders have now admitted that fifty years will be required for China to develop to the level "of the more advanced capitalist countries". This is still extremely ambitious in view of the gap which must be bridged from the present backward starting point. The proceedings of the Congress reflected a considerable amount of inefficiency and waste in the development of the economy to-date. "Failure to understand the hardship to be undergone in socialist construction" was probably the key-note of the congress.

75. The main deficiencies facing the regime in drawing up a plan were stated to be a lack of sufficient knowledge of China's natural resources and of adequate statistical data, coupled with a general lack of experience in long-term planning. In fact one of the principal difficulties faced by Chinese planners has been that agriculture has lagged sadly behind the planned schedule. Since only by the export of surplus agricultural products can China hope to finance imports of industrial equipment, it is evident that any failure of the agricultural sector will have serious consequences for the Plan as a whole. The main weaknesses of Chinese agriculture are China's inability to manufacture sufficient agricultural machinery, and the predominance of the small peasant farm system. The failure of agriculture to live up to its goals has undoubtedly been due, in large part, to the extremely adverse weather. Last Year's disastrous floods, and a severe winter, contributed their share to the critical food situation in many regions. The blame for the famine conditions has been placed on greedy townspeople and has resulted in a drive to suppress "counter-revolution" (i.e. discontented peasants), the introduction of universal rationing for the first time, and a reduction of farm quotas to provide increased incentives to the farmers. The Chinese harvest is expected to be more favourable this year but any long-term improvement in agriculture will depend upon increased mechanization involving greater investment in industry. The resources for greater investment in industry are however, dependent to a large extent on increased agricultural output. The dilemma is apparently to be resolved by a programme of rigid austerity and continued assistance from the Soviet Union.

76. There have been two developments in the field of distribution. A new system of grain rationing is coming into effect under which the nature of a consumer's work will determine his entitlement to all cereal grains. It was admitted by the Government that breakdowns in the grain distribution system had been the cause of serious shortages in certain regions in the spring. Concurrently, with regard to the distribution of other commodities, the authorities have been pursuing a campaign to revive small-scale private commerce, particularly in the countryside. To make up for the lack of properly developed "socialist" grade channels in rural areas, private pedlars and small private merchants are to be assisted to recover their former prominence. The authorities have been at pains to deny, however, that this move is a retreat from socialism; as the prosperity of the small trader is restored, the socialist trading enterprises which whom he will in any event have to secure his supplies are expected to educate him out of his capitalist ideology.

77. The emphasis is to continue on the development of heavy industry. The plan for 1957-62 is to increase the share of total capital investment of some 32.5 billion dollars from 25% to 30%, while less than 5 per cent is allotted to agriculture.

TOP SECRET

1000000000/22

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

77. That the emphasis is to continue on the development of heavy industry is made clear in the revised Plan. Industry is to be allocated over 58 per cent of total capital investment of some \$32.5 billion during the Five-Year Plan, while less than 8 per cent is earmarked for agriculture. Almost 20 per cent goes to transport, ports and telecommunications. Of the capital investment going to industry almost 80 per cent is allocated to heavy industry and only slightly more than 11 per cent is earmarked for light industry. The core of the industrial programme is the 156 projects on which the Soviet Union is to assist. These enterprises include steel and iron combines, non-ferrous metallurgical enterprises, coal mines, oil refineries, machine tool plants, automobile and tractor factories and power stations. Little is known about the development of the armaments industry within the Five-Year Plan. The only known production has been in the field of small arms and field guns. There has been no aircraft production or shipbuilding. The success or failure of the Plan will depend in large measure on the ability of the Soviet Union to satisfy China's ever increasing requirements for capital equipment.

78. The budget for 1955-56 which was introduced during the Congress reflects the regimes preoccupation with both the pace of heavy industry and its intention to improve its military capability through the re-equipment and modernization of its armed forces. Overall expenditures are up from \$10.4 billion in 1954 to \$12.5 billion, an increase of 21 per cent. National economic construction expenditures are set at \$6.0 billion compared to \$5.2 billion in 1954, a 15.3 per cent increase. Defence expenditures have gone up 24 per cent, from \$2.4 billion to \$3.1 billion. Allocations for agriculture have been cut back slightly, reflecting the regime's difficulties in forcing the pace of agricultural mechanization. The high level of defence expenditures, accounting for almost 10 per cent of gross national product, reflects the increasing cost of improving the quality and fire-power of the Chinese armed forces, and the high cost of military imports.

Chinese Communist Army

79. Reorganization ^{within} ~~in the ground~~ of the Chinese Communist ^{Army} ~~Forces~~ has continued although at a somewhat less spectacular pace than during 1954. The principal feature was the reclassification of the Public Security Forces. Of these some 500,000 have been redesignated as Peoples Armed Police, removed from jurisdiction of the Army and placed under the Ministry of Public Security for the maintenance of public order. The remaining 200,000 are accepted as part of the regular ground force with the primary task of coastal and border security. This raises the strength of the Chinese Communist Army to approximately 2,514,000. The army continues gradually to withdraw forces from Korea where present Chinese strength is currently believed to be about 441,000. At the same time, following the adoption of a code of service regulations, time-expired veterans are being returned to industry and agriculture and used as a means of stiffening the Peoples' Militia (now numbering between six to ten million members).

Chinese Communist Navy

80. During this period the small number of modern ships of the Chinese Communist Navy was further increased by the transfer of additional Soviet destroyers and submarines as well as fleet minesweepers and anti-submarine escorts. Motor Torpedo Boat production is progressing in Chinese shipyards and a small number of landing craft have been built. It appears that Chinese shipbuilding capabilities have developed sufficiently to permit the construction of larger types of naval ships. The Chinese Communist Naval Air Force is equipped with modern Soviet jet fighters and jet light bombers, and over this period, it increased both in number and effectiveness.

TOP SECRET

.... /23

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

Communist Chinese Air Force

81. During the period the Air Force continued to improve its capabilities in the East China region principally in the area opposite Formosa. Although there has been some deployment of units to the South and East, there is still no evidence that aircraft have moved to fields in the coastal area opposite Formosa. An increase in aircraft strength is believed to have resulted from the evacuation of Soviet forces from the Kwantung Peninsula. There are strong indications that the Chinese Communist have taken over Soviet aircraft and facilities in that area. The increase amounts to an estimated 300 FAGOTs (Mig 15) and 90 BEAGLES (IL-28). The Communist Chinese Air Forces remain entirely dependent on the Soviet Union for equipment and it will be a considerable time before China has an aircraft industry capable of supporting a modern air force.

Airfield Construction

82. There has been firm evidence indicating airfield construction and development in South and East China substantially increasing the airfield potential in the Formosa Strait area. One new airfield has been completed and three others are presently under construction. Six other airfields have been or are being rehabilitated, and in addition, two other old airfields are in an advanced stage of improvement. There has been a significant increase in the Communist airfield potential in North Korea. The scale of airfield rehabilitation in North Korea since the Armistice in July 1953, can be gauged by the fact that of the 22 major airfields that were heavily damaged during the Korean War at least 16 are now serviceable.

TOP SECRET

.... / 24

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

IV - COMMUNIST CHINESE FOREIGN POLICY
AND EFFORTS TO EXPLOIT TROUBLED AREAS IN ASIA

General

83. In the period under review, there was a gradual but definite movement in Communist Chinese foreign policy towards a less aggressive and less threatening attitude on major Far Eastern problems. The period began during a serious crisis over Formosa, a situation which was, in fact, close to war, and ended with United States and Communist Chinese Ambassadors making slow but significant progress in bilateral talks at Geneva.

84. It is highly unlikely that the somewhat friendlier face which Peking now presents to the world is attributable to any basic change in external objectives. These remain the elimination of Western influence from Asia insofar as possible, and the concurrent spread of Chinese influence throughout South and Southeast Asia. There is evidence, however, that the Chinese now take a more realistic view of their ability to achieve these aims in the face of firm resistance on the part of the United States, and of a disposition on the part of the Chinese to pursue them by peaceful means rather than by force or threats of force. Inter alia, the following factors have probably combined to bring about this modification of the Chinese attitude:

- (a) a realization, reached at the beginning of the period, that an attack on the coastal islands of Quemoy and Matsu would involve a grave risk, and an attack on Formosa a certainty, of war with the United States;
- (b) the demands of Chinese internal development and reconstruction dictated, ipso facto, a policy of avoiding war;
- (c) a realization, developed or at least confirmed at the Bandoeng Conference, that Asian opinion was not whole-heartedly behind Chinese objectives vis-a-vis Formosa and the United States and would certainly be alienated by an armed attack on Formosa;
- (d) the restraining influence of the Soviet Union acting in "the spirit of Geneva".

Formosa

85. The first break in last winter's impasse on the Formosa question occurred at the Bandoeng Conference where Chou En-lai, after discussion with other delegates, issued a statement saying that the Chinese Government would be willing to negotiate with the United States for a relaxation of tension in the Formosa area. Chou's statement was followed by a somewhat hasty rejoinder in Washington to the general effect that the United States Government could not contemplate negotiations on Formosa which did not include Chinese Nationalist representatives, but which Mr. Dulles later clarified to mean that negotiations on matters other than Formosa would be possible. Bilateral talks between American and Chinese Ambassadors subsequently started at Geneva. Meanwhile, Chou En-lai re-directed his offer of Formosa negotiations to the "responsible local authorities" on Formosa.

86. There has been a marked diminution of Chinese internal propaganda agitating for the "liberation" of Formosa. As matters stand, it appears likely that the Chinese Communist Government has decided on the basis of a

TOP SECRET

...../25

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

short or middle-term assessment that there is more to be gained by advocating negotiations than by threatening or actively preparing to use force. They may be encouraged in this by indications that United States policy towards them is becoming less rigid, and by the knowledge that the opinion held of them by the neutralist nations of Asia would not support armed action against Formosa, even though the neutralists may be in sympathy with the Communist Chinese side of the dispute. They may also believe, with some justification, that time is on their side and that lowering morale will eventually drive the Nationalist Government to seek an accommodation with the mainland.

Indochina

87. Chinese efforts to exploit the troubled situation in South Vietnam have been mainly in the field of propaganda. The unwillingness of the Diem Government to enter into pre-election consultations with the Viet Minh is ascribed in Chinese propaganda to American influence and attempts to prevent the fulfilment of the Geneva Agreements. On the assumption, presumably, that all Vietnamese elections would bring the Viet Minh to power in the south as well, the Chinese Government is pressing hard on its propaganda for the complete implementation of the Agreements, with emphasis on the holding of elections in July 1956. There has been no indication, however, that Communist China would support or favour any attempt within the next year by the Viet Minh to unify Vietnam by force in the event that the elections cannot be held: indeed it is possible that the Chinese may exercise some restraint upon the Viet Minh in this connection, as they presumably would wish to ensure that no situation arises which might result in the landing of American forces on the mainland, thus posing a new threat to China's southern borders.

88. The operations of the Pathet Lao in the two northern provinces of Laos appear to be more directly linked to the Viet Minh than the Communist Chinese. It appears that a settlement in Laos involving the abandonment by the Pathet Lao of their military hold on the two northern provinces may hinge upon a settlement in Vietnam favourable to the Viet Minh.

Korea

89. Few changes have taken place since the last report was prepared and in South Korea, the United Nations countries continue to have little control over the policies and attitudes of President Rhee. He and his government continue according to their own low and deteriorating standards. President Rhee longs to see the reunification of his country and considers that the Military Armistice Agreement stands in its way. In the northern half of the peninsula, the Democratic People's Republic of Korea, the presence of large Chinese forces still guarantees that Chinese influence will be strong in this area which is considered one of Chinese defence. The deadlock still continues over the formula for the unification of Korea.

Japan

90. Ever since late 1954 when the People's Republic of China made the first overtures to Japan for the resumption of friendly relations, the embargo on strategic material has made effective trade between the two countries virtually impossible; and Japan wishes a relaxation of this embargo. Japan has reacted with extreme caution to the Chinese advances although the Prime Minister in May 1955 said that an exchange of consuls with China was not inconceivable. Concerning relations with the two Koreas, an unofficial fishing agreement has been entered into by some Japanese and North Koreans. However, the Japanese Foreign Minister said in May that his country had no idea of setting up trade relations with North Korea. Japan-ROK relations have gone from bad to worse though the feud has not as yet ended in complete rupture.

TOP SECRET

..../26

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~

TOP SECRET

Indonesia

91. An active and well-organized Communist Party operates openly in Indonesian politics. Its leader, D.N. Aidit, is capable and Chinese-trained. The growth of the PKI (Partai Komunis Indonesia) since Aidit's take-over in 1950 has apparently been patterned after that of the Chinese Communist Party from 1941 to 1945. It has been consolidating local support and there is little doubt that it has made considerable gains in the last year. Preliminary returns from the Indonesian general elections indicate a heavy Communist vote and the probability that the PKI will be strongly represented in the next coalition government.

92. One source of PKI support is to be found in the two million overseas Chinese who control a large proportion of Indonesian retail business. It is estimated that at least 35 per cent of the Indonesian Chinese support the Peking Government and the reception given Chou En-lai at Bandoeng indicates that the Communists control the sympathies of most of the 15 to 25 age group of the Chinese in Indonesia. There is considerable evidence that the PKI has successfully penetrated the Chinese schools. Moreover, there are one thousand to four thousand Chinese students crossing between Indonesia and the Chinese mainland every month. The seemingly limitless financial resources of the PKI are believed to be provided largely by wealthy Chinese merchants.

93. The Chinese are a symbol of foreign economic domination to the Indonesians and are consequently unpopular. There is, however, evidence of an increasingly better relationship between the governments at Peking and Djakarta. An agreement was signed on April 22 between the Indonesian and Communist Chinese governments to settle the problem of dual nationality of overseas Chinese in Indonesia, although this has not yet been ratified by the Indonesian Parliament. China is already an excellent customer for Indonesian exports and will probably become an even better one if the United Nations embargo is lifted. Former Premier Ali Sastroamidjojo visited Peking in May and trade agreements have been signed between the two countries. The Chinese government does not, therefore, advocate open Communist rebellion in Indonesia as their interests were well served by the Ali government and open revolt might damage relations between China and the other Colombo powers. However, there is little doubt that China is a great source of strength and encouragement to the PKI.

94. In addition to the support of the overseas Chinese in Indonesia, the PKI commands the allegiance of two other valuable organizations, SOBSI, which controls 66 per cent of trade union membership, and PERBEPSI, an organization of 200,000 former armed fighters. These men are at present unarmed but the PKI has made at least two blatant attempts to obtain arms for them in return for undertakings to combat local rebellions and to maintain security during the recent elections. Both attempts were blocked by the cabinet, in which there is an apparent awareness of the danger of creating a Red Army.

TOP SECRET

.../27

DEPARTMENT OF EXTERNAL AFFAIRS, CANADA.

(FILE COPY)

NUMBERED LETTER

CANADIAN EYES ONLY

TO: THE CANADIAN EMBASSY
WASHINGTON, D.C.

Security: TOP SECRET

No: DS- 1672

FROM: THE UNDER-SECRETARY OF STATE FOR
EXTERNAL AFFAIRS, OTTAWA, CANADA.

Date: December 5, 1955

Enclosures: 1

Air or Surface Mail: Surface Bag

Post File No:

Reference:

Subject:

"The JIC Semi-Annual Review"

Ottawa File No.	
50028-B-40	
94	50

DOWNGRADED TO SECRET
REDUIT A SECRET

References

Attached is a copy (No. 18) of a JIC paper entitled "The JIC Semi-Annual Review". This Review deals with Soviet and Communist China policy trends from March 1, 1955 to September 30, 1955.

2. We would draw your attention to the special classification of Appendix "A" which is being circulated outside Ottawa to your mission and to London only. Copies of the paper, without Appendix "A", are being referred to other missions abroad, to the Australian and New Zealand defence authorities through our missions in those two countries, and to the United Kingdom JIC and the United States JIC through service channels.

3. Any comments which you might wish to make on the attached paper would be read with interest in the Department and by our JIC.

Internal
Circulation

G. H. SOUTHAM

Under-Secretary of State
for External Affairs

Distribution
to Posts

CSC 1735-2 (JIC)

CONFIDENTIAL

C O R R I G E N D A

46

50028-13-40
90 50

To JIC 154/1(55) - "The JIC Semi-Annual Review
(1 Mar 55 - 30 Sep 55)"

1	D-2
2	3
3	
4	
5	MB
6	
7	
8	
9	
10	

1. Attached is a Corrigenda to JIC 154/1(55) for distribution in accordance with memorandum of even file dated 1 Dec 55.

J.C. McGibbon
(J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.
Joint Intelligence Committee.

DEC 5 1955

MB
2 Dec 55

DISTRIBUTION

CJS, London
CJS, Washington
Commandant, NDC
Commissioner, RCMP
A/C D.N. Roberts, UKSLS.

ODRB

✓ Mr. G.G. Crean, Dept. of External Affairs.
Director, CB NRC
Sec COS
DNI
DMI
DAI
JIB
Sec JPC

BEST AVAILABLE COPY

JIC 154/1(55)
of 22 Nov 55

C O R R I G E N D A

FILE COPY

Page 5, para. 17, line 6

Delete "Communism" (last word in line) and

Insert "communication"

Page 22, para. 79, line 1

Delete whole of line 1 and

Insert "Reorganization within the Chinese Communist Army has"

30 Nov 55



IN REPLY PLEASE QUOTE

NO. CSC 7-17 (JIC)

Department of National Defence

TOP SECRET

JOINT INTELLIGENCE COMMITTEE

1
**1
DOWNGRADED TO SECRET
REDUIT A SECRET** 2 Dec 55

50028-B-46	
58	✓

File
J.T. b.
D. L. (2) Dir.
21-4-58.

G.G. Crean, Esq.,
Dept. of External Affairs.

DMI
DAI
DNI
DSI
RCMP
JIB

Mr. Pearson's Visit to the Soviet Union

1. Further to memorandum of even file dated 28 Nov 55, attached for information is a revised summary record of the briefing on the above subject delivered by Mr. George Ignatieff at the 467th meeting of the Committee on 23 Nov 55.

J.C. McGibbon
(J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.

Enc.

JCM/5459/ff

c.c. ✓ JIS (X?)

DOWNGRADED TO SECRET
REDUIT A SECRET

COPY NO. 12 (REVISED)

TOP SECRET

SUMMARY RECORD OF ADDRESS DELIVERED
TO THE JOINT INTELLIGENCE COMMITTEE
BY Mr. GEORGE IGNATIEFF (Head, Defence
Liaison Division 1, Department of
External Affairs) on 23 November 1955.

1. Mr. Ignatieff said that it was now a month since he had left the Soviet Union, and that his impressions had inevitably become coloured by reflection and discussion since that time. He would, however, give his personal views as he wrote them down on the aircraft after leaving Moscow, and would then be prepared to answer questions.
2. The following points were amongst those which had impressed him at the time:
 - (a) The Soviet aims of attempting to expand their system and doctrine throughout the world remained inflexible, although their methods had become highly flexible. Ruthless Stalinist tactics had been discarded in favour of a more subtle and patient attack, which presented a challenge which was perhaps more effective. We were faced with competition from a dynamic and expanding society using all means short of general war.
 - (b) While he saw nothing which would lead him to query the acceptance of the collective principle in leadership, the Communist party dominates every aspect of life in the Soviet Union, and its Secretary, the dynamic Mr. Khrushchev, obviously occupies a very, and perhaps the most important, influential place. It should not be overlooked that Mr. Molotov was Premier for about a decade in the 30's and now occupies a position of declining influence in the hierarchy; likewise, Mr. Bulganin, who obviously at present occupies a position of great influence, may give place to one of the newer members of the Politburo coming up like Pervukhin.
 - (c) There was an apparently sincere feeling of abhorrence of war throughout the country. Unlike Germany before World War II, there were no signs of militarization. The country was of course heavily militarized, but this militarization was all "packed away", and was not evident to the eye. For example, there were no signs of troop movements, and no armed forces on the streets of Moscow. The Chiefs of Staff who were present at the reception for the Minister seemed to be treated with scant respect by the politicians, and were in fact not introduced to Mr. Pearson.

There was no doubt that the Russian people - like people everywhere - were sincere when they spoke of their abhorrence of war. On the other hand it was clear that the Soviet leaders did not rule out war as a means of furthering their policies, especially if we were weak, and in spite of their realization that the decision to go to war was now extremely risky. Khrushchev had commented to the effect that, "You can't attack us and we can't attack you, but we will beat you at coexistence!"

The slogan "Peace and Friendship" recurred everywhere in Russia, but at least externally this was merely a propaganda point being used to weaken the will of the West to resist Soviet demands.

TOP SECRET

.../2

DOWNGRADED TO SECRET
REDUIT A SECRET

- 2 -

TOP SECRET

- (d) The contrast between the collective strength and wealth of Soviet society, and the insignificance and privation of the individual was impressive. The Russians had become separated from the main stream of Western culture, art and thought, but there was no doubt that their science and technology was surging forward. The basis of their belief that they will in time catch up with the West in material achievement was easily understandable.
- (e) With regard to Canadian-Soviet relations, the Russians emphasized again and again their view that Canada could act as a bridge between the Soviet Union and the United States. The "Neighbours over the Pole" theme was ubiquitous. They stated their desire to increase contacts and trade with Canada, and were well aware of Canada's strategic position as an influential North American nation with special relationships both with the United States and with the alliance they feared. Khrushchev had commented bluntly, "Canada will be on the firing line and cannot escape in the next war".

DISCUSSION

- 3. Mr. McClung remarked that according to one despatch Khrushchev apparently was not aware of the details of the Western plan with regard to Germany. He found this incredible for a man in Khrushchev's position.
- 4. Mr. Ignatieff said that Khrushchev on occasion spoke with some intemperance and with a considerable lack of self-control - no doubt measures of his sense of power. Quite apart from its details he found the Eden Plan generally humiliating. He said that he would only accept a European security system in which the Soviet Union was on a basis of strict equality with the other powers. Bulganin then intervened in an attempt to soften the effect of this blunt statement, and such expedients as the abolition of NATO in stages or the creation of a pact between NATO countries and members of the Warsaw pact were suggested.
- 5. Superintendent Hall asked if the speaker considered that Soviet covert operations would continue in spite of the small likelihood of general war. He also asked for comment on the recent Georgian liquidations.
- 6. Mr. Ignatieff said, with regard to changing tactics, that all he had meant was that Stalinist methods - "grabbing countries, pushing the West about" - had at least temporarily been discarded. It must be remembered that circumstances had changed and that present conditions - with the growth of NATO and the dangers of retaliation - were not by any means favourable for such methods.
- 7. He had no comment on the Georgian liquidations which had of course occurred since he left the Soviet Union. In this general connection, however, he had been impressed by the extent to which Great Russian influence was being emphasized. There was continual propaganda that it was the Great Russians who had saved the country, not only in the last war but in the war of 1812. These tendencies were perhaps associated with the current reversion from Stalinism. Stalinism was connected in the public mind with privation and war and the rigours of the police state, and it seemed that there was now in progress an attempt to disassociate the present regime from the Stalin regime, partly by the liquidation of personalities (such as Berya and his associates) who had been prominent in the latter.
- 8. Colonel Tate asked if the apparent collective leadership was a facade.

TOP SECRET

.../3

DOWNGRADED TO SECRET
- REDUIT A SECRET

TOP SECRET

9. Mr. Ignatieff said that in his view collective leadership was a political gambit designed to increase popular support for the regime, and perhaps also to increase the appearance of reversion from Stalinism. Stalin's regime had of course been associated with one-man leadership. With regard to the leaders themselves, it was noticeable that Bulganin took every opportunity to insist that he was a great friend of Khrushchev, whereas Khrushchev made no such claims concerning Bulganin!
10. Superintendent Hall asked if any mention had been made by the Russians of United States economic control over Canada, which might tie in with the current "party line" of the Canadian Communist Party.
11. Mr. Ignatieff commented that in the trade talks the Russian delegation had often mentioned both economic domination and strategic controls. In oversimplified terms the Russians took the line that Canada would supply items "in short supply" to the United States but not to the Soviet Union, and that therefore the effect of "most-favoured nation" treatment was of limited advantage from the point of view of the USSR. We insisted that if we were to offer concessions to allow the Soviet Union to enter the Canadian market we would demand a certain balance in the trade. In the course of the talks the Russians had remarked that they had all the uranium they wanted.
12. Mr. Bowen asked for comment on the suggestion that the real Soviet concern regarding European security was not the existence of NATO but the presence of United States troops in Europe.
13. Mr. Ignatieff said that the Soviet leaders were obsessed with United States leadership - both in military and in other fields. They were trying to catch up with the United States in all possible ways, no doubt bearing in mind the thought that when they have caught up they will be able to start to impose their terms on us. Even now, Molotov at Geneva had said in effect, "We have now reached the point where you [the West] cannot insist on these terms." Soviet resources appeared to be concentrated on various fields where quick returns may be expected. The cost to the population is tremendous, in spite of the recent efforts to raise the standard of living to tolerable levels. It seemed essential under such circumstances that the Iron Curtain should remain in force, and it was possible that the development of East-West contacts would not make much progress, except insofar as privileged groups were concerned.
14. Superintendent Hall asked if more Soviet citizens would defect if greater inducements were offered by Western countries.
15. Mr. Ignatieff remarked that greater inducements - especially inducements which added to apparent economic security after defection - might increase the numbers of defectors. He felt however that other immaterial factors were more important in the case of higher grades of defectors.
16. Mr. Ignatieff commented also upon the glaring wealth differential now apparent in Russia.
17. Mr. Bowen asked for suggestions concerning the basic Soviet attitude toward the German situation. The recent Adenauer talks had suggested, for example, that the effect of unification on the other Satellites was a factor in Soviet considerations.
18. Mr. Ignatieff said that Khrushchev's remarks upon this subject had contained two factors. First, the addition of Germany to NATO would increase the West's bargaining power. Khrushchev refused to negotiate with a knife in his back, and NATO's knife was sharper if it included Germany.

TOP SECRET

.../4

DOWNGRADED TO SECRET
REDUIT A SECRET

- 4 -

TOP SECRET

Secondly, in Khrushchev's view only two countries have really known war and really appreciate its meaning - Germany and Russia. Khrushchev believes that German armed forces will constitute the striking power of NATO. He commented, "You will all be pushing the Germans forward to strike the first blow." Thus he fears the addition of Germany to NATO in a military as well as a political sense. In a sense the Soviet leaders may be victims of the myth, generated by Stalin, that only Soviet forces did any effective fighting in World War II.

19. Mr. McClung asked if the speaker felt that the German Socialists - who might come to power when Adenauer disappeared from the scene - would be anti-NATO, and if the Soviet leaders were basing any hopes upon this expectation.

20. Mr. Ignatieff said that he had no direct comment upon this question. He had found the Germans in Bonn very nervous about the price they had had to pay to get their prisoners back, and worried about the implications of bilateral negotiation between Germany and the Soviet Union.

21. Mr. Ignatieff further commented that it was interesting that the recent German delegation to Moscow had been puzzled by the Soviet leaders until they met Khrushchev. Immediately they identified one whom they called "the real Nazi". In his Mr. Ignatieff's view, Khrushchev was like a Nazi only superficially. He was a characteristic "son of the soil" of the Ukraine, a tremendous patriotic nationalist and xenophobe to a degree. He thought primarily in terms of political power. In spite of the current insistence on the predominance of the Great Russians, the latter were obviously keeping a working relationship with the Ukrainians, who were personified in Khrushchev. It was relevant that the Ukrainians were perhaps the only minority group in the Soviet Union in whom there had been signs of disaffection.

22. Mr. Forbes remarked that the New Zealand Foreign Minister had commented that Khrushchev was apparently not well informed.

23. Mr. Ignatieff said that this might well be true, and was perhaps one of the dangers. Khrushchev was probably a type of man who was very "hard to brief".

24. Mr. Ignatieff added that the discussions concerning the communiqué at the close of the visit had been interesting, if tiring. The Russians had wanted our agreement to a series of their clichés, and had been insistent upon trying to commit us to all kinds of nonsense. For example, they wished us to publicly associate ourselves with their view that the problems of Vietnam would be solved if the Vietnam Government would carry out the terms of the Geneva agreement. Needless to say, we did not agree.

1 Dec 55

TOP SECRET

IN REPLY PLEASE QUOTE

NO. CSC 1735-2 (JIC)

Department of National Defence

TOP SECRET

JOINT INTELLIGENCE COMMITTEE

CANADIAN EYES ONLY

DOWNGRADED TO SECRET

28 Nov 55 **REDUIT A SECRET**

2.44

50028-B-40
129 150

✓ G.G. Crean, Esq.,
Dept. of External Affairs.

DMI
DAI
DNI
DSI
RCMP
JIB

The JIC Semi-Annual Review (1 Mar-30 Sep 55)

28. NOV 1955

1. Attached is a copy of JIC 154/1(55) dated 22 Nov 55, on the above subject.

2. If no objections to this paper are received by 1200 hours, 29 Nov, it will be distributed in accordance with the decision reached at the 466th meeting.

J.C. McGibbon
J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

Enc.

JCM/5459/ff

c.c. JIS

Copy No. _____

2

CSC 1735
Nov 28/55
50028-B-46
COPY

TOP SECRET

JIC 154/1(55)

22 November 1955

THE JIC SEMI-ANNUAL REVIEW

(1 Mar 55 - 30 Sep 55)

CONTENTS

DOWNGRADED TO SECRET
REDUIT A SECRET

<u>I. INTERNAL DEVELOPMENTS IN THE SOVIET BLOC</u>	<u>Para</u>
Internal Politics	1
The Economy	9
Transportation	16
Aircraft Production	18
Land Armaments Production	21
Naval Shipbuilding	22
Atomic Energy and Nuclear Weapons	23
Guided Missiles	24
Biological-Chemical Warfare	25
Military Electronics	26
The Army	27
The Navy	30
The Air Force	32
European Satellite Forces	35
<u>II. SOVIET FOREIGN POLICY AND ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR</u>	
General	39
The Geneva Conference of Heads of State	42
German-Soviet Relations	44
Soviet-Austrian Relations	46
The Warsaw Pact	47
Scandinavia	50
Relations with Japan	51
Middle East	52
Relations with China and the Far East	54
Disarmament	57
East-West Contacts	60
Position of Yugoslavia	61
"Return to the Homeland" Movement	67
<u>III. INTERNAL DEVELOPMENTS IN COMMUNIST CHINA</u>	
Internal Politics	70
The Chinese Economy	74
Chinese Communist Army	79
Chinese Communist Navy	80
Chinese Communist Air Force	81
Airfield Construction	82
<u>IV. COMMUNIST CHINESE FOREIGN POLICY AND ATTEMPTS TO EXPLOIT TROUBLED AREAS IN ASIA</u>	
General	84
Formosa	86
Indo-China	88
Korea	90
Japan	91
Indonesia	92

TOP SECRET

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET
JIC 154/1(55)
22 November 1955

The JIC Semi-Annual Review
(1 March 1955 - 30 September 1955)

I. INTERNAL DEVELOPMENTS IN THE SOVIET BLOC

Internal Politics

1. Since the resignation of Malenkov three major trends have been evident in the internal politics and government of the USSR. The relaxed nature of Soviet leaders and their apparent rejection at least for the time being of one-man dictatorial rule have demonstrated the success of the policy of "collective government". A second important feature has been the determined drive towards economic and administrative efficiency. The third trend has been a tendency by the new regime to end many of the old arbitrary injustices and create a feeling among the people of an increase in their individual freedom.
2. In the apparent maintenance of "collective leadership" no single individual has emerged to take the place of Stalin. At Belgrade, at Geneva, and in Moscow Soviet leaders seemed to act spontaneously as a team, and not as men who are waging a life and death struggle for dictatorial supremacy. While on occasions Bulganin seems to wield more authority, Khrushchev now is considered to be the key man of the Soviet regime. But while Khrushchev may be first among equals, apparently neither he, Bulganin nor anyone else exercises sufficient control to wield absolute authority.
3. Recent appointments within the Party generally reflect Khrushchev's influence. Both Kirichenko and Suslov, appointed to the Party Praesidium in July, have served under Khrushchev. D.T. Shepilov, the chief editor of Pravda who was appointed to the Party Secretariat and who, it has been rumoured, may assume the position of Foreign Minister if Molotov resigns, has been an outspoken advocate of Khrushchev's agricultural policy. The delegation which accompanied Chancellor Adenauer to Moscow had the definite impression that Molotov, who is primarily associated with rigid Stalinist policies, was no longer a member of the inner circle, and that foreign policy was now largely decided by Khrushchev and Bulganin.
4. Changes in the Council of Ministers emphasize the government's concerted efforts to improve administrative efficiency, economic planning and production. Of the four new Deputy Chairman, Kucherenko, Zavenyagin and Krunichev are thoroughly experienced in the administration of heavy industry while Lobanov is an expert in agricultural administration and has been an ardent supporter of Khrushchev's virgin lands campaign. Their appointments underline the current policy of selecting as Deputy Chairman men who are skilled technicians and who will operate under the political direction of the Praesidium of the Council of Ministers. In line with this policy the Government has somewhat reduced its own central authority and granted greater autonomy to industrial directors and local leaders. At the same time however, the Party has exerted an increasing influence at lower levels of administration, so that any reduction of strict government control has been offset by closer supervision of Party authorities. Recent official statements lend force to the suggestion that under Khrushchev there has been a considerable transfer of authority from the Council of Ministers to the Central Committee of the Party.
5. The pattern of production has been altered, with renewed emphasis on increased investment in capital goods industries rather than on consumer goods. Efforts are being made in industry to cut costs, re-adjust wage rates and overhaul the entire structure of industrial planning. This increased emphasis on greater practical planning and per capita

TOP SECRET

...../2

DOWNGRADED TO SECRET
REDUIT A SECRET

BEST AVAILABLE COPY

TOP SECRET

- 2 -

productivity has led to widespread criticism of production methods and industrial slackness. Bulganin, in a major speech, highly praised certain industrial aspects of American capitalism, and the government has established an Institute of the Economy of Modern Capitalism to examine Western production methods and to re-appraise the entire structural bases of capitalist economics. In order to raise man-hour productivity working norms are being increased, wages re-adjusted and normal increases of nominal wages stopped. At the same time the Soviet labour newspaper Trud has severely criticized executives who discharge workers without adequate cause, who force workers to work overtime without meeting legal requirements, or who otherwise exercise arbitrary authority over their employees.

6. The government has continued its policy of increasing collectivization and cultivation of marginal lands, and of raising agricultural production. To produce the hoped for results and increase party control over the farms Khrushchev has appointed 30,000 party officials as chairmen of collective farms. In its enthusiasm for Khrushchev's virgin land policy, however, the government seems to have gambled with the basic instability of the new lands as a potential dust bowl area,--a period of adverse climatic conditions would be disastrous for the success of the programme.

7. The government has issued a number of decrees liberalizing the structure of the Soviet legal system and providing greater protection to the rights of the individual. The role and the power of the Secret Police has been considerably reduced and its dreaded Special Board liquidated; prosecutors no longer exercise investigatory powers, and provisions for arbitrary arrest and imprisonment have been tightened up and curtailed. Penalties for minor political or administrative misdemeanours have been lightened and authorities are now overhauling the structure of the whole legal apparatus. On September 18, Izvestia announced a general amnesty for alleged collaborators during World War II. All but the most serious sentences have been revoked. The amnesty is directly related to the agreement to return to Germany 10,000 "war criminals", and to the "return to the homeland" movement. For such nationalities as the Crimean Tartars, the Volga-Germans and the Chechen-Ingush who were exiled for having supported the Germans, the announcement if taken literally means rehabilitation and the restoration of status as free citizens. Such measures are in line with a shift away from "Russification" to encourage those minority traditions and folkways which do not directly clash with government policy or fundamental Communist doctrine.

8. A significant aspect of the "new Look" is the greater degree of scientific and intellectual freedom permeating Soviet life. While Marxist-Leninism is still fundamental, the present regime has not found it necessary to lay down strictures on all points of differences. This is especially the case in the scientific fields. Since Geneva, Soviet press reports of events in Western countries have been much less belligerent. Diplomats and correspondents in the USSR enjoy a greater degree of personal freedom of activity. Visas are now fairly easily obtained, and less arbitrary restrictions encumber foreigners travelling inside the country. Cultural activities also exhibit a greater degree of intellectual freedom. The recent stage productions, "Wings" by Korneichuk, and "Personal Affair" by Shtein, both make strong attacks on the position of the Secret Police and the misuse of the organs of law and order to promote personal ends. Leading composers are denouncing the "dogmatism" and "orthodoxy" imposed on composers of popular music, and the Russian radio now broadcasts an increasing number of popular American, British and Western tunes. The "...better use of foreign experience..." in radio, television and other branches of science has been urged. Several Soviet writers who were once condemned as "ruthless cosmopolitans" are again actively at work in Moscow.

TOP SECRET

...../3

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

The Economy

9. Probably the most significant development in the Soviet economy during the period under review has been the increasing emphasis attached to the improving of industrial efficiency and the raising of productivity in all sectors of the economy. The regime apparently fully realizes that continued industrial expansion at a high rate during the Sixth Five-Year Plan will depend to an even greater extent on increasing the productivity of capital and labour. During the present five-year plan, the regime was able to overcome the deficiency in labour productivity by the unplanned absorption of a higher number of persons into industry. However, due to the impact of the war on birth rates, the net increment to the labour force during the next five years will be substantially lower than during the past five years. Bulganin laid great stress on the need for higher productivity when he warned the Central Committee of the Communist Party that "we shall encounter difficulties in supplying the economy with labour".

10. In his report on industrial problems delivered at the plenary session of the CPSU Central Committee on 4 July, Bulganin was remarkably frank in his analysis of the shortcomings of Soviet industry. He re-affirmed the policy of preferential development of heavy industry,--and outlined the direction in which further industrial development must proceed if a continued high rate of economic growth is to be sustained. These include improved technical equipment, accelerated application of science and technology, the production of new tools, wider use of automatic and mechanized processes, fuller use of present equipment, higher labour productivity, lower costs, improved planning and industrial leadership, and better location of industry in relation to material supply.

11. In support of these programmes, the regime has re-organized the GOSPLAN into two commissions, one for short-term planning, and one for long-term planning, and has set up a State Committee on New Technology and a State Committee on Labour and Wages. The separation of the GOSPLAN into two Commissions is probably motivated by the need to give greater effort to long-term planning, especially of the energy base. The problem of industry location has been stated by Bulganin as being a major task of the long-term planners, particularly in the Eastern regions. The minimization of transport and the fullest use of indigenous materials are to be key criteria in new industry location. The State Economic Commission for long-term planning has been placed under Baibakov, the former Minister of the Oil Industry, and will concentrate on plans of a five, ten, and fifteen year nature. While the relationship between the two Commissions for planning is still somewhat obscure, it would appear that the State Commission for current planning under Saburov, the former GOSPLAN head and a First Deputy of the Council of Ministers, is to concentrate on yearly, quarterly, and monthly planning. The State Committee on New Technology under Malyshev, a production engineer and a Deputy Chairman of the Council of Ministers, is to supervise the planning for and introduction of advanced technological methods into industry. The State Committee for Labour and Wages, under Kaganovich, has probably been set up to undertake a complete overhaul of the wage structure and to work out a new set of labour norms, which are long overdue.

12. The carrying out of the new programme for industrialization, particularly the introduction of automatic processes, will require a continuing high level of investment in new plants and equipment. The programme of expanding agricultural output will also require a heavy outlay of resources if it is to achieve some degree of success. In addition, the tremendous cost of the new weapon systems in terms of medium and heavy jet bombers, the series production of new fighter aircraft, and an enlarged guided missile programme, would also indicate that defence

TOP SECRET

.... /4

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

expenditures may be expected to rise further. With the priority in the allocation of resources remaining with investment and defence, it is thought that the rate of growth of per capita consumption will be slowed down in the foreseeable future. The heavy demands on the domestic economy will in all likelihood impose a limitation on the capability of the USSR to increase substantially its exports of industrial equipment and materials to China, the Satellites, and underdeveloped countries.

13. The Soviet 1955 mid-year plan report indicates that the recent measures to improve organization and planning, and the emphasis on the introduction of new technology, have already resulted in some improvement in efficiency. The report confirms previous announcements that the goal for total industrial output of the original Fifth Five-Year Plan was fulfilled about eight months ahead of schedule. Impressive gains are claimed in the expansion of the energy base in terms of coal, oil, and electric power production, while the sharp rise in oil production suggests that the original plan of 70 million metric tons by 1955 may now be attainable. Production of steel and production in many sections of the engineering industry (especially agricultural machinery) indicate a rate of growth higher than in the first half of 1954. As expected, the rate of increase for consumer goods was somewhat lower than a year ago. The seven percent increase in industrial labour productivity coupled with the 12 percent increase in industrial output indicate a further rise of five percent in the industrial labour force. While the capital investment plan was under-fulfilled by seven percent, it apparently represented an increase of 11 percent over the corresponding period of 1954. Investment in heavy industry accounted for a large proportion of the increase. In the field of agriculture, a substantial expansion of the area under cultivation was achieved. Some 50 million acres of new lands were sown, 17 million acres more than the original objective. The total area under spring crops was stated to be 53 million acres greater than in 1954. The area under maize, 45 million acres, is 34 million acres greater than last year. Despite the serious drought conditions in the new land area, there is every indication that a record grain crop will be achieved in 1955.

14. Although strains and stresses have developed in the economy due to the competing demands of defence, investment and consumption, it would appear that the defence and investment goals are being largely achieved by enforcing a somewhat lower rate of growth of consumption. The inflationary danger inherent in the slower rate of growth of consumer goods was to some extent offset by the increase in the state loan and the failure to reduce retail prices this year. On the whole, it would appear that the Fifth Five-Year Plan for industrial production has been eminently successful, with a rate of progress some 6 percent above the original plan. Despite the spectacular new lands programme, it is obvious, however, that the Fifth Five-Year Plan for agriculture, especially in grain production, has failed. Although agriculture continues to be the weakest link, it is thought that a modest degree of success in the new programme will maintain the supply and demand picture for grain on an even keel for at least the foreseeable future.

15. In the European Satellites there would appear to have been no major revision in the general economic policies adopted in 1954. Military budgetary allocations, after a decline in 1954 have risen in most countries, but are still below the 1953 level in Bulgaria, Roumania and Hungary. Plan fulfilment reports suggest that increases in consumer goods have been maintained rather better than in the USSR. Despite increased support, agriculture is lagging and is in a particularly serious condition in Poland, while there has been under-fulfilment in Czechoslovakia over a long period and no sign of improvement in Roumania. Heavy industry is still beset by shortages of ores and scrap and production in the heavy industrial sector remains stagnant in Czechoslovakia and Hungary.

TOP SECRET

...../5

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRETTransportation

16. Throughout the period under review, all countries of the Communist Bloc have continued the rehabilitation and expansion of their transport systems and associated services. Although no one development noted has outstanding strategic importance, all developments collectively point to a steady improvement of their economic and strategic positions. The major developments have occurred within the USSR and China. The satellite areas of Europe and Asia have been less interesting.

17. The over-fulfilment of transport plans within the USSR has shown that the existing system has been adequate to support an expanding economy. The tonnages moved have increased, particularly in the Soviet North, and between the USSR and China. Little new construction has taken place, although certain improvements have been made to the lines of Communism *communication* between Central and Northern Russia. With the exception of slight but not negligible developments to pipe-lines and in dieselization and electrification, the main effort has gone into the improved use of existing surplus capacity. The Soviet merchant marine has demonstrated a capacity to deliver oil in bulk to Arctic ports and an increased capacity to make similar deliveries to Chinese ports. Commercial aviation has continued a modest programme of experimentation with jet aircraft, and has greatly expanded its services in various areas. Both commercial and military aviation have proven capable of the wider use of large transports in the high Arctic than was previously known.

Aircraft Production

18. The most significant development during the past six months was the appearance in the pre MAY day air rehearsals of a large swept wing bomber approaching the BISON (type 37 heavy bomber) in size, and powered by four large turbo prop engines. Seven of these aircraft, designated BEAR for identification purposes, were seen at the Tushino Air Show in July, indicating that this type is being produced serially, although the location of production has not been determined. The BEAR is the first Soviet bomber to appear having a truly inter-hemispheric capability without refueling, and it is estimated that it may be introduced into operational service early in 1956. Sufficient numbers of the BISON have already been observed to indicate that series production is well advanced and that introduction into operational units may also be expected early in 1956.

19. Series production of BADGER, the medium bomber is continuing and is believed to be approaching peak peacetime rates. Cumulative BADGER production as of 30 September is estimated to be of the order of 300-350 aircraft.

20. FRESCO and its variants continues to be the main fighter in production. In spite of this, the Soviet Union was able to commence serial production last year of two new fighters. In the MAY Day air rehearsals a new swept wing day interceptor, designated FARMER, and the long awaited swept wing all weather fighter, designated FLASHLIGHT were first seen and at least 50 of both of these aircraft were displayed at the Tushino Air Show in July.

Land Armaments Production

21. Modernization and re-equipment of the Soviet Army continues. Five new artillery weapons were shown on the MAY Day Parade. It is likely that standardization of armaments is proceeding in the Satellites, although for the most part these countries continue to utilize obsolescent Soviet Weapons. Hungary is producing a high speed artillery towing tractor, the first such vehicle to be made in any of the Eastern European countries, while Czechoslovakia has introduced a new semi-automatic rifle believed to be of native design. The T 34/85 medium tanks are believed to be still in production in Czechoslovakia and Poland.

TOP SECRET

.... /6

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT À SECRET

TOP SECRET

Naval Shipbuilding

22. Shipbuilding activity and in particular the construction of submarines has continued at a high rate. No assessment can yet be made of the type of the large vessel which has been under construction in Leningrad since mid-1952, except that it is larger than a Sverdlov class cruiser. It is not known whether Sverdlov class cruisers will continue to be built in Leningrad. The twelfth and last known Sverdlov laid down in Leningrad was launched in June. However, these cruisers are also being built at Nikolaev, in the Black Sea and Molotovsk in the White Sea. Two classes of anti-submarine vessels now in production have been distinguished: the Kola class and the Riga class, both of 1,500 tons. The production of Z and W class long range submarines continued at an estimated rate of about 70 a year. This does not represent a net gain for the submarine force, as some older submarines are going into reserve and some are being transferred to Satellite navies. A motor torpedo boat, the first naval vessel built in East Germany apart from small minesweepers and patrol boats, may have been completed.

Atomic Energy and Nuclear Weapons

23. The period under review was noteworthy for the changes in the Soviet attitude to the release of information on the peaceful uses of atomic energy. While the first indications of this new policy appeared in December 1954, its full impact was not felt until the two international conferences held in Moscow in July and Geneva in August. The latter of these two conferences was the more important because of the much broader international representation. At Geneva Russian scientists gave details of four different types of experimental reactors, as well as the details of their 5000 kw atomic electric station. There were also a considerable number of papers dealing with the results of fundamental research in the fields of nuclear physics. The testing of Soviet atomic weapons was recommenced during the late summer, with two explosions at the atomic testing ground at the beginning of August. These explosions appeared to be of weapons of small and medium yield, and are thought to represent the standard tactical and medium yield air weapon of the Soviet forces. It is considered that these weapons were exploded for weapon effects studies, and had an appreciable Service participation. Late in September a further nuclear explosion occurred in the Barents Sea area near Novaya Zemlya, and is thought to have been an underwater explosion for the testing of the effects of an atomic explosion on ships. It is considered that the 1955 nuclear test program may well extend beyond the end of the period of this report.

Guided Missiles

24. There is little more positive evidence concerning Soviet guided missiles than was available six months ago. There are indications that the Soviet Union has a continuing, high priority guided missile programme, and there is reason to believe that research and development work is being conducted in surface-to-surface, air-to-surface, and surface-to-air missiles. There have been unconfirmed reports of the Soviet launching experimental missiles from submarines, and although a requirement exists for the Soviets to possess an all-weather air-to-air missile no evidence of such development has become available. One of the more interesting developments in recent intelligence has been the increasing number of sightings of grid-like construction sites in the vicinity of Moscow. To date 60 of these sites have been reported, some of which may be duplicates. It has also been reported that objects which could be surface-to-air missiles of the Wasserfall type, have been observed in the vicinity. It is therefore possible that these are launching sites for surface-to-air guided missiles, although the number of sites, their close juxtaposition, and the scale of effort involved would appear to be excessive for this purpose. Alternatively, it has been suggested that these sites are locations for unguided anti-aircraft rockets designed primarily to give protection against low-flying aircraft. It is also still possible that these sites have been constructed for some other, as yet undisclosed, purpose.

TOP SECRET

.... /7

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

- 7 -

TOP SECRET

Biological - Chemical Warfare

25. Evidence has now accumulated to confirm the belief that the Soviet BW program is intimately connected with their work on anthrax. The Soviets have also produced aerosol filters which would be primarily suitable for use in the rapid sampling of BW clouds. Activities reported from the Soviet Far East may support the anticipated extension of the Soviet BW program to that area, but firm evidence on this point is still lacking. The possibility of Soviet military research into the use of psychogenic drugs is suspected.

Military Electronics

26. The output of military electronics has tripled since 1950, and continues to rise at the same rate. The length of Soviet bloc perimeter covered by effective radar warning and control is over 7000 miles, and includes an estimated 700 radar stations of which some 400 have been detected. New name radars have continued to be observed; the total number of these is 15, most of which show evidence of original native design, and fully modern capabilities. There is some evidence that the Soviets have now developed an air intercept radar for single seater fighters; if this proves a success in air operations it is an example of radar research work at an advanced level. An increasing amount of Soviet published material on missile guidance techniques has appeared in the last six months which may well indicate a requirement for operating and servicing personnel. These advances in military electronics have been accomplished by severely limiting civilian electronic production. In Canada 73% of the electronics output goes into civilian products, and the remaining 27% into military equipment. In the Soviet Union military requirements have been consistently absorbing 70% of the electronics product, and there has been to date no indication of slacking off.

The Army

27. On 12 March 1955 the Soviet Union created 10 new marshals, and one airforce marshal, Zhigarev, was promoted to the rank of Chief Marshal of the Soviet Air Force. This was the first group promotion since the war. All but one of these are known to have served at one time or another in the Ukraine during the Second World War, an area in which the present Minister of Defence, Marshal Zhukov, campaigned with some distinction. Four of the new marshals are native born Ukrainians. This close association with the Ukraine may not be mere coincidence. It may reflect close association with Zhukov or possibly an attempt by Khrushchev, wartime party leader in the Ukraine, to strengthen his position within the Armed Forces. Although these promotions enhance the prestige of the Soviet Army, there is no evidence that the Party hierarchy intends to relax firm control of the Armed Forces.

28. There has been no change in the estimated strength of $2\frac{1}{2}$ to 3 million men organized into about 175 line divisions given in the last semi-annual review. On 13 August 1955 the Soviet government announced its intention to reduce the Soviet armed forces by 640,000 men. Even if this reduction is carried out and is applied preponderantly to ground forces and security troops, it is considered that it could be effected without appreciably reducing the Soviet Army's value or readiness for war. The military commitments of the army have been considerably diminished by the withdrawal of forces from the Kwantung Peninsula, Porkkala and Austria and further cuts could be made by reduction or elimination of cadre units in the Soviet Union. The Soviets have continued energetically to build-up the military effectiveness of their forces in East Germany by large scale importations of the latest types of heavy equipment. By the end of the period under review approximately 2000 T-54 tanks had arrived in East Germany, sufficient to equip fully all tank divisions and to commence distribution to mechanized divisions.. Substantial improvement has also been made in both quality and quantity of motor transport. It is believed

TOP SECRET

...../8

000171

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDACTED & SECRET

TOP SECRET

that most of the major Soviet units in East Germany are now at or close to war establishment in motor vehicles, but that Rear Services are still deficient of third line transport.

29. Generally speaking training in the Soviet forces in Germany has followed the usual pattern established by the training cycle. Again this year there was some indication of emphasis on movement and in March and April short movement exercises were conducted at regimental or higher level. The move to summer training areas began in the third week of April and it appears that certain divisions moved to areas different from those occupied in past years. Toward the end of August and the beginning of September divisional exercises were conducted in at least five of the six Soviet armies in Germany. In the last semi-annual review it was indicated that the Soviet Army was conducting limited training in atomic warfare and that emphasis was on defensive aspects. A recently acquired summer training schedule for subordinate units of a rifle regiment lists two topics concerning atomic warfare training. The significance of this document lies in the fact that it provides the first evidence that training is being carried out in offensive as well as defensive operations under conditions of atomic warfare.

The Navy

30. During the period under review the largest transfer of Soviet warships ever recorded between fleet areas took place when 2 cruisers, one large destroyer, 12 destroyers, 12 submarines, 12 anti-submarine vessels 12 fleet minesweepers and one submarine depot ship transferred from the Northern to the Pacific Fleet area via the Northern Sea route. A number of ships and aircraft were turned over to the Chinese at the time Port Arthur was given back to the Chinese Peoples Republic and as well the Chinese received 2 Gordy class destroyers, 2 MV class short-range submarines, 2S class Long range submarines, and possibly 6 Kronstadt class anti-submarine vessels. 2 Gordy class destroyers and 5 MV class submarines were transferred to the Roumanian Navy. General exercise activity has continued at a high level and each Soviet fleet has carried out at least one major exercise. The theme of these exercises appears to emphasize co-operation between forces. In the Black Sea emphasis appeared to be on combined operations, in the Baltic on surface-air co-operation, and in the North submarine, surface and air co-operation, and in the Pacific long range submarine patrol. In all fleet areas the intensity of training in submarine warfare has increased. Air activity during recent months suggest the use of advanced electronic airborne equipment by naval fighters.

31. Admiral Sergei Georgevich Gorshkov has been appointed First Deputy C-in-C Naval Forces in Naval Headquarters, Moscow. This officer was formerly C-in-C Black Sea Fleet. At the end of the period arrangements were made for and exchange of visits between six Russian ships and six British ships to visit Portsmouth and Leningrad respectively.

The Air Force

32. The most significant development was the appearance of a large swept wing four engine, turbo-prop bomber, designated the BEAR and the continued modernisation of the Soviet and Satellite Air Forces primarily through conversion to jet aircraft. An estimate of the strength of the Soviet and Satellite Air Forces has been reduced by over 1000 aircraft because of a reassessment of unit strengths and a reduction in the number of ground attack units. This has been offset by an increase in jet aircraft. The overall strength of the Soviet Long Range Air Force increased during the period with addition of approximately 100 BADGER (Type 39) jet bombers making a total 160 BADGERS in the possession of the Soviet LRAF. Overall capability however still depends on the BULL (TU4).

TOP SECRET

.... /9

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

33. The most significant developments in the Tactical Air Force have been indications of increased jet fighter capabilities through the use of airborne intercept radar equipment. Introduction into the TAF of single seat (FARMER) and two seat (FLASHLIGHT) jet fighters, which appeared in numbers at the Tushino Air Show, should increase the offensive and defensive capabilities of this force. In the Naval Air Forces the conversion from Mig 15 fighters to FRESCO (Mig 17) is 80% completed while two engine flying boats (similar to the Martin Mariner) are believed to be replacing Catalinas in naval reconnaissance units, and helicopters are being introduced in increasing numbers.

34. It is extremely difficult to give a true assessment of airfield developments in the Soviet Union, however, during the past six months there were indications that the Soviets were extending and improving runways to accommodate the new aircraft of the Long Range Air Forces. It is believed that this development work has been largely concentrated in the more exposed areas extending from the Kola Peninsula in the North, along the western border area of the Soviet Union, to the Caucasus in the South. Some evidence also suggests that a similar airfield development programme has been instituted in the Far East, particularly in the Southern Maritime District. One of the salient features of the airfield development programme in the European Satellite Area during the period under review has been the continued emphasis placed on Poland and Eastern Germany. Although construction of new airfields in most of the other Satellite Countries has almost stopped, the development programme in Poland has continued, with 35 airfields with paved long runways; out of 118 in all the European Satellite Countries. In addition, there are nine (possibly fourteen) other airfields currently under construction in Poland, four which are being built in Eastern Germany, one in Roumania, and one in Albania.

European Satellite Forces.

35. The strength of the East European Satellite armed forces, including security troops, has remained relatively constant over the past six months with an estimated total strength of 1,500,000 men. The Satellite ground forces consist of approximately 1,100,000 men organized into an estimated 80 line divisions. However, following the lead of the Soviet Union, all of the Satellites except East Germany have announced plans for reducing their armed forces by the end of 1955. If these forces are actually reduced in accordance with announced figures, a reduction of about 170,000 men will occur by the end of the year--about 11 percent of the total personnel. The manner in which such a reduction will be accomplished is not known but it is not believed that it will change the number of basic formations or greatly decrease the effectiveness of the armed forces of these countries.

36. A Joint Soviet-Satellite command structure came into being when the Soviet Union and Satellites signed the Warsaw Treaty in May of this year placing the forces committee to this treaty under the direction of Marshal Konev of the Soviet Union. The treaty provided for unity of action in the event of attack on any signatory and provided the right for the Soviet Union to station its forces in the Satellites. A Soviet-East German Treaty of Mutual Relations was concluded in Moscow during September and following this action, the East German Parliament (Volkskammer) passed an amendment to the Constitution which provided a legal basis for the creation of national armed forces. Recent evidence indicates that the East German police, including ground, naval, and air elements now have a common headquarters at Strausberg, East of Berlin. It is believed that Strausberg will be the home of the East German Defence Ministry and that Willi Stoph, who recently gave up his position as Minister of the Interior, will head the East German Ministry of Defence.

37. The senior Soviet generals who were withdrawn from positions as Military Attaches in the Satellite countries have now been replaced by colonels. It is not believed that this represents any relaxation in the

TOP SECRET

....10

000173

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

degree of Soviet control but, rather, was a prelude to the Warsaw Treaty and the beginning of a new system of training and inspection under Soviet direction.

38. Corps level field training has been observed in Czechoslovakia and Poland; however, there have been no other notable developments in Satellite Army training except the increasing frequency of reports of training in atomic warfare which, to date, has consisted of training in defensive measures. In East Germany, field training reached a slightly higher level than noted in the preceding years. The Satellite armies still are short of heavy equipment and are dependent upon the Soviet Union for air and logistic support. No significant items of Soviet postwar equipment has appeared in the Satellite armies.

TOP SECRET

..../11

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~ TOP SECRET

II. SOVIET FOREIGN POLICY AND

ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS

OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR

(As at 30 Sep 55)

General

39. During the period under review, it became apparent that a major shift in Soviet foreign policy tactics had taken place. From the death of Stalin there were indications that the new leaders might be willing to abandon the tough policy toward the West which dated from 1947. The events of the last seven months suggest that the drive for "normalization of relations" with the non-Communist world is to be the new tactic to attain what the tough policy had failed to attain. The long-term aims remain the same. In the West, these are to prevent the incorporation of a re-armed Germany (Western or united) into the Western alliance; to lessen U.S. influence in Europe and cause the withdrawal of U.S. armed forces; and by isolating the U.S. from its friends to destroy the Western alliance. In the East, it is similarly to isolate the U.S. from its friends; by lessening U.S. influence to cause the withdrawal of U.S. and allied strategic bases on the periphery of the Sino-Soviet bloc; and to expand the area of Communist influence by legal or illegal means short of major war in the uncommitted countries. In this connection, an article on the "Spirit of Geneva" which appeared in the August issue of Communist, the organ of the Central Committee of the Communist Party, is revealing. This exposition of the post-Geneva "party line" continues to insist on the "annulment of NATO" as the essential precondition to German re-unification; gives no indication that the U.S.S.R. is ready to accept a fool-proof system of control in the field of disarmament; ascribes the current thaw to popular world-wide insistence on peaceful policies; puts the full blame for violation of the Geneva Agreement on South Vietnam; and gives no indication that it would agree to a Korea united through genuinely free elections held under the supervision of an impartial international agency or commission. In short, evidence is still lacking that the Soviet Union is willing to concede on really fundamental issues.

40. In the main, the aggressive Stalinist policy had had exactly the reverse effect to that desired. The Soviet Union could probably have maintained the status quo of the cold war by a continuation of the tough policy. But it was apparent that no further advance could be made by these methods. In addition to the failure of the tough policy, there were other reasons which made a return to negotiation and diplomacy seem desirable. In the first place, there is the internal problem. Not only is agriculture in particular in a serious state, but it has become apparent that there is not available an endless supply of labour and resources to meet all the demands on the economy. The economy cannot indefinitely meet the needs of heavy industry, re-armament caused by the situation in Europe and the Far East, atomic energy development, consumer goods, and Chinese industrialization. Added to this is the unsettled problem of the leadership, as no one of Stalin's stature has emerged to enforce rigid control. The economic and political pressures within the country require a relaxation of international tension in order to lessen the demands on the economy. Secondly, there are the demands of Communist China. If China is to be turned from a primitive economy into a powerful industrial state, it must have outside assistance. Failure to get that substantial assistance from the Soviet Union would seriously weaken Moscow's influence over Peking, tend to turn over Communist leadership in Asia to China, and perhaps run the risk of war as a result of Chinese rashness. Thirdly, there is the re-emergence of Germany as a major European power which, with the ratification of the Paris Agreements, was obviously allying itself firmly with the West. Its potential military

TOP SECRET

.... /12

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET
12TOP SECRET

and industrial strength could tip the European balance heavily in the West's favour and thus posed the spectre of a revived threat to the Soviet Union. Finally, there is the factor of the atomic and hydrogen bombs. Ideologically correct statements to the contrary, the Soviet leaders are increasingly aware of the vulnerability of all countries, including the Soviet Union, to the annihilative effect of nuclear warfare. If any major war may develop into a thermo-nuclear war, then it constitutes a threat to the Soviet system, and policies less likely to lead to war must be adopted.

41. A combination of these motivations and a variety of lesser ones has led to a number of developments in the past months all designed to give the impression of a return to normal and friendly relations with the West: the disarmament proposals at London on May 10th; the signing of the Austrian State Treaty; the visit of the Soviet delegation to Yugoslavia; the opening of Soviet-Japanese peace treaty negotiations in London; the Geneva Conference of Heads of State; the reduction of Soviet armed forces; the agreement to establish diplomatic relations with the Federal Republic of Germany; and the return to Finland of the Soviet base at Porkkala. There has also been a marked lifting of the Iron Curtain permitting a freer flow of visitors to and from the Soviet Union.

The Geneva Conference of Heads of State

42. The Soviet Union made it quite clear before the Geneva Conference in July that it was not prepared to discuss either the position of the satellites or the role of international communism. Discussion was in fact limited to German re-unification, European security, and disarmament. With the exception of President Eisenhower's proposals on the exchange of military blue-prints, neither side advanced new proposals, and neither side abandoned any of its positions. However, the problems were clearly defined in a joint directive which would permit the Foreign Ministers to continue negotiations in October, and the conference seems genuinely to have led to the relaxation of tensions and the creation of an atmosphere in which negotiation and diplomacy are possible. President Eisenhower's performance seems to have done a great deal to convince the Russians and the rest of the world that the aim of the Western alliance is peace with security.

43. Leaders on both sides appear to have convinced one another that German re-armament will not be allowed to lead to war. The Russians clearly prefer the status quo to the jettisoning of Communism in Eastern Germany and the resultant shock to the satellites. They may therefore be expected to reject any European security system which has as a pre-condition German reunification. They prefer to establish direct contact with the Germans in order to increase the flexibility of their position, and then gradually let the movement towards unification on Soviet terms develop inside Germany.

German-Soviet Relations

44. Before the entry of the German Federal Republic into NATO the Soviet Union warned that this action would make further negotiations about the future of Germany impossible. The eleven fold increase in road tolls between West Germany and West Berlin on April 1 seemed to indicate that the Soviet threat was to be taken seriously. Actually the Soviet Union's German policy remained flexible, as the invitation extended to Chancellor Adenauer on June 7 to visit Moscow demonstrated. Chancellor Adenauer went to Moscow in September, after an exchange of notes, in which the Soviet Union emphasized that it wished to discuss the establishment of diplomatic relations and the promotion of Soviet-German trade and cultural exchanges, while the German Federal Republic insisted on discussions on German reunification and the return of prisoners held by the Soviet Union.

TOP SECRET

..../13

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT À SECRETTOP SECRET

45. The negotiations in Moscow resulted in agreements for the establishment of diplomatic relations and the release of nearly 10,000 German "war criminals" held by the Soviet Union. Although the Soviet Union agreed to recognize a Government it had considered illegitimate and honoured a man it had attacked for his alleged revanchist policies, it gave away no ground on the major question of reunification. Both before and after Adenauer's visit, in fact, the Soviet Union stressed its support for its East German satellite. Khrushchev and Bulganin had visited Berlin after the Geneva Conference in July, and immediately after Adenauer's departure from Moscow the East German leaders were invited to Moscow for discussions which led to a formal grant of sovereignty to the German Democratic Republic. At Geneva the Soviet Union resisted suggestions that an early settlement of the German problem was essential. Rather, the Russians appeared to consider the continuance of the present division of Germany as better than any of the practicable alternatives. They probably hope that eventually, by direct negotiations with the West Germans, it might be able to wean them away from their present allies.

Soviet - Austrian Relations

46. After years of refusing to conclude a settlement for Austria separately from a German Peace Treaty, the Soviet Union suddenly reversed its stand. Discussions were begun with the Austrian Ambassador in Moscow late in February and then, in a dramatic move, continued directly with Chancellor Raab, who accepted an invitation to come to Moscow in April. The treaty which emerged from these talks and Four-Power negotiations in Vienna, although based on the draft treaty negotiated among the Four-Powers between 1947 and 1950, was more favourable to Austria than anything the Soviet Union had previously been willing to consider. Austria was forbidden to enter a political or economic union with Germany, agreed to remain militarily neutral, and had limits put on the sort of military equipment its armed forces might use. The Soviet Union, however, gave up its earlier insistence on maintaining occupation forces in Austria until a German Peace Treaty was signed and, in fact, withdrew its forces well within the 90 day period allowed under the Treaty, which came into effect on July 27. The Soviet Union also agreed to give back certain factories and oil fields it had been operating, although the compensation upon which it insisted will be a heavy burden on the Austrian economy.

47. In agreeing to the Treaty, the Soviet Union evidently hoped to gain the gratitude of the Austrians and to impress public opinion elsewhere. In particular, before the German Federal Republic had yet created an army to meet its new NATO commitments the Soviet Union may have wished to demonstrate to the German public the advantages of direct negotiations with the Soviet Union and to suggest that neutralization might be a solution to the German problem. The Russians no doubt also had in mind the desirability of an allied military withdrawal from Austria, creating a neutral zone between the German and Italian areas of NATO.

The Warsaw Pact

48. The signing in mid-May of an East European treaty patterned after NATO, with a Joint Command under Marshal Konev, is expected to do little to change Soviet-Satellite armed strength and the balance of power. There was no indication of the increase of armed forces (integration itself, apparently, is to increase "effectiveness"), and since then reductions of armed forces have been announced with due fanfare. Nevertheless, the Treaty and the Joint Command provide the rudiments of a useful political and military structure which can be developed if need be. It may make more palatable any necessary redeployment of Soviet forces consequent upon the withdrawal from Austria. According to the signatories, this purely defensive grouping had had to be created in answer to the threat of German re-armament. It is allegedly open to any European nation.

TOP SECRET

..../14

DOWNGRADED TO SECRET

BEST AVAILABLE COPY

REDUIT A SECRET

TOP SECRET

49. The Warsaw Pact structure is seen primarily as a propaganda move and a bargaining point in Soviet discussions of European security, German re-armament and the disbandment of NATO. It may be a negotiable element in a drive to get U.S. forces out of Europe in return for some combination of a general European security pact and a German settlement. When the Pact was signed, the question of East German forces was set aside for later consideration. Under the Soviet-East German agreement signed in Moscow in September, granting "independence" to East Germany, that Government will now contribute forces to the joint command but Soviet troops will continue to be stationed in East Germany.

Scandinavia

50. The visit of the Finnish President and Prime Minister to Moscow in September resulted in the return to Finland of the Soviet naval base at Porkkala and an agreement to extend for twenty years the Soviet-Finnish Treaty of Friendship which was due to expire in 1958. The return of Porkkala does little to diminish the security of the U.S.S.R., but serves a propaganda purpose in emphasizing the peaceful intentions of the Soviet Union. The U.S.S.R. has drawn unfavourable comparisons with the U.S.A. and has again demanded the withdrawal of U.S. bases, ignoring the essential difference in the strategic importance of Porkkala and the U.S. bases in Europe. The Porkkala move is no doubt meant to reassure the Scandinavian countries in particular, to encourage whatever neutralist and anti-NATO sentiment exists in Denmark and Norway, and to confirm Sweden's belief in the rightness of its foreign policy.

Relations with Japan

51. Discussions between the U.S.S.R. and Japan opened in London in May with the object of restoring normal relations and concluding a peace treaty. The discussions are still in progress. The Soviet initiative is in line with its policy of restoring normal relations with ex-enemy countries. The purpose is, in general, to re-establish Soviet freedom of diplomatic action in order to be in a position to influence Japanese policies. In particular, the U.S.S.R. hopes to lessen U.S. influence and ultimately bring about the removal of American bases, in effect neutralizing Japan on the Austrian pattern. Discussion centres around a Soviet draft peace treaty which was presented on June 14. One article would set limitations on Japan's freedom to enter military alliances and another would close certain straits around Japan to the warships of countries other than the Soviet Union, Japan and Korea. Japan is proving a hard bargainer, and has rejected both these articles. Indications that the Soviet Union may not insist on the abrogation of the mutual defence treaty with the U.S.A. and minor Soviet territorial concessions, suggest that the U.S.S.R. attaches considerable importance to reaching agreement with Japan.

Middle East

52. The Soviet Union is still making moves towards normalization of its relations with states in the area. These include ratification of the financial and frontier agreement with Iran, a barter agreement with Egypt (oil for cotton), agreement with Syria for an exchange of parliamentary delegations, an offer to the Sudanese Government to supply technical experts to assist in Sudan's development, and an offer to exchange diplomatic missions with Libya and Saudi-Arabia. Col. Nasser has been invited to visit the U.S.S.R. Opposition to military alliances which are friendly to the West continued to be expressed. This was particularly true of the Baghdad Treaty (Turkey, Iraq, Pakistan), which was denounced in an official Soviet Government statement and in Pravda.

TOP SECRET

..../15

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

53. Of serious concern to the Western Powers has been the announcement by Colonel Nasser that Egypt has concluded a deal for the acquisition of arms from communist supplies. It now seems clear that the transaction is with Czechoslovakia and that the Soviet Union will supplement the supplies when Czechoslovakia cannot provide the necessary arms. They are reported to be substantial and include jet aircraft, destroyers, submarines and tanks. It is too early to judge now whether this presages a Soviet move to interfere more actively in Middle Eastern affairs. The major Western Powers have made representations to Egypt and the Soviet Union, drawing attention to the dangers of upsetting the military balance between Israel and the Arab states and precipitating an arms race between them. If the deal goes through it will become necessary for the Western Powers to reappraise their policies with regard to the shipment of arms to the Middle East. The question of the type of aircraft to be maintained on bases in the Middle East would also have to be reviewed.

Relations with China and the Far East

54. It has been suggested that one external reason for the soft policy may be the demands of Communist China for arms and industrial goods, and the necessity of not letting Communist initiative in the Far East slip into Chinese hands. The Soviet Union needs better relations with the West, especially in Europe, if it is not only to build up its own economy, but also to make substantial contributions to the Chinese economy and at least token contributions to both Communist and non-Communist countries in Asia. Agreements to provide economic assistance to Afghanistan and to Northern Vietnam are examples of the extension of Soviet influence in the Far East. It fits in well with its desire to lessen U.S. influence in Asia and not to leave the provision of economic assistance entirely in Western hands.

55. There is no indication that there has been any change in the Soviet desire to discourage Chinese bellicosity over Formosa. The U.S.S.R. may well have helped persuade the Chinese that a period of peaceful relations with the non-Communist world would be most conducive to extending Communist influence in the uncommitted countries, and also Chinese admission to the United Nations. In any event, the U.S.S.R. gave its blessing to the Bandung Conference, at which the Chinese took pains to please and be reasonable, as an example of the co-operation which is possible among countries with differing social systems.

56. Attendance of the Chinese Minister of Defence as an observer at the Warsaw Conference of May 11-14 was further evidence of Sino-Soviet co-operation. He assured the delegates that "peace and security in Asia and in Europe are indivisible" and pledged that "if peace in Europe is undermined China will struggle against aggression jointly with the peoples and Governments of our fraternal countries". But there was no suggestion that the Warsaw defence organization should be extended beyond Europe. The pledge was similar to the one given by the Russians over Formosa, that is, one intended to have the maximum deterrent effect on the West short of automatic commitment to involvement in any war on the lengthy periphery of the Moscow-Peking Axis.

Disarmament

57. The Russians have made substantial concessions to the Western point of view on disarmament in the last few months. On May 10, at the disarmament talks in London, the Soviet representative tabled a document (a) insisting on a rigid time-table which would see the whole disarmament programme implemented by the end of 1957; (b) accepting the Anglo-French compromise that the prohibition of the use of nuclear weapons should go into force upon the completion of 75% of the reduction of conventional armaments;

TOP SECRET

..../16

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
16
REDUIT À SECRET

TOP SECRET

(c) including the Anglo-French proposals on the levels of armed forces for the great powers (1 to 1½ millions for the U.S.S.R, U.S.A. and China, and 650,000 for the U.K. and France); and agreeing with the Western suggestion that nuclear weapons should not be used except in defence against aggression subject to Security Council approval. These proposals represented a substantial advance, particularly as they abandoned the previous position that the total prohibition of thermo-nuclear weapons must precede any general disarmament. But the Soviet position on the essential question of an effective inspection and control system was not clear, and the Soviet plan was linked with a number of political proposals (military bases, occupation troops, war propaganda, trade) which were unacceptable to the Western powers and in any event went well outside the field of disarmament.

58. Most of the May 10 proposals were reiterated by Bulganin at Geneva. In addition, he announced that the Soviet forces withdrawn from Austria would be demobilized, and suggested that the other occupying powers should follow suit; suggested that pending a disarmament convention the Big Four undertake not to be the first in the use of atomic weapons against any nation; and proposed that the armed forces of countries other than the Big Five be limited to 150,000 to 200,000 men. This plan was stripped of the unacceptable political proposals. In addition, the Russians have agreed to make a contribution to the proposed international atomic energy agency "as soon as an agreement on setting up the agency has been reached". In a recent letter to President Eisenhower, Bulganin commented on the President's Geneva proposals concerning the exchange of blue-prints of military installations and aerial reconnaissance. There is partial acceptance of the Eisenhower scheme and some Soviet suggestions for inspection teams. But the Soviet proposals on inspection and control certainly do not go far enough to ratify the requirements of Western security. The post-Geneva announcement that the armed forces of the U.S.S.R. were to be reduced by 640,000 troops was followed by similar announcements from the satellites. It must be seen primarily as a propaganda move, and its significance is considerably reduced due to the failure to make mention of the total armed strength of the U.S.S.R. and the satellites.

59. For the Soviet Union the primary preoccupation, because of its superiority in conventional armaments, remains the prohibition of thermo-nuclear weapons, and secondarily ceilings on the levels of armed forces; for the Western powers, it is an adequate system of inspection and control, with or without prohibition of thermo-nuclear weapons.

East-West Contacts

60. An integral part of the new Soviet tactics has been a determined effort on the part of the U.S.S.R. to encourage exchanges of visits to and from the Soviet Union. A number of Parliamentary delegations from non-Communist countries have visited the Soviet Union, and the Supreme Soviets of the U.S.S.R., the Ukraine and Byelorussia have joined the Inter-Parliamentary Union. Soviet agricultural delegations have visited the U.K., the U.S.A. and Canada; and a construction industry delegation visited the U.S.A. in late September. A Soviet group came to the Canadian International Air Show in Toronto, and subsequently some of the organizers of the Air Show paid a return visit to a Soviet air display. The Soviet Union is proposing an increase in cultural exchanges; France has indicated its desire to expand its cultural and information programme in the U.S.S.R. and the satellites; and the U.K. has set up a special body under the British Council to foster exchanges with the Soviet Union. The Soviet Union is granting some tourist visas; speaks of re-establishing Intourist offices abroad and improving its hotel accommodation; and has granted permission to some of its citizens to visit the satellites and Sweden. Politically, the new liberality on visits is designed to give the impression that the Iron Curtain is being lifted and that the Soviet Union is much the same as other countries.

TOP SECRET

..../17

BEST AVAILABLE COPY

DOWNGRADED TO SECRET TOP SECRET
REDUIT A SECRET

Position of Yugoslavia

61. A main concern of the Tito regime in the past 6 months has been the re-evaluation and the re-adjustment of its position vis-à-vis both the West and the East as a result of the marked improvement which has taken place in the relations between the U.S.S.R. and Yugoslavia. The visit of the Soviet leaders to Belgrade in May 1955 succeeded in establishing a new basis for closer cooperation between the Soviet Union and Yugoslavia in the political, economic and cultural fields. Marshal Tito made clear to the Kremlin rulers, however, that his country would not go back to the Soviet fold. The communiqué issued at the conclusion of the talks stated that every country was entitled to conduct its internal affairs as it pleased and recognized the possible existence of different kinds of socialist development in the world.

62. The ideological implications of the Soviet visit to Belgrade are of considerable importance. The Soviet apology for the 1948 schism represents an open break with the major point of dogma that the Soviet Union is the fountain-head of all Communist wisdom and the pattern for development toward Communism in all other countries. The rapprochement with Yugoslavia recognizes for the first time the possibility of different paths leading toward the Communist goal, though it is hard to see how the Soviet leaders could have held indefinitely to the infallibility of their approach in view of the different paths which the Chinese Communists had followed. And despite the palpable and cumbrous attempt to blame the 1948 break on Beria, it was an open admission that the Soviet Union had made a mistake. There are dangers for the Soviet position in the satellites in such an admission, but presumably the Soviet leaders are sure enough of their control that they were prepared to run this risk. The main advantage for them, of course, lies in opening the way for a new penetration of the Yugoslav Communist Party and thus re-establishing the sentimental and at the same time intellectual bond between Marxists.

63. After this Soviet visit, talks were held in Belgrade between the Yugoslav leaders and the Ambassadors of the United States, the United Kingdom and France. During these conversations, the Yugoslav regime reiterated its desire to continue its co-operation with the West. However, subsequent development gave rise to some concern in the West about the long-term validity of these reassuring pronouncements. Numerous Yugoslav delegations have since June paid friendly visits to the U.S.S.R.; Marshal Tito has announced that his country was anxious to have contacts with all socialist movements in the world including that of the Soviet Union. After the Kremlin's decision to cancel a Yugoslav debt of \$90 million, an extensive economic agreement was concluded which in 1956 will bring the volume of trade between Yugoslavia and the U.S.S.R. to the 1948 level. All these developments, combined with Yugoslav reluctance to let the U.S. know of the use made of the military equipment and assistance, supplied by the latter, disturbed somewhat the relations between Yugoslavia and the leading Western nations and especially the United States. In order to overcome these differences the State Department recently sent one of its senior diplomats to Belgrade to seek clarification of Yugoslav intentions and policies. The brief statement issued at the end of the conversations, on October 7, says that agreement has now been reached on all outstanding questions between the two countries.

64. Because Tito has of late shown inclinations to play off the Great Powers against one another and because he seems to overestimate his country's capacity to resist all Soviet pressures, a definite assessment of Yugoslav foreign policy would seem hardly possible at the present time. There has been sufficient evidence, however, that Yugoslavia is willing to move away

TOP SECRET

.../18

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

from the pro-Western alignment it chose to take after the break with Moscow in 1948, and to adopt a non-committal attitude in any dispute between the East and the West. This new orientation is in accordance with what seems to have become the constant objective of Tito's policy, which is to avoid any form of foreign interference in Yugoslav destinies.

"Return to the Homeland" Movement

65. During this period almost all the Iron Curtain Governments in Europe made an effort to persuade former nationals living abroad to return to their homelands. Several of these governments proclaimed amnesties for some categories of people who had left the country illegally. Printed appeals were sent out to refugees and former nationals in a number of countries from various centres, particularly from East Berlin, where a Soviet sponsored Committee organized the distribution of such material on a large scale. Some refugees have been lured back from among those who had not fared well in the West. The campaign scored a minor propaganda success when Hugo Hanke, a former Polish Socialist who held the position of Prime Minister in what one Polish group proclaimed to be the Polish Government-in-Exile, was persuaded to return to Poland to his family where he would be free to live quietly without engaging in political activities.

66. The general aims of this "return to the homeland" campaign are considered to be those of scoring whatever propaganda points are possible against the West, unnerving the emigré movements when "liberation" of the satellites seems farther off than ever, deriving information from and making useful contacts among former nationals abroad for the general purposes of the Soviet and satellite intelligence services and, in the case of some Iron Curtain countries, obtaining useful manpower. Printed material from East Berlin has been sent to persons in Canada. The Czech Legation has published a notice about an amnesty in several Canadian newspapers. It is apparent that efforts to persuade former Iron Curtain nationals to return are being directed at persons in Canada as much as in Western Europe and the United States.

East-West Trade

67. Trade within the bloc continues to dominate the Soviet trade position although trade with the West has increased considerably over 1953. From information contained in the Chinese budget speech in July, it is now thought that the U.S.S.R. made a special loan of some \$500 million in 1954 to cover Soviet military material in Port Arthur and Dairen which was handed over to China.

68. Probably the most interesting development in the past six months has been the continued attention being paid to under-developed countries. With the final withdrawal of the French from North Vietnam, both the U.S.S.R. and China have extended economic aid and technical assistance so that North Vietnam is now almost entirely dependent upon the Sino-Soviet bloc. Chinese aid is reported to amount to \$338 million over a five-year period while Soviet aid amounts to \$100 million for 1955 and 1956. The aid being granted by the U.S.S.R. and China appears to be complementary rather than competitive. A new trade agreement has been concluded between Burma and the U.S.S.R. whereby Burma will supply some 200 thousand tons of rice in exchange for industrial machinery. Part of this rice is being delivered to North Vietnam as part of the Soviet aid programme. Communist countries are, for the first time, taking a large portion (about 40 per cent) of Burmese rice exports. Bloc trade is increasing with Iran and Afghanistan. The Afghan-Pakistan dispute provided the opportunity for the Soviet Union to conclude a new transit agreement whereby Afghan exports have been granted free transit within Soviet borders. Egypt and China have concluded a trade agreement whereby Egyptian cotton is to be exchanged for Chinese steel.

TOP SECRET

.../19

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT À SECRET

TOP SECRET

69. In Europe the Soviet rapprochement with Yugoslavia has resulted in an agreement whereby Yugoslavia will receive economic aid in the form of three loans totalling more than \$84 million over the next three years. This aid is to be used to help finance the purchase of raw materials and the establishment of fertilizer and chemical factories. In connection with the Austrian State Treaty agreement was reached on compensation payments by Austria of \$150 million in goods over the next six years and the delivery of one million tons of crude oil each year for the next ten years. A five-year trade agreement has also been signed.

TOP SECRET

...../20

DOWNGRADED TO SECRET
REDUIT A SECRET**TOP SECRET**

BEST AVAILABLE COPY

III - INTERNAL DEVELOPMENTS IN COMMUNIST CHINAInternal Politics

70. Some details of the first high level purge since the Chinese Communist regime came to power were revealed on March 31 when a National Conference of the Party endorsed measures which had previously been taken by the Central Committee against a so-called "anti-Party alliance" headed by Kao Kang, former chairman of the State Planning Commission, and Jao Shu-shih, head of the Organization Department of the Party. The official charges against Kao were that he plotted to seize control over the Party and Government by obtaining for himself the posts of Secretary-General or Vice-Chairman of the Party and Premier of the Government, that as a former regional administrator in Northeast China and Manchuria he had built up an anti-Party faction and attempted to turn the Northeast into his own independent Kingdom, and that he attempted to win over Party members in the army to his support by making a distinction between "the party of the revolutionary bases and the armed forces" and "the party of the white (liberated) areas" on the basis that the armed forces had created the Party. The charges against Jao were that he supported Kao; that he had used his post as director of the Organization Department to support an intra-party struggle; and that he had followed a "rightist" policy towards capitalists and rich peasants in East China.

71. Although Kao Kang was usually ranked fifth in the Chinese Communist hierarchy, there is no evidence to link his downfall with serious dissension or a major schism in the ranks of the Party. Both he and Jao had built their careers in the regional administrations by which much of China was governed between 1949 and 1952, and both had been recalled to important jobs in Peking, when the regional administrations were abolished. It is possible that his subversion was attributable to his inability to fit into the more circumscribed atmosphere of the Central Government after several years of wide personal authority in North-East China. Whatever his purposes, he evidently failed to gain the support of senior Party members in the armed forces (for whom he made a special play) or of any other member of the Politburo. The affair can probably be explained as a fairly straightforward struggle for power in which Kao, motivated largely by personal ambition, was frustrated in his attempt to climb over Chou En-lai and Liu Shao-chi to a position next to Mao at the top of the Party hierarchy. It does not appear to have damaged the unity of the Party. It has been announced that Kao committed suicide and that Jao has been expelled from the Party. Seven other Party officials were publicly disgraced for alleged participation in the plot.

72. The immediate result of the affair was the setting up of an elaborate system of local and central Control Committees to enforce Party discipline. These committees replace the local and central Discipline Inspection Committees which have been operating since 1949. A member of the Politburo, Tung Pi-wu, has been appointed secretary of the central Control Committee and it is to be assumed that it will be more difficult in future to assail the central authority of the Party. An intensive campaign against "counter-revolutionaries" has been going on throughout most of the period under review. It is difficult to ascribe precise causes to this campaign, but it is at least a fair guess that an internal spy-mania is replacing the previous campaign for the "liberation" of Formosa, which has been progressively abated. Special attention has been directed to the activities of the "anti-Party and counter-revolutionary Hu Feng clique". Hu was a poet and litterateur of the non-Communist left living in Shanghai, and appears to have had fairly extensive influence on modern Chinese letters. He and his associates were accused of discouraging the writing and publishing of progressive literature and of not stressing Marxism-Leninism, but in reality his main fault appears to have been a disinclination to cut himself off from the traditional subjects of Chinese art. The affair reached a climax in July with the arrest of Hu and the Communist Vice-Mayor of Shanghai on charges of counter-revolutionary activities.

TOP SECRET

.... /21

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

73. There has been some re-organization of the Government. The National People's Congress held from July 5-July 30 approved the abolition of the Ministry of Fuel Industries and the creation of Ministries of Coal Industry, Electric Power Industry, Petroleum Ministry, and a Ministry for the Purchase of Agricultural Supplies.

The Chinese Economy

74. In July a new draft of the First Five-Year Plan (1953-57) was presented for approval to the second session of the National Peoples Congress of Peking. The Plan reaffirmed the long-term goal of the regime, to develop a powerful industrial state combined with large scale collectivization of agriculture. The principal difference from the original plan is that the time-table for the revised plan is on a more realistic basis. Chinese leaders have now admitted that fifty years will be required for China to develop to the level "of the more advanced capitalist countries". This is still extremely ambitious in view of the gap which must be bridged from the present backward starting point. The proceedings of the Congress reflected a considerable amount of inefficiency and waste in the development of the economy to-date. "Failure to understand the hardship to be undergone in socialist construction" was probably the key-note of the congress.

75. The main deficiencies facing the regime in drawing up a plan were stated to be a lack of sufficient knowledge of China's natural resources and of adequate statistical data, coupled with a general lack of experience in long-term planning. In fact one of the principal difficulties faced by Chinese planners has been that agriculture has lagged sadly behind the planned schedule. Since only by the export of surplus agricultural products can China hope to finance imports of industrial equipment, it is evident that any failure of the agricultural sector will have serious consequences for the Plan as a whole. The main weaknesses of Chinese agriculture are China's inability to manufacture sufficient agricultural machinery, and the predominance of the small peasant farm system. The failure of agriculture to live up to its goals has undoubtedly been due, in large part, to the extremely adverse weather. Last Year's disastrous floods, and a severe winter, contributed their share to the critical food situation in many regions. The blame for the famine conditions has been placed on greedy townspeople and has resulted in a drive to suppress "counter-revolution" (i.e. discontented peasants), the introduction of universal rationing for the first time, and a reduction of farm quotas to provide increased incentives to the farmers. The Chinese harvest is expected to be more favourable this year but any long-term improvement in agriculture will depend upon increased mechanization involving greater investment in industry. The resources for greater investment in industry are however, dependent to a large extent on increased agricultural output. The dilemma is apparently to be resolved by a programme of rigid austerity and continued assistance from the Soviet Union.

76. There have been two developments in the field of distribution. A new system of grain rationing is coming into effect under which the nature of a consumer's work will determine his entitlement to all cereal grains. It was admitted by the Government that breakdowns in the grain distribution system had been the cause of serious shortages in certain regions in the spring. Concurrently, with regard to the distribution of other commodities, the authorities have been pursuing a campaign to revive small-scale private commerce, particularly in the countryside. To make up for the lack of properly developed "socialist" grade channels in rural areas, private pedlars and small private merchants are to be assisted to recover their former prominence. The authorities have been at pains to deny, however, that this move is a retreat from socialism; as the prosperity of the small trader is restored, the socialist trading enterprises which whom he will in any event have to secure his supplies are expected to educate him out of his capitalist ideology.

77. The emphasis is to continue on the development of heavy industry. The first five-year plan is to be completed by 1957. The first year of the plan (1953) saw a 14% increase in industrial output, while the first three months of 1954 saw a 12.5% increase in industrial output. The first three months of 1954 saw a 12.5% increase in industrial output, while the first three months of 1954 saw a 12.5% increase in industrial output.

TOP SECRET

.../22

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

77. That the emphasis is to continue on the development of heavy industry is made clear in the revised Plan. Industry is to be allocated over 58 per cent of total capital investment of some \$32.5 billion during the Five-Year Plan, while less than 8 per cent is earmarked for agriculture. Almost 20 per cent goes to transport, ports and telecommunications. Of the capital investment going to industry almost 80 per cent is allocated to heavy industry and only slightly more than 11 per cent is earmarked for light industry. The core of the industrial programme is the 156 projects on which the Soviet Union is to assist. These enterprises include steel and iron combines, non-ferrous metallurgical enterprises, coal mines, oil refineries, machine tool plants, automobile and tractor factories and power stations. Little is known about the development of the armaments industry within the Five-Year Plan. The only known production has been in the field of small arms and field guns. There has been no aircraft production or shipbuilding. The success or failure of the Plan will depend in large measure on the ability of the Soviet Union to satisfy China's ever increasing requirements for capital equipment.

78. The budget for 1955-56 which was introduced during the Congress reflects the regimes preoccupation with both the pace of heavy industry and its intention to improve its military capability through the re-equipment and modernization of its armed forces. Overall expenditures are up from \$10.4 billion in 1954 to \$12.5 billion, an increase of 21 per cent. National economic construction expenditures are set at \$6.0 billion compared to \$5.2 billion in 1954, a 15.3 per cent increase. Defence expenditures have gone up 24 per cent, from \$2.4 billion to \$3.1 billion. Allocations for agriculture have been cut back slightly, reflecting the regime's difficulties in forcing the pace of agricultural mechanization. The high level of defence expenditures, accounting for almost 10 per cent of gross national product, reflects the increasing cost of improving the quality and fire-power of the Chinese armed forces, and the high cost of military imports.

Chinese Communist Army

79. Reorganization in the ground of the Chinese Communist Forces has continued although at a somewhat less spectacular pace than during 1954. The principal feature was the reclassification of the Public Security Forces. Of these some 500,000 have been redesignated as Peoples Armed Police, removed from jurisdiction of the Army and placed under the Ministry of Public Security for the maintenance of public order. The remaining 200,000 are accepted as part of the regular ground force with the primary task of coastal and border security. This raises the strength of the Chinese Communist Army to approximately 2,514,000. The army continues gradually to withdraw forces from Korea where present Chinese strength is currently believed to be about 441,000. At the same time, following the adoption of a code of service regulations, time-expired veterans are being returned to industry and agriculture and used as a means of stiffening the Peoples' Militia (now numbering between six to ten million members).

Chinese Communist Navy

80. During this period the small number of modern ships of the Chinese Communist Navy was further increased by the transfer of additional Soviet destroyers and submarines as well as fleet minesweepers and anti-submarine escorts. Motor Torpedo Boat production is progressing in Chinese shipyards and a small number of landing craft have been built. It appears that Chinese shipbuilding capabilities have developed sufficiently to permit the construction of larger types of naval ships. The Chinese Communist Naval Air Force is equipped with modern Soviet jet fighters and jet light bombers, and over this period, it increased both in number and effectiveness.

TOP SECRET

.... /23

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

Communist Chinese Air Force

81. During the period the Air Force continued to improve its capabilities in the East China region principally in the area opposite Formosa. Although there has been some deployment of units to the South and East, there is still no evidence that aircraft have moved to fields in the coastal area opposite Formosa. An increase in aircraft strength is believed to have resulted from the evacuation of Soviet forces from the Kwantung Peninsula. There are strong indications that the Chinese Communist have taken over Soviet aircraft and facilities in that area. The increase amounts to an estimated 300 FAGOTs (Mig 15) and 90 BEAGLES (IL-28). The Communist Chinese Air Forces remain entirely dependent on the Soviet Union for equipment and it will be a considerable time before China has an aircraft industry capable of supporting a modern air force.

Airfield Construction

82. There has been firm evidence indicating airfield construction and development in South and East China substantially increasing the airfield potential in the Formosa Strait area. One new airfield has been completed and three others are presently under construction. Six other airfields have been or are being rehabilitated, and in addition, two other old airfields are in an advanced stage of improvement. There has been a significant increase in the Communist airfield potential in North Korea. The scale of airfield rehabilitation in North Korea since the Armistice in July 1953, can be gauged by the fact that of the 22 major airfields that were heavily damaged during the Korean War at least 16 are now serviceable.

TOP SECRET

.... /24

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

IV - COMMUNIST CHINESE FOREIGN POLICY
AND EFFORTS TO EXPLOIT TROUBLED AREAS IN ASIA

General

83. In the period under review, there was a gradual but definite movement in Communist Chinese foreign policy towards a less aggressive and less threatening attitude on major Far Eastern problems. The period began during a serious crisis over Formosa, a situation which was, in fact, close to war, and ended with United States and Communist Chinese Ambassadors making slow but significant progress in bilateral talks at Geneva.

84. It is highly unlikely that the somewhat friendlier face which Peking now presents to the world is attributable to any basic change in external objectives. These remain the elimination of Western influence from Asia insofar as possible, and the concurrent spread of Chinese influence throughout South and Southeast Asia. There is evidence, however, that the Chinese now take a more realistic view of their ability to achieve these aims in the face of firm resistance on the part of the United States, and of a disposition on the part of the Chinese to pursue them by peaceful means rather than by force or threats of force. Inter alia, the following factors have probably combined to bring about this modification of the Chinese attitude:

- (a) a realization, reached at the beginning of the period, that an attack on the coastal islands of Quemoy and Matsu would involve a grave risk, and an attack on Formosa a certainty, of war with the United States;
- (b) the demands of Chinese internal development and reconstruction dictated, ipso facto, a policy of avoiding war;
- (c) a realization, developed or at least confirmed at the Bandoeng Conference, that Asian opinion was not whole-heartedly behind Chinese objectives vis-a-vis Formosa and the United States and would certainly be alienated by an armed attack on Formosa;
- (d) the restraining influence of the Soviet Union acting in "the spirit of Geneva".

Formosa

85. The first break in last winter's impasse on the Formosa question occurred at the Bandoeng Conference where Chou En-lai, after discussion with other delegates, issued a statement saying that the Chinese Government would be willing to negotiate with the United States for a relaxation of tension in the Formosa area. Chou's statement was followed by a somewhat hasty rejoinder in Washington to the general effect that the United States Government could not contemplate negotiations on Formosa which did not include Chinese Nationalist representatives, but which Mr. Dulles later clarified to mean that negotiations on matters other than Formosa would be possible. Bilateral talks between American and Chinese Ambassadors subsequently started at Geneva. Meanwhile, Chou En-lai re-directed his offer of Formosa negotiations to the "responsible local authorities" on Formosa.

86. There has been a marked diminution of Chinese internal propaganda agitating for the "liberation" of Formosa. As matters stand, it appears likely that the Chinese Communist Government has decided on the basis of a

TOP SECRET

...../25

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

short or middle-term assessment that there is more to be gained by advocating negotiations than by threatening or actively preparing to use force. They may be encouraged in this by indications that United States policy towards them is becoming less rigid, and by the knowledge that the opinion held of them by the neutralist nations of Asia would not support armed action against Formosa, even though the neutralists may be in sympathy with the Communist Chinese side of the dispute. They may also believe, with some justification, that time is on their side and that lowering morale will eventually drive the Nationalist Government to seek an accommodation with the mainland.

Indochina

87. Chinese efforts to exploit the troubled situation in South Vietnam have been mainly in the field of propaganda. The unwillingness of the Diem Government to enter into pre-election consultations with the Viet Minh is ascribed in Chinese propaganda to American influence and attempts to prevent the fulfilment of the Geneva Agreements. On the assumption, presumably, that all Vietnamese elections would bring the Viet Minh to power in the south as well, the Chinese Government is pressing hard on its propaganda for the complete implementation of the Agreements, with emphasis on the holding of elections in July 1956. There has been no indication, however, that Communist China would support or favour any attempt within the next year by the Viet Minh to unify Vietnam by force in the event that the elections cannot be held: indeed it is possible that the Chinese may exercise some restraint upon the Viet Minh in this connection, as they presumably would wish to ensure that no situation arises which might result in the landing of American forces on the mainland, thus posing a new threat to China's southern borders.

88. The operations of the Pathet Lao in the two northern provinces of Laos appear to be more directly linked to the Viet Minh than the Communist Chinese. It appears that a settlement in Laos involving the abandonment by the Pathet Lao of their military hold on the two northern provinces may hinge upon a settlement in Vietnam favourable to the Viet Minh.

Korea

89. Few changes have taken place since the last report was prepared and in South Korea, the United Nations countries continue to have little control over the policies and attitudes of President Rhee. He and his government continue according to their own low and deteriorating standards. President Rhee longs to see the reunification of his country and considers that the Military Armistice Agreement stands in its way. In the northern half of the peninsula, the Democratic People's Republic of Korea, the presence of large Chinese forces still guarantees that Chinese influence will be strong in this area which is considered one of Chinese defence. The deadlock still continues over the formula for the unification of Korea.

Japan

90. Ever since late 1954 when the People's Republic of China made the first overtures to Japan for the resumption of friendly relations, the embargo on strategic material has made effective trade between the two countries virtually impossible; and Japan wishes a relaxation of this embargo. Japan has reacted with extreme caution to the Chinese advances although the Prime Minister in May 1955 said that an exchange of consuls with China was not inconceivable. Concerning relations with the two Koreas, an unofficial fishing agreement has been entered into by some Japanese and North Koreans. However, the Japanese Foreign Minister said in May that his country had no idea of setting up trade relations with North Korea. Japan-ROK relations have gone from bad to worse though the feud has not as yet ended in complete rupture.

TOP SECRET

.../26

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

Indonesia

91. An active and well-organized Communist Party operates openly in Indonesian politics. Its leader, D.N. Aidit, is capable and Chinese-trained. The growth of the PKI (Partai Komunis Indonesia) since Aidit's take-over in 1950 has apparently been patterned after that of the Chinese Communist Party from 1941 to 1945. It has been consolidating local support and there is little doubt that it has made considerable gains in the last year. Preliminary returns from the Indonesian general elections indicate a heavy Communist vote and the probability that the PKI will be strongly represented in the next coalition government.

92. One source of PKI support is to be found in the two million overseas Chinese who control a large proportion of Indonesian retail business. It is estimated that at least 35 per cent of the Indonesian Chinese support the Peking Government and the reception given Chou En-lai at Bandoeng indicates that the Communists control the sympathies of most of the 15 to 25 age group of the Chinese in Indonesia. There is considerable evidence that the PKI has successfully penetrated the Chinese schools. Moreover, there are one thousand to four thousand Chinese students crossing between Indonesia and the Chinese mainland every month. The seemingly limitless financial resources of the PKI are believed to be provided largely by wealthy Chinese merchants.

93. The Chinese are a symbol of foreign economic domination to the Indonesians and are consequently unpopular. There is, however, evidence of an increasingly better relationship between the governments at Peking and Djakarta. An agreement was signed on April 22 between the Indonesian and Communist Chinese governments to settle the problem of dual nationality of overseas Chinese in Indonesia, although this has not yet been ratified by the Indonesian Parliament. China is already an excellent customer for Indonesian exports and will probably become an even better one if the United Nations embargo is lifted. Former Premier Ali Sastroamidjojo visited Peking in May and trade agreements have been signed between the two countries. The Chinese government does not, therefore, advocate open Communist rebellion in Indonesia as their interests were well served by the Ali government and open revolt might damage relations between China and the other Colombo powers. However, there is little doubt that China is a great source of strength and encouragement to the PKI.

94. In addition to the support of the overseas Chinese in Indonesia, the PKI commands the allegiance of two other valuable organizations, SOBSI, which controls 66 per cent of trade union membership, and PERBEPSSI, an organization of 200,000 former armed fighters. These men are at present unarmed but the PKI has made at least two blatant attempts to obtain arms for them in return for undertakings to combat local rebellions and to maintain security during the recent elections. Both attempts were blocked by the cabinet, in which there is an apparent awareness of the danger of creating a Red Army.

TOP SECRET

.... /27

BEST AVAILABLE COPY

COPY NO. _____

2

24 November 1955

DOWNGRADED TO SECRET
REDUIT A SECRET**TOP SECRET**
CANADIAN EYES ONLYAppendix "A" to
JIC 154/1(55)**I. THE INTERNATIONAL COMMUNIST MOVEMENT AND THE**
MASS ORGANIZATIONS**General.**

1. During this period the various international organizations controlled by Communists and Communist Parties made adjustments in line with changes in Soviet policy so as to exploit the more relaxed relations between East and West. Although before ratification of the Paris Agreements, Communist propaganda had insisted that hope of peaceful negotiation was ending, Communist agencies quickly rallied after that event. In general it appeared during this six month period that the world Communist front was, with a few difficulties, readjusting fairly well, continuing its expansion (at least in organizations) and finding some opportunities of exploiting the fact that the Soviet Union and China were making some slight concessions to the West and showing a more civilized appearance to the world as a whole.
2. The World Peace Assembly, which met in Helsinki from June 22 to June 29, was to have met a month earlier but it seems clear that the change in Soviet declarations on disarmament announced in May forced a postponement. When the Assembly did meet emphasis on banning the atom bomb first of all was muted. Proclamations on the subject took the Soviet position into account fairly neatly while still emphasizing the irreparable damage of a thermo-nuclear war. Attacks on the Western nations were moderated, pacifist and "neutral" representatives were made much of and a Canadian clergyman, was even allowed to utter some genuine criticism of the Communist peace movement. The Assembly made a special appeal to organizations of a Christian and Social-Democratic nature to cooperate in seeking world peace and this indicated the direction of their efforts for the next year or so. Ilya Ehrenberg, the well known Soviet propagandist, admitted that there was suspicion among these other organizations that the World Peace Council was dominated by a single political party. He denied that this was so but emphasized that the Council and the Assembly must struggle to remove these suspicions. In March the Executive Committee of the World Peace Council meeting had said that the peace movement was stagnating and that it was no longer "democratic". Despite this statement when elections to the World Peace Council were over the slate of officers showed that there had been two changes only in the Vice-Presidential positions with no indication of any more "democratic" processes of selection. The Executive Committee had also earlier in the year emphasized that the movement must avoid "ideological points of view" considered to belong to "any particular party". The Assembly did give some indications that this advice was being followed in its more moderate references to the non-Communist world. It is obviously this line which the World Peace Council hopes will be most useful in attracting non-Communist groups of various kinds.
3. This warning against identification with an "ideology" was also found in other Communist dominated international organizations which were worrying about the proper tactics to employ in maintaining and extending their influence. At a meeting of the executive of the World Federation of Democratic Youth which took place in Warsaw after the World Youth Festival in August, the decision was made to cancel the "erroneous resolution" by which the Yugoslavs had been expelled from the organization in 1949. This was an important decision for any Communist organization to make but, simply followed the declaration made by Khrushchev at Belgrade in May. What was perhaps more indicative of the way in which the W.F.D.Y. might approach non-Communist groups was the decision of the Council to study "new forms of association" which might permit other youth organization to co-operate with W.F.D.Y. The executive was not convinced that the organization was trying hard enough to attract other youth groups.

TOP SECRET

.... /2

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

4. The other Communist youth group, the International Union of Students made plans during this period for a Conference on International Student Cooperation in 1956. This was to bring together the various international youth groups to discuss cooperation in the new spirit of "live and let live". In the same spirit the International Organization of Journalists planned to hold an International Meeting of Journalists in 1956, not to discuss union of various groups but to have a meeting of minds. The non-Communist International Federation of Journalists made it clear immediately that it would not participate in any such meeting. For the most part, the World Federation of Trade Unions pursued its normal course, holding meetings, organizing new groups such as that which met at the International Building, and Wood Workers Conference in Berlin or at the Conference for Public and Allied Employees in Vienna. A recent appeal to the International Confederation of Free Trade Unions to collaborate was, as usual, rejected by that organization.

5. Although the switches in Soviet policy during this period produced some interesting changes in the activities of some major organizations, Communist front activities for the most part proceeded in well worn channels while their sponsors hoped that the changed international climate would remove suspicion of Communists and bring in new recruits. The "Vienna Appeal" for banning atomic weapons was carried on without change, in spite of Soviet policy changes on disarmament. The last total of signatures announced was about 600 million of which 90% were from behind the Iron Curtain. The campaign did not appear to be going well in non-Communist countries. A campaign against atomic weapons was carried on by an independent national group in Japan and this resulted in 32 million signatures. The Communists although they had not controlled this effort naturally made use of it for their purposes.

6. The World Congress of Mothers meeting in Lausanne in July put all the sentimental force it could muster behind various World Peace Council objectives. The Conference of European Workers against German Rearmament held in Leipzig called for greater efforts against implementation of the Paris Agreements and set up a continuing organization to supervise these efforts. An International Medical Conference on Radioactivity met in Tokyo in May but could show only 20 Japanese and 9 foreign delegates for its efforts. The "Hiroshima Rally" against atomic weapons did not come to much either although the Japanese Government gave a rather sorry example of indecision by banning attendance of foreign Government delegates and then rescinding the ban. An "Asian Conference for Lessening International Tension" held in New Delhi in April tried to identify itself with the Bandung Conference which followed shortly afterwards, but was disowned by the Indian and Indonesian Governments.

7. The new international climate seems to have had the following effects on the Communist international organizations:

- (a) Soviet foreign policy changes did not create many problems of readjustment for these organizations but on the whole provided them with new opportunities to extend their influence.
- (b) There was a tendency towards greater flexibility in admitting some errors, considering organizational changes, allowing some criticism at meetings and in tackling their basic problem, that of identification with Communism. All of this was directed towards establishing or renewing links with non-Communist organizations.
- (c) There seems no doubt that these organizations intend to continue proliferating both on a functional and a regional basis in order to make the most of "peaceful coexistence".

TOP SECRET

..../3

BEST AVAILABLE COPY

3
DOWNGRADED TO SECRET
RÉDUIT À SECRET TOP SECRET

Communist Parties

8. The Communist Parties abroad were faced with somewhat different problems as a result of Soviet changes in policy than were the Communist dominated international organizations. In some cases, a change of Soviet policy towards the leaders of the countries in which they were the most virulent opposition element suddenly made it necessary for Communist leaders to alter their policy on foreign affairs or even on domestic matters. They were required to follow the lead for "peaceful coexistence" and play down alarm about ultimate Communist objectives without losing Party revolutionary elan or without letting all initiative among labour voters pass into the hands of democratic socialists or capitalist reformers. They had to meet the long range problems created by the fact that a long period of detente internationally might enable capitalist nations to make considerable economic progress with a consequent steady diminution in the support given a revolutionary party such as the Communists. A way had to be found to direct "coexistence" feelings, which originated with the international situation, into the channels of "popular front" feeling domestically.

9. One of these problems was the subject of a heated discussion at the congress of the Communist dominated Confederation General de Travail in France this summer. A minority group attacked orthodox Communist views on the grounds that they did not allow for any real economic betterment of the workers by trade union action in capitalist states. The majority view was the intransigent Communist one of the inevitable and increasing pauperization of the masses under capitalism. The Party apparently decided that a break in the "hard" line in this field would only benefit the socialists and reformers such as Mendes-France.

10. At the same time, the Communist Party has been seeking to arrive at some working agreement with the Socialists on particular points and to find situations (such as that in the shipyards at St. Nazaire) in which it could engage in common strike action with other groups. The impression it wanted to leave on the French people was that the Communists had eased off in their blind adherence to a "tough" policy laid down by Moscow but that they were still the most active fighters for the welfare of the masses. In view of the contempt shown in the C.G.T. discussions for the possibility of progress under capitalism, the attempt to create such illusions in the minds of Frenchmen was an obviously dishonest one. With regard to the Paris Agreements the statement of Thorez before and ratification showed the same degree of dishonesty. The iniquity of the Paris Agreements was played down as a propaganda theme in case it hindered the development of friendlier relations with democratic leftists. This opportunism may have some limited dividends in the cantonal elections when, with only 22.5% of the popular vote as compared to 25% in the last election, the Communists got 43 seats instead of 37 by engaging in local deals with some socialist groups who ignored the wishes of their national leaders. This did not really advance Party interest very much, however, and the Party was still contending with the problem of a drop in membership. While the Party itself sought zealous converts to the pure ideology, the Central Committee, which met in May, urged upon the Youth Groups which it has under its control the desirability of getting more members regardless of their political and religious feelings. This appeal on two levels indicated the kind of problem with which the Communist Party in France currently has to contend.

11. In Italy during this period the Party has had to contend with the problems created by a change in Soviet relations with Yugoslavia and with domestic problems arising from an obvious weakness in its voting strength in some parts of the country. Thanks to Khrushchev's declaration in Belgrade an embarrassing altercation between Vidali, the Communist leader in Trieste and the Italian Communist Party took place.

TOP SECRET

.... /4

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

12. In Italian domestic affairs, the Communist Party lost control of the workers councils in the Fiat Plant in Turin, and in one or two other industrial enterprises, had to concede an overwhelming victory to the Christian Democrats in small holder elections for health insurance boards, and lost ground in the Sicilian elections (although the Nenni socialists made gains). In an effort to regain momentum the Party urged "freedom, peace and a move to the left" and carried on with its campaign to "woo the Catholics". In both France and Italy Party moves to conciliate parties and groups to the right and left of them apparently left some elements in the parties unreconciled to a "soft" policy. There seemed little chance, however, that dissensions on these points would hamper these Parties seriously in their efforts to gain added power.

13. In Asia the re-emergence of the Japanese Communist Party "above-ground", the reported dissolution of its underground and military apparatus, and the attempts of the Party to "broaden its base" constitutes one of the striking features of this period. At one Party meeting the death two years ago in Peking of Tokuda, formerly the Party leader, was announced and at another meeting two other leaders who had been "underground" since 1950 reappeared. It was obvious that the Party was getting itself reorganized as an open political force to exploit whatever openings it could find, such as anti-American feeling or fear of atomic weapons.

14. In India too the Party moved with the times. After the visit of Premier Nehru to Moscow, the Party almost ceased its attacks on his foreign policy and even gave some credit to his Government on domestic policy. Until late September, when it attacked the Premier for alleged weakness over Goa, the Party carefully avoided any real attack over foreign policy. This "soft" policy persisted in spite of the fact that in the Andhra State election, where the Communists were hoping to do well and had an initial advantage, the Congress Party made a special effort to curb Communist strength and as a result obtained an overwhelming majority against the Communists. The "soft" policy has apparently its strong opponents among Indian Party leaders but they will obviously have to bide their time so long as the Soviet Government wishes to conciliate Premier Nehru and use its friendship with him for whatever purposes it can in its Political struggle with the Western Nations.

15. Reports from other countries indicate that where the Communist Parties were not simply struggling for existence in the backwash of Soviet moves (Austria and the German Republic) they were behaving in a relatively conciliatory way and were trying to climb on as many political bandwagons as possible (e.g. in Indonesia and Brazil).

Soviet Intelligence Services

16. There has been little new information available to us on the organization and activities of the G.R.U. or the K.G.B. since the last review. The presentation of the report of the Royal Commission on Espionage to the Australian Parliament on September 14 again focussed attention on the Petrov case. The report confirmed that "for many years the Government of the U.S.S.R. had been using its Embassy at Canberra as a cloak under which to control and operate espionage organizations in Australia". It pointed out that "the only Australians who so far as the evidence shows knowingly assisted Soviet espionage directly or indirectly were Communists." According to the Report, no significant leakages of information from the Department of External Affairs had occurred since 1949, although this Department had been a principal target of the MVD. The Commissioners reported that so far as they were aware no "illegal apparatus" operated either by the G.R.U. or the M.V.D. had been functioning in Australia since Petrov's defection. The Report summarized Soviet intelligence service activities as follows:

..../5

TOP SECRET

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

- 5 -

TOP SECRET

- (1) from about 1943 until at least Feb. 1953 the Soviet Government had a G.R.U. "legal apparatus";
- (2) from 1943 until Petrov's defection on April 3, 1954, the Soviet Government had an M.V.D. "legal apparatus";
- (3) in June 1952 the Soviet authorities decided to set up a M.V.D. "illegal apparatus".

17. As a result of public disclosures by Petrov about recruitment of the former United Kingdom diplomats, Burgess and Maclean, by Soviet security authorities before they entered the Foreign Office, (Petrov also confirmed that they were both behind the Iron Curtain), the United Kingdom Government issued a White Paper on the case dated September 23. The report revealed to the public that Maclean had been the principal suspect in an investigation beginning two years before the disappearance of the two members of the Foreign Office. There was not enough evidence, however, to justify his arrest or even to render interrogation advisable before the date of his flight. The White Paper reviewed the background of each man and noted that in November 1951 more extensive security checks on members of the Foreign Office were decided upon by a special committee. It appears likely that the White Paper will be the subject of both Parliamentary and public debate in the next few months.

18. The evidence available in the Petrov case and elsewhere suggests that the main effort of the G.R.U. and the M.V.D. at present may be to set up wherever it can an "illegal apparatus" which will function effectively without involving the Soviet diplomatic mission in that country. This would be desirable in an era of relative detente between East and West. It would enable Soviet agents to make the most of the more relaxed atmosphere in making contacts, particularly among refugee groups and former citizens of Iron Curtain countries now living in Western countries. The "return to the homeland" campaign inaugurated this year by almost all the Iron Curtain countries strongly suggests that one of the aims of the movement is to improve intelligence opportunities. It is also clear from the way in which former citizens of Iron Curtain countries have been contacted that Soviet and satellite intelligence agencies have built up a remarkably complete index of their addresses.

.... /6

TOP SECRET

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

- 6 -

II LABOR-PROGRESSIVE PARTY - INTERNATIONAL FRONTGeneral Review

19. The international activity of the Labor Progressive Party (LPP) and its front groups during the period under review has for the most part been centred on the World Peace Assembly at Helsinki in June and on the Second Canadian Slav Congress at Toronto in July. Activity by the LPP-controlled trading companies (i.e. East-West Export Import Company, Vancouver; World Trading Corporation, Toronto; and M & M Trading Company, Montreal) formed subsequent to the Moscow Economic Conference in April 1952 has been limited to attempted sponsorship of Canadian trade delegations to China or to abortive trade deals such as the sale of small boats to Poland. Activity has also apparently been negligible for the newly-formed LPP Commission on Latin-American-Canadian cooperation which was to provide a "solid basis for unity between Canada and Latin-America directed against the imperialist policies of the US ... a gigantic 'nut-cracker' in which the plans of Wall Street [would] be crushed".

World Peace Assembly - Helsinki

20. Two officials of the Canadian Peace Congress, James ENDICOTT and Bruce MICKLEBURGH respectively, were present at the World Peace Council meeting at Vienna in January and March to discuss inter alia the launching and conduct of the "Vienna Appeal" against the use of atomic weapons. These two officials headed a delegation of some fifty Canadians to the World Peace Assembly at Helsinki on June 22, fortified no doubt by the more than 50,000 signatures reputedly obtained during the campaign. ENDICOTT, MICKLEBURGH and one other Canadian were elected to the new World Peace Council established at the meeting. Twenty-eight of the women delegates who went to the Helsinki Peace Assembly proceeded to the Soviet Union as guests of the Women's Anti-Fascist Committee of the Soviet Union. Twelve of these attended the World Congress of Mothers in Lausanne, Switzerland, July 7-10, six of these in turn going on a three-week tour of China at the invitation of the All-China Democratic Women's Federation. Two officials of the Canadian Congress of Women were present in this latter group. Similar use of the Helsinki meeting as a focal point was observed for at least one of the two Canadian representatives to the World Jewish Conference Against German Rearmament in Paris on June 18 and 19. J.B. SALSBERG, LPP National Committee member recently defeated in the Ontario provincial election, went on to Moscow from Helsinki.

Second Canadian Slav Congress - Toronto

21. More than 500 delegates and observers (many of them with subversive records) from Slav committees and communities representing Canadians of Ukrainian, Russian, Polish, Czechoslovak, Bulgarian, Macedonian and Yugoslav origin were present at the Second Congress of Slav Canadians which took place in Toronto on July 1 and 2. Also present were representatives of several foreign Slav committees - two from the Soviet Union, two from Poland, three from Czechoslovakia, one from Uruguay and twelve from the United States. Two delegates from Bulgaria were forced to bypass the Congress owing to a hitch in obtaining Canadian visas. Included in a series of resolutions adopted to further Slav solidarity and ostensibly the "peace, independence and progress" of Canada were those urging government action on (1) the Soviet invitation to exchange parliamentary delegations (2) the return of the Polish art treasures and (3) the establishment of diplomatic relations between Canada and Bulgaria. Also advocated was pressure on the one hand against the Greek government to release Macedonian political prisoners and to grant Macedonian autonomy, and on the other against the Quebec government to repeal the Padlock Law to ensure unhindered Slavic cultural and social activity.

..../7

TOP SECRET

DOWNGRADED TO SECRET
REDUIT A SECRET

BEST AVAILABLE COPY

- 7 -

TOP SECRET

22. The extended South American and European tour of Gregory OKULEVICH, National Secretary of the Federation of Russian Canadians and member of the Canadian Slav Committee, was purportedly "to learn at first hand about the life of Slavic people in these countries" on behalf of the Russian-Canadian newspaper Vestnik and the Canadian Slav Committee. There is no doubt, however, that one of his principal aims was to drum up delegates to the Second Canadian Slav Congress. His presence as "fraternal" delegate at the Twelfth Slav Congress in Montevideo, Uruguay in February was apparently the first official visit of its kind between North and South American Slavs. OKULEVICH also visited Slav Committees (and, incidentally, Soviet and Satellite diplomatic missions) in Argentina and Brazil before his journey to Moscow and his subsequent tour of Russia, Poland and Czechoslovakia. As indicated above, delegates to the Canadian Congress were received from all these countries except Brazil and Argentina and even for the latter there is good evidence that the sending of a delegate, albeit a Soviet citizen, was contemplated.

.... / 8

TOP SECRET

000197

DOWNGRADED TO SECRET
REDUIT A SECRET

- 8 -

TOP SECRET**III LABOR-PROGRESSIVE PARTY - NATIONAL FRONT**General Review

23. During the period under review the feature item of LPP activity on the national level was the National Committee meeting in Toronto on August 25, 26 and 27 which presumably had on the agenda ways and means of using to advantage the general feeling of detente brought on by the Geneva Conference. Of particular interest in this regard was Tim Buck's report to the Committee which was published along with the Party's Plan of Work in a special Geneva issue of National Affairs Monthly, theoretical organ of the LPP. Although no loss in effective LPP strength has been observed nor any apparent slackening in Party press or other activity, there were several indications that the Geneva Conference might provide for the Party a much-needed shot in the arm. As indicated in the Plan of Work put forward at the meeting.

....the National Committee registers deep concern about the growth of the Party membership and the circulation of the press. While since the 5th National Convention in March 1954, about 1,000 new members of the Party have been reported to the NEC /National Executive Committee/ in the regular check-up reports then instituted, it is clear that a number of these have not been held in the Party, and also that the rate of enrolment has declined in recent months.

The Committee also deplored "the widespread ignoring of National Affairs Monthly," a condition which seems to exist for other Party publications if the time and energy spent on subscription appeals and campaigns are any indication.

24. No significant increase in the popular vote accorded the LPP in the Alberta and Ontario elections was observed and, as noted above, J.B. Salsberg lost his seat in the Ontario Legislature leaving the Party with no representation there. Moreover, although there was no decline in the number of Canadian trade unions controlled by the LPP, there were indications that the LPP was prepared when necessary to sacrifice their union executives to effect a merger with the larger labor congresses. The resignations of two Canadian officials of the LPP-controlled Fur and Leather Workers Union with respect to the merger of the International Fur and Leather Workers Union (Canada and the U.S.) and the AF of L Amalgamated Meat Cutters and Butcher Workmen was a case in point. One might also detect a certain laxity in Party security, especially in Quebec where the Provincial Police and the Montreal Anti-subversive Squad have had considerable success in their raids on the homes of LPP members. All these points of structural weakness were dealt with either by Buck or by the National Committee.

Increase in Party Cadres

25. "It is clear /the National Committee declares/ that the improved situation as a result of the victories for peace now make it possible to win new members for our Party in greater number especially in the shops and factories, where the Party must now reach to strengthen its working class base."

Increase in Circulation of Party Publications

26. The use of the peaceful co-existence theme to increase subscriptions to the Party press, especially the official organs, was also evident, The National Committee noted

....an unsatisfactory state in the circulation of the press, and instruct /ed/ the NEC to organize and lead a fighting campaign to extend its circulation in the present favourable period.

TOP SECRET

...../9

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

- 9 -

TOP SECRET

Extension of Electoral Activity

27. "The outcome of the Geneva Conference [according to BUCK] confronts [the] Party with the need to extend its electoral activity to all levels" using as a platform the "policy to put Canada First." This policy is based (in the name of peace) on curtailment of the so-called U.S. domination of Canadian affairs and includes the extended "development of basic and finished products industries in Canada", trade with the "socialist half of the world" i.e. the Soviet Union, People's China, and the Peoples' Democratic Republics, and diversion of public spending "from war to welfare". With the idea of a "People's Coalition" in mind, BUCK stressed certain concessions made by the Party. One of these was that, although the National Committee urged that LPP members be nominated in every election in every municipality, it did not urge local Party organizations to insist upon direct Party candidates for each and every office. "The LPP seeks to cooperate with all progressive interests in municipal elections, with or without formal arrangements." And although "the patriotic demand for independence [from the US] is the requisite for bringing into being a People's Coalition", BUCK concedes that "an industry employing Canadians to process our raw materials in Canada is of advantage to Canadians even if it is owned by US capital".

The LPP Attitude to Trade Union Mergers

28. Surprisingly enough in view of the recent resignations of officials from the LPP-controlled Fur and Leather Workers Union for AF of L merger purposes, BUCK declared that "the LPP opposes and will continue to oppose the use of the label of 'unity' as a means of creating disunity, the merging of unions as a means of excluding militant workers from membership or the holding of office, the exclusion from the national centre of bona fide unions". True however, to the main "Canada First" plank of the Party platform was his advocacy of Canadian autonomy for the trade unions.

LPP Security Measures

29. A special meeting of the LPP National Review and Audit Committee with the provincial leaders in attendance was held in conjunction with the National Committee meeting. Instructions were issued to exercise vigilance in making telephone calls and in writing. It was laid down emphatically that Party offices were to be cleaned out carefully, documents for future reference being safeguarded in "archives" by the provincial executive committees. Furthermore, all members of provincial and regional committees were to be screened, even to the extent of enquiring about bank balances. These moves which indicate that the LPP is becoming more and more security conscious were in addition to the prior formation of "Control Committees" to protect Party records, identify informers within the Party and identify Special Branch personnel. In Quebec the LPP actually carried out its own raids to determine what might have been seized by the police.

Conclusion

30. There is really nothing new in the propaganda issued by the National Committee, merely a comprehensive re-statement and a re-emphasis. There is nothing new either in the basic aim of the LPP as presented by the National Committee or, more bluntly still, by BUCK in his recent speech to the Ontario and Quebec provincial Party Schools: "...there is one fundamental applicable at all times, and that is the dictatorship of the proletariat.... the seizure of power is only the start...our programme says that it is possible to achieve a peaceful transition to socialism, but nowhere in this programme do we guarantee that there will be no violence". What is new is the spirit of optimism generated by the results of the Geneva Conference, a conviction that action now during the period of peaceful co-existence would further the ultimate aim of world communism.

TOP SECRET

000199

BEST AVAILABLE COPY

Copy No. 135

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET
JIC 154/1(55)
22 November 1955

THE JIC SEMI-ANNUAL REVIEW

(1 Mar 55 - 30 Sep 55)

CONTENTS

50028-B-46
129 | ✓

I. <u>INTERNAL DEVELOPMENTS IN THE SOVIET BLOC</u>	Para
Internal Politics	1
The Economy	9
Transportation	16
Aircraft Production	18
Land Armaments Production	21
Naval Shipbuilding	22
Atomic Energy and Nuclear Weapons	23
Guided Missiles	24
Biological-Chemical Warfare	25
Military Electronics	26
The Army	27
The Navy	30
The Air Force	32
European Satellite Forces	35
II. <u>SOVIET FOREIGN POLICY AND ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR</u>	
General	39
The Geneva Conference of Heads of State	42
German-Soviet Relations	44
Soviet-Austrian Relations	46
The Warsaw Pact	47
Scandinavia	50
Relations with Japan	51
Middle East	52
Relations with China and the Far East	54
Disarmament	57
East-West Contacts	60
Position of Yugoslavia	61
"Return to the Homeland" Movement	67
III. <u>INTERNAL DEVELOPMENTS IN COMMUNIST CHINA</u>	
Internal Politics	70
The Chinese Economy	74
Chinese Communist Army	79
Chinese Communist Navy	80
Chinese Communist Air Force	81
Airfield Construction	82
IV. <u>COMMUNIST CHINESE FOREIGN POLICY AND ATTEMPTS TO EXPLOIT TROUBLED AREAS IN ASIA</u>	
General	84
Formosa	86
Indo-China	88
Korea	90
Japan	91
Indonesia	92

TOP SECRET

DOWNGRADED TO SECRET
REDUIT A SECRET

BEST AVAILABLE COPY

TOP SECRET
JIC 154/1(55)
22 November 1955

The JIC Semi-Annual Review
(1 March 1955 - 30 September 1955)

I. INTERNAL DEVELOPMENTS IN THE SOVIET BLOC

Internal Politics

1. Since the resignation of Malenkov three major trends have been evident in the internal politics and government of the USSR. The relaxed nature of Soviet leaders and their apparent rejection at least for the time being of one-man dictatorial rule have demonstrated the success of the policy of "collective government". A second important feature has been the determined drive towards economic and administrative efficiency. The third trend has been a tendency by the new regime to end many of the old arbitrary injustices and create a feeling among the people of an increase in their individual freedom.
2. In the apparent maintenance of "collective leadership" no single individual has emerged to take the place of Stalin. At Belgrade, at Geneva, and in Moscow Soviet leaders seemed to act spontaneously as a team, and not as men who are waging a life and death struggle for dictatorial supremacy. While on occasions Bulganin seems to wield more authority, Khrushchev now is considered to be the key man of the Soviet regime. But while Khrushchev may be first among equals, apparently neither he, Bulganin nor anyone else exercises sufficient control to wield absolute authority.
3. Recent appointments within the Party generally reflect Khrushchev's influence. Both Kirichenko and Suslov, appointed to the Party Praesidium in July, have served under Khrushchev. D.T. Shepilov, the chief editor of Pravda who was appointed to the Party Secretariat and who, it has been rumoured, may assume the position of Foreign Minister if Molotov resigns, has been an outspoken advocate of Khrushchev's agricultural policy. The delegation which accompanied Chancellor Adenauer to Moscow had the definite impression that Molotov, who is primarily associated with rigid Stalinist policies, was no longer a member of the inner circle, and that foreign policy was now largely decided by Khrushchev and Bulganin.
4. Changes in the Council of Ministers emphasize the government's concerted efforts to improve administrative efficiency, economic planning and production. Of the four new Deputy Chairman, Kucherenko, Zavenyagin and Krunichev are thoroughly experienced in the administration of heavy industry while Lobanov is an expert in agricultural administration and has been an ardent supporter of Khrushchev's virgin lands campaign. Their appointments underline the current policy of selecting as Deputy Chairman men who are skilled technicians and who will operate under the political direction of the Praesidium of the Council of Ministers. In line with this policy the Government has somewhat reduced its own central authority and granted greater autonomy to industrial directors and local leaders. At the same time however, the Party has exerted an increasing influence at lower levels of administration, so that any reduction of strict government control has been offset by closer supervision of Party authorities. Recent official statements lend force to the suggestion that under Khrushchev there has been a considerable transfer of authority from the Council of Ministers to the Central Committee of the Party.
5. The pattern of production has been altered, with renewed emphasis on increased investment in capital goods industries rather than on consumer goods. Efforts are being made in industry to cut costs, re-adjust wage rates and overhaul the entire structure of industrial planning. This increased emphasis on greater practical planning and per capita

TOP SECRET

...../2

DOWNGRADED TO SECRET

REDUIT A SECRET

TOP SECRET

- 2 -

productivity has led to widespread criticism of production methods and industrial slackness. Bulganin, in a major speech, highly praised certain industrial aspects of American capitalism, and the government has established an Institute of the Economy of Modern Capitalism to examine Western production methods and to re-appraise the entire structural bases of capitalist economics. In order to raise man-hour productivity working norms are being increased, wages re-adjusted and normal increases of nominal wages stopped. At the same time the Soviet labour newspaper Trud has severely criticized executives who discharge workers without adequate cause, who force workers to work overtime without meeting legal requirements, or who otherwise exercise arbitrary authority over their employees.

6. The government has continued its policy of increasing collectivization and cultivation of marginal lands, and of raising agricultural production. To produce the hoped for results and increase party control over the farms Khrushchev has appointed 30,000 party officials as chairmen of collective farms. In its enthusiasm for Khrushchev's virgin land policy, however, the government seems to have gambled with the basic instability of the new lands as a potential dust bowl area--a period of adverse climatic conditions would be disastrous for the success of the programme.

7. The government has issued a number of decrees liberalizing the structure of the Soviet legal system and providing greater protection to the rights of the individual. The role and the power of the Secret Police has been considerably reduced and its dreaded Special Board liquidated; prosecutors no longer exercise investigatory powers, and provisions for arbitrary arrest and imprisonment have been tightened up and curtailed. Penalties for minor political or administrative misdemeanours have been lightened and authorities are now overhauling the structure of the whole legal apparatus. On September 18, Izvestia announced a general amnesty for alleged collaborators during World War II. All but the most serious sentences have been revoked. The amnesty is directly related to the agreement to return to Germany 10,000 "war criminals", and to the "return to the homeland" movement. For such nationalities as the Crimean Tartars, the Volga-Germans and the Chechen-Ingush who were exiled for having supported the Germans, the announcement if taken literally means rehabilitation and the restoration of status as free citizens. Such measures are in line with a shift away from "Russification" to encourage those minority traditions and folkways which do not directly clash with government policy or fundamental Communist doctrine.

8. A significant aspect of the "new Look" is the greater degree of scientific and intellectual freedom permeating Soviet life. While Marxist-Leninism is still fundamental, the present regime has not found it necessary to lay down strictures on all points of differences. This is especially the case in the scientific fields. Since Geneva, Soviet press reports of events in Western countries have been much less belligerent. Diplomats and correspondents in the USSR enjoy a greater degree of personal freedom of activity. Visas are now fairly easily obtained, and less arbitrary restrictions encumber foreigners travelling inside the country. Cultural activities also exhibit a greater degree of intellectual freedom. The recent stage productions, "Wings" by Korneichuk, and "Personal Affair" by Shtein, both make strong attacks on the position of the Secret Police and the misuse of the organs of law and order to promote personal ends. Leading composers are denouncing the "dogmatism" and "orthodoxy" imposed on composers of popular music, and the Russian radio now broadcasts an increasing number of popular American, British and Western tunes. The "...better use of foreign experience..." in radio, television and other branches of science has been urged. Several Soviet writers who were once condemned as "ruthless cosmopolitans" are again actively at work in Moscow.

TOP SECRET

...../3

3-DOWNGRADED TO SECRET
REDUIT A SECRET

9. Probably the most significant development in the Soviet economy during the period under review has been the increasing emphasis attached to the improving of industrial efficiency and the raising of productivity in all sectors of the economy. The regime apparently fully realizes that continued industrial expansion at a high rate during the Sixth Five-Year Plan will depend to an even greater extent on increasing the productivity of capital and labour. During the present five-year plan, the regime was able to overcome the deficiency in labour productivity by the unplanned absorption of a higher number of persons into industry. However, due to the impact of the war on birth rates, the net increment to the labour force during the next five years will be substantially lower than during the past five years. Bulganin laid great stress on the need for higher productivity when he warned the Central Committee of the Communist Party that "we shall encounter difficulties in supplying the economy with labour".

10. In his report on industrial problems delivered at the plenary session of the CPSU Central Committee on 4 July, Bulganin was remarkably frank in his analysis of the shortcomings of Soviet industry. He reaffirmed the policy of preferential development of heavy industry,--and outlined the direction in which further industrial development must proceed if a continued high rate of economic growth is to be sustained. These include improved technical equipment, accelerated application of science and technology, the production of new tools, wider use of automatic and mechanized processes, fuller use of present equipment, higher labour productivity, lower costs, improved planning and industrial leadership, and better location of industry in relation to material supply.

11. In support of these programmes, the regime has re-organized the GOSPLAN into two commissions, one for short-term planning, and one for long-term planning, and has set up a State Committee on New Technology and a State Committee on Labour and Wages. The separation of the GOSPLAN into two Commissions is probably motivated by the need to give greater effort to long-term planning, especially of the energy base. The problem of industry location has been stated by Bulganin as being a major task of the long-term planners, particularly in the Eastern regions. The minimization of transport and the fullest use of indigenous materials are to be key criteria in new industry location. The State Economic Commission for long-term planning has been placed under Baibakov, the former Minister of the Oil Industry, and will concentrate on plans of a five, ten, and fifteen year nature. While the relationship between the two Commissions for planning is still somewhat obscure, it would appear that the State Commission for current planning under Saburov, the former GOSPLAN head and a First Deputy of the Council of Ministers, is to concentrate on yearly, quarterly, and monthly planning. The State Committee on New Technology under Malyshev, a production engineer and a Deputy Chairman of the Council of Ministers, is to supervise the planning for and introduction of advanced technological methods into industry. The State Committee for Labour and Wages, under Kaganovich, has probably been set up to undertake a complete overhaul of the wage structure and to work out a new set of labour norms, which are long overdue.

12. The carrying out of the new programme for industrialization, particularly the introduction of automatic processes, will require a continuing high level of investment in new plants and equipment. The programme of expanding agricultural output will also require a heavy outlay of resources if it is to achieve some degree of success. In addition, the tremendous cost of the new weapon systems in terms of medium and heavy jet bombers, the series production of new fighter aircraft, and an enlarged guided missile programme, would also indicate that defence

...../4

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

BEST AVAILABLE COPY

- 4 -

expenditures may be expected to rise further. With the priority in the allocation of resources remaining with investment and defence, it is thought that the rate of growth of per capita consumption will be slowed down in the foreseeable future. The heavy demands on the domestic economy will in all likelihood impose a limitation on the capability of the USSR to increase substantially its exports of industrial equipment and materials to China, the Satellites, and underdeveloped countries.

13. The Soviet 1955 mid-year plan report indicates that the recent measures to improve organization and planning, and the emphasis on the introduction of new technology, have already resulted in some improvement in efficiency. The report confirms previous announcements that the goal for total industrial output of the original Fifth Five-Year Plan was fulfilled about eight months ahead of schedule. Impressive gains are claimed in the expansion of the energy base in terms of coal, oil, and electric power production, while the sharp rise in oil production suggests that the original plan of 70 million metric tons by 1955 may now be attainable. Production of steel and production in many sections of the engineering industry (especially agricultural machinery) indicate a rate of growth higher than in the first half of 1954. As expected, the rate of increase for consumer goods was somewhat lower than a year ago. The seven percent increase in industrial labour productivity coupled with the 12 percent increase in industrial output indicate a further rise of five percent in the industrial labour force. While the capital investment plan was under-fulfilled by seven percent, it apparently represented an increase of 11 percent over the corresponding period of 1954. Investment in heavy industry accounted for a large proportion of the increase. In the field of agriculture, a substantial expansion of the area under cultivation was achieved. Some 50 million acres of new lands were sown, 17 million acres more than the original objective. The total area under spring crops was stated to be 53 million acres greater than in 1954. The area under maize, 45 million acres, is 34 million acres greater than last year. Despite the serious drought conditions in the new land area, there is every indication that a record grain crop will be achieved in 1955.

14. Although strains and stresses have developed in the economy due to the competing demands of defence, investment and consumption, it would appear that the defence and investment goals are being largely achieved by enforcing a somewhat lower rate of growth of consumption. The inflationary danger inherent in the slower rate of growth of consumer goods was to some extent offset by the increase in the state loan and the failure to reduce retail prices this year. On the whole, it would appear that the Fifth Five-Year Plan for industrial production has been eminently successful, with a rate of progress some 6 percent above the original plan. Despite the spectacular new lands programme, it is obvious, however, that the Fifth Five-Year Plan for agriculture, especially in grain production, has failed. Although agriculture continues to be the weakest link, it is thought that a modest degree of success in the new programme will maintain the supply and demand picture for grain on an even keel for at least the foreseeable future.

15. In the European Satellites there would appear to have been no major revision in the general economic policies adopted in 1954. Military budgetary allocations, after a decline in 1954 have risen in most countries, but are still below the 1953 level in Bulgaria, Roumania and Hungary. Plan fulfilment reports suggest that increases in consumer goods have been maintained rather better than in the USSR. Despite increased support, agriculture is lagging and is in a particularly serious condition in Poland, while there has been under-fulfilment in Czechoslovakia over a long period and no sign of improvement in Roumania. Heavy industry is still beset by shortages of ores and scrap and production in the heavy industrial sector remains stagnant in Czechoslovakia and Hungary.

TOP SECRET

...../5

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET SECRET

Transportation

16. Throughout the period under review, all countries of the Communist Bloc have continued the rehabilitation and expansion of their transport systems and associated services. Although no one development noted has outstanding strategic importance, all developments collectively point to a steady improvement of their economic and strategic positions. The major developments have occurred within the USSR and China. The satellite areas of Europe and Asia have been less interesting.

17. The over-fulfilment of transport plans within the USSR has shown that the existing system has been adequate to support an expanding economy. The tonnages moved have increased, particularly in the Soviet North, and between the USSR and China. Little new construction has taken place, although certain improvements have been made to the lines of ~~Communication~~ ^{Communism} between Central and Northern Russia. With the exception of slight but not negligible developments to pipe-lines and in dieselization and electrification, the main effort has gone into the improved use of existing surplus capacity. The Soviet merchant marine has demonstrated a capacity to deliver oil in bulk to Arctic ports and an increased capacity to make similar deliveries to Chinese ports. Commercial aviation has continued a modest programme of experimentation with jet aircraft, and has greatly expanded its services in various areas. Both commercial and military aviation have proven capable of the wider use of large transports in the high Arctic than was previously known.

Aircraft Production

18. The most significant development during the past six months was the appearance in the pre MAY day air rehearsals of a large swept wing bomber approaching the BISON (type 37 heavy bomber) in size, and powered by four large turbo prop engines. Seven of these aircraft, designated BEAR for identification purposes, were seen at the Tushino Air Show in July, indicating that this type is being produced serially, although the location of production has not been determined. The BEAR is the first Soviet bomber to appear having a truly inter-hemispheric capability without refueling, and it is estimated that it may be introduced into operational service early in 1956. Sufficient numbers of the BISON have already been observed to indicate that series production is well advanced and that introduction into operational units may also be expected early in 1956.

19. Series production of BADGER, the medium bomber is continuing and is believed to be approaching peak peacetime rates. Cumulative BADGER production as of 30 September is estimated to be of the order of 300-350 aircraft.

20. FRESCO and its variants continues to be the main fighter in production. In spite of this, the Soviet Union was able to commence serial production last year of two new fighters. In the MAY Day air rehearsals a new swept wing day interceptor, designated FARMER, and the long awaited swept wing all weather fighter, designated FLASHLIGHT were first seen and at least 50 of both of these aircraft were displayed at the Tushino Air Show in July.

Land Armaments Production

21. Modernization and re-equipment of the Soviet Army continues. Five new artillery weapons were shown on the MAY Day Parade. It is likely that standardization of armaments is proceeding in the Satellites, although for the most part these countries continue to utilize obsolescent Soviet Weapons. Hungary is producing a high speed artillery towing tractor, the first such vehicle to be made in any of the Eastern European countries, while Czechoslovakia has introduced a new semi-automatic rifle believed to be of native design. The T 34/85 medium tanks are believed to be still in production in Czechoslovakia and Poland.

TOP SECRET

.... /6

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

Naval Shipbuilding

22. Shipbuilding activity and in particular the construction of submarines has continued at a high rate. No assessment can yet be made of the type of the large vessel which has been under construction in Leningrad since mid-1952, except that it is larger than a Sverdlov class cruiser. It is not known whether Sverdlov class cruisers will continue to be built in Leningrad. The twelfth and last known Sverdlov laid down in Leningrad was launched in June. However, these cruisers are also being built at Nikolaev, in the Black Sea and Molotovsk in the White Sea. Two classes of anti-submarine vessels now in production have been distinguished: the Kola class and the Riga class, both of 1,500 tons. The production of Z and W class long range submarines continued at an estimated rate of about 70 a year. This does not represent a net gain for the submarine force, as some older submarines are going into reserve and some are being transferred to Satellite navies. A motor torpedo boat, the first naval vessel built in East Germany apart from small minesweepers and patrol boats, may have been completed.

Atomic Energy and Nuclear Weapons

23. The period under review was noteworthy for the changes in the Soviet attitude to the release of information on the peaceful uses of atomic energy. While the first indications of this new policy appeared in December 1954, its full impact was not felt until the two international conferences held in Moscow in July and Geneva in August. The latter of these two conferences was the more important because of the much broader international representation. At Geneva Russian scientists gave details of four different types of experimental reactors, as well as the details of their 5000 kw atomic electric station. There were also a considerable number of papers dealing with the results of fundamental research in the fields of nuclear physics. The testing of Soviet atomic weapons was recommenced during the late summer, with two explosions at the atomic testing ground at the beginning of August. These explosions appeared to be of weapons of small and medium yield, and are thought to represent the standard tactical and medium yield air weapon of the Soviet forces. It is considered that these weapons were exploded for weapon effects studies, and had an appreciable Service participation. Late in September a further nuclear explosion occurred in the Barents Sea area near Novaya Zemlya, and is thought to have been an underwater explosion for the testing of the effects of an atomic explosion on ships. It is considered that the 1955 nuclear test program may well extend beyond the end of the period of this report.

Guided Missiles

24. There is little more positive evidence concerning Soviet guided missiles than was available six months ago. There are indications that the Soviet Union has a continuing, high priority guided missile programme, and there is reason to believe that research and development work is being conducted in surface-to-surface, air-to-surface, and surface-to-air missiles. There have been unconfirmed reports of the Soviet launching experimental missiles from submarines, and although a requirement exists for the Soviets to possess an all-weather air-to-air missile no evidence of such development has become available. One of the more interesting developments in recent intelligence has been the increasing number of sightings of grid-like construction sites in the vicinity of Moscow. To date 60 of these sites have been reported, some of which may be duplicates. It has also been reported that objects which could be surface-to-air missiles of the Wasserfall type, have been observed in the vicinity. It is therefore possible that these are launching sites for surface-to-air guided missiles, although the number of sites, their close juxtaposition, and the scale of effort involved would appear to be excessive for this purpose. Alternatively, it has been suggested that these sites are locations for unguided anti-aircraft rockets designed primarily to give protection against low-flying aircraft. It is also still possible that these sites have been constructed for some other, as yet undisclosed, purpose.

TOP SECRET

..../7

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~
TOP SECRET

Biological - Chemical Warfare

25. Evidence has now accumulated to confirm the belief that the Soviet BW program is intimately connected with their work on anthrax. The Soviets have also produced aerosol filters which would be primarily suitable for use in the rapid sampling of BW clouds. Activities reported from the Soviet Far East may support the anticipated extension of the Soviet BW program to that area, but firm evidence on this point is still lacking. The possibility of Soviet military research into the use of psychogenic drugs is suspected.

Military Electronics

26. The output of military electronics has tripled since 1950, and continues to rise at the same rate. The length of Soviet bloc perimeter covered by effective radar warning and control is over 7000 miles, and includes an estimated 700 radar stations of which some 400 have been detected. New name radars have continued to be observed; the total number of these is 15, most of which show evidence of original native design, and fully modern capabilities. There is some evidence that the Soviets have now developed an air intercept radar for single seater fighters; if this proves a success in air operations it is an example of radar research work at an advanced level. An increasing amount of Soviet published material on missile guidance techniques has appeared in the last six months which may well indicate a requirement for operating and servicing personnel. These advances in military electronics have been accomplished by severely limiting civilian electronic production. In Canada 73% of the electronics output goes into civilian products, and the remaining 27% into military equipment. In the Soviet Union military requirements have been consistently absorbing 70% of the electronics product, and there has been to date no indication of slacking off.

The Army

27. On 12 March 1955 the Soviet Union created 10 new marshals, and one airforce marshal, Zhigarev, was promoted to the rank of Chief Marshal of the Soviet Air Force. This was the first group promotion since the war. All but one of these are known to have served at one time or another in the Ukraine during the Second World War, an area in which the present Minister of Defence, Marshal Zhukov, campaigned with some distinction. Four of the new marshals are native born Ukrainians. This close association with the Ukraine may not be mere coincidence. It may reflect close association with Zhukov or possibly an attempt by Khrushchev, wartime party leader in the Ukraine, to strengthen his position within the Armed Forces. Although these promotions enhance the prestige of the Soviet Army, there is no evidence that the Party hierarchy intends to relax firm control of the Armed Forces.

28. There has been no change in the estimated strength of $2\frac{1}{2}$ to 3 million men organized into about 175 line divisions given in the last semi-annual review. On 13 August 1955 the Soviet government announced its intention to reduce the Soviet armed forces by 640,000 men. Even if this reduction is carried out and is applied preponderantly to ground forces and security troops, it is considered that it could be effected without appreciably reducing the Soviet Army's value or readiness for war. The military commitments of the army have been considerably diminished by the withdrawal of forces from the Kwantung Peninsula, Porkkala and Austria and further cuts could be made by reduction or elimination of cadre units in the Soviet Union. The Soviets have continued energetically to build-up the military effectiveness of their forces in East Germany by large scale importations of the latest types of heavy equipment. By the end of the period under review approximately 2000 T-54 tanks had arrived in East Germany, sufficient to equip fully all tank divisions and to commence distribution to mechanized divisions.. Substantial improvement has also been made in both quality and quantity of motor transport. It is believed

TOP SECRET

...../8

000207

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~

that most of the major Soviet units in East Germany are now at or close to war establishment in motor vehicles, but that Rear Services are still deficient of third line transport.

29. Generally speaking training in the Soviet forces in Germany has followed the usual pattern established by the training cycle. Again this year there was some indication of emphasis on movement and in March and April short movement exercises were conducted at regimental or higher level. The move to summer training areas began in the third week of April and it appears that certain divisions moved to areas different from those occupied in past years. Toward the end of August and the beginning of September divisional exercises were conducted in at least five of the six Soviet armies in Germany. In the last semi-annual review it was indicated that the Soviet Army was conducting limited training in atomic warfare and that emphasis was on defensive aspects. A recently acquired summer training schedule for subordinate units of a rifle regiment lists two topics concerning atomic warfare training. The significance of this document lies in the fact that it provides the first evidence that training is being carried out in offensive as well as defensive operations under conditions of atomic warfare.

The Navy

30. During the period under review the largest transfer of Soviet warships ever recorded between fleet areas took place when 2 cruisers, one large destroyer, 12 destroyers, 12 submarines, 12 anti-submarine vessels 12 fleet minesweepers and one submarine depot ship transferred from the Northern to the Pacific Fleet area via the Northern Sea route. A number of ships and aircraft were turned over to the Chinese at the time Port Arthur was given back to the Chinese Peoples Republic and as well the Chinese received 2 Gordy class destroyers, 2 MV class short-range submarines, 2S class Long range submarines, and possibly 6 Kronstadt class anti-submarine vessels. 2 Gordy class destroyers and 5 MV class submarines were transferred to the Roumanian Navy. General exercise activity has continued at a high level and each Soviet fleet has carried out at least one major exercise. The theme of these exercises appears to emphasize co-operation between forces. In the Black Sea emphasis appeared to be on combined operations, in the Baltic on surface-air co-operation, and in the North submarine, surface and air co-operation, and in the Pacific long range submarine patrol. In all fleet areas the intensity of training in submarine warfare has increased. Air activity during recent months suggest the use of advanced electronic airborne equipment by naval fighters.

31. Admiral Sergei Georgevich Gorshkov has been appointed First Deputy C-in-C Naval Forces in Naval Headquarters, Moscow. This officer was formerly C-in-C Black Sea Fleet. At the end of the period arrangements were made for and exchange of visits between six Russian ships and six British ships to visit Portsmouth and Leningrad respectively.

The Air Force

32. The most significant development was the appearance of a large swept wing four engine, turbo-prop bomber, designated the BEAR and the continued modernisation of the Soviet and Satellite Air Forces primarily through conversion to jet aircraft. An estimate of the strength of the Soviet and Satellite Air Forces has been reduced by over 1000 aircraft because of a reassessment of unit strengths and a reduction in the number of ground attack units. This has been offset by an increase in jet aircraft. The overall strength of the Soviet Long Range Air Force increased during the period with addition of approximately 100 BADGER (Type 39) jet bombers making a total 160 BADGERS in the possession of the Soviet LRAF. Overall capability however still depends on the BULL (TU4).

TOP SECRET

.../9

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

- 9 -

33. The most significant developments in the Tactical Air Force have been indications of increased jet fighter capabilities through the use of airborne intercept radar equipment. Introduction into the TAF of single seat (FARMER) and two seat (FLASHLIGHT) jet fighters, which appeared in numbers at the Tushino Air Show, should increase the offensive and defensive capabilities of this force. In the Naval Air Forces the conversion from Mig 15 fighters to FRESCO (Mig 17) is 80% completed while two engine flying boats (similar to the Martin Mariner) are believed to be replacing Catalinas in naval reconnaissance units, and helicopters are being introduced in increasing numbers.

34. It is extremely difficult to give a true assessment of airfield developments in the Soviet Union, however, during the past six months there were indications that the Soviets were extending and improving runways to accommodate the new aircraft of the Long Range Air Forces. It is believed that this development work has been largely concentrated in the more exposed areas extending from the Kola Peninsula in the North, along the western border area of the Soviet Union, to the Caucasus in the South. Some evidence also suggests that a similar airfield development programme has been instituted in the Far East, particularly in the Southern Maritime District. One of the salient features of the airfield development programme in the European Satellite Area during the period under review has been the continued emphasis placed on Poland and Eastern Germany. Although construction of new airfields in most of the other Satellite Countries has almost stopped, the development programme in Poland has continued, with 35 airfields with paved long runways; out of 118 in all the European Satellite Countries. In addition, there are nine (possibly fourteen) other airfields currently under construction in Poland, four which are being built in Eastern Germany, one in Roumania, and one in Albania.

European Satellite Forces.

35. The strength of the East European Satellite armed forces, including security troops, has remained relatively constant over the past six months with an estimated total strength of 1,500,000 men. The Satellite ground forces consist of approximately 1,100,000 men organized into an estimated 80 line divisions. However, following the lead of the Soviet Union, all of the Satellites except East Germany have announced plans for reducing their armed forces by the end of 1955. If these forces are actually reduced in accordance with announced figures, a reduction of about 170,000 men will occur by the end of the year--about 11 percent of the total personnel. The manner in which such a reduction will be accomplished is not known but it is not believed that it will change the number of basic formations or greatly decrease the effectiveness of the armed forces of these countries.

36. A Joint Soviet-Satellite command structure came into being when the Soviet Union and Satellites signed the Warsaw Treaty in May of this year placing the forces committee to this treaty under the direction of Marshal Konev of the Soviet Union. The treaty provided for unity of action in the event of attack on any signatory and provided the right for the Soviet Union to station its forces in the Satellites. A Soviet-East German Treaty of Mutual Relations was concluded in Moscow during September and following this action, the East German Parliament (Volkskammer) passed an amendment to the Constitution which provided a legal basis for the creation of national armed forces. Recent evidence indicates that the East German police, including ground, naval, and air elements now have a common headquarters at Strausberg, East of Berlin. It is believed that Strausberg will be the home of the East German Defence Ministry and that Willi Stoph, who recently gave up his position as Minister of the Interior, will head the East German Ministry of Defence.

37. The senior Soviet generals who were withdrawn from positions as Military Attaches in the Satellite countries have now been replaced by colonels. It is not believed that this represents any relaxation in the

TOP SECRET

....10

BEST AVAILABLE COPY

- 10 -

DOWNGRADED TO SECRET
REDUIT À SECRET

degree of Soviet control but, rather, was a prelude to the Warsaw Treaty and the beginning of a new system of training and inspection under Soviet direction.

38. Corps level field training has been observed in Czechoslovakia and Poland; however, there have been no other notable developments in Satellite Army training except the increasing frequency of reports of training in atomic warfare which, to date, has consisted of training in defensive measures. In East Germany, field training reached a slightly higher level than noted in the preceding years. The Satellite armies still are short of heavy equipment and are dependent upon the Soviet Union for air and logistic support. No significant items of Soviet postwar equipment has appeared in the Satellite armies.

TOP SECRET

..../11

BEST AVAILABLE COPY

- 11 -

~~TOP SECRET~~ **DOWNGRADED TO SECRET**
REDUIT A SECRET

II. SOVIET FOREIGN POLICY AND

ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS

OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR

(As at 30 Sep 55)

General

39. During the period under review, it became apparent that a major shift in Soviet foreign policy tactics had taken place. From the death of Stalin there were indications that the new leaders might be willing to abandon the tough policy toward the West which dated from 1947. The events of the last seven months suggest that the drive for "normalization of relations" with the non-Communist world is to be the new tactic to attain what the tough policy had failed to attain. The long-term aims remain the same. In the West, these are to prevent the incorporation of a re-armed Germany (Western or united) into the Western alliance; to lessen U.S. influence in Europe and cause the withdrawal of U.S. armed forces; and by isolating the U.S. from its friends to destroy the Western alliance. In the East, it is similarly to isolate the U.S. from its friends; by lessening U.S. influence to cause the withdrawal of U.S. and allied strategic bases on the periphery of the Sino-Soviet bloc; and to expand the area of Communist influence by legal or illegal means short of major war in the uncommitted countries. In this connection, an article on the "Spirit of Geneva" which appeared in the August issue of Communist, the organ of the Central Committee of the Communist Party, is revealing. This exposition of the post-Geneva "party line" continues to insist on the "annulment of NATO" as the essential precondition to German re-unification; gives no indication that the U.S.S.R. is ready to accept a fool-proof system of control in the field of disarmament; ascribes the current thaw to popular world-wide insistence on peaceful policies; puts the full blame for violation of the Geneva Agreement on South Vietnam; and gives no indication that it would agree to a Korea united through genuinely free elections held under the supervision of an impartial international agency or commission. In short, evidence is still lacking that the Soviet Union is willing to concede on really fundamental issues.

40. In the main, the aggressive Stalinist policy had had exactly the reverse effect to that desired. The Soviet Union could probably have maintained the status quo of the cold war by a continuation of the tough policy. But it was apparent that no further advance could be made by these methods. In addition to the failure of the tough policy, there were other reasons which made a return to negotiation and diplomacy seem desirable. In the first place, there is the internal problem. Not only is agriculture in particular in a serious state, but it has become apparent that there is not available an endless supply of labour and resources to meet all the demands on the economy. The economy cannot indefinitely meet the needs of heavy industry, re-armament caused by the situation in Europe and the Far East, atomic energy development, consumer goods, and Chinese industrialization. Added to this is the unsettled problem of the leadership, as no one of Stalin's stature has emerged to enforce rigid control. The economic and political pressures within the country require a relaxation of international tension in order to lessen the demands on the economy. Secondly, there are the demands of Communist China. If China is to be turned from a primitive economy into a powerful industrial state, it must have outside assistance. Failure to get that substantial assistance from the Soviet Union would seriously weaken Moscow's influence over Peking, tend to turn over Communist leadership in Asia to China, and perhaps run the risk of war as a result of Chinese rashness. Thirdly, there is the re-emergence of Germany as a major European power which, with the ratification of the Paris Agreements, was obviously allying itself firmly with the West. Its potential military

TOP SECRET

..../12

BEST AVAILABLE COPY

- 11 -

TOP SECRET

II. SOVIET FOREIGN POLICY AND

ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS

OF THE WORLD OF SIGNIFICANCE IN THE COLD WAR

(As at 30 Sep 55)

DOWNGRADED TO SECRET
REDUIT A SECRET

General

39. During the period under review, it became apparent that a major shift in Soviet foreign policy tactics had taken place. From the death of Stalin there were indications that the new leaders might be willing to abandon the tough policy toward the West which dated from 1947. The events of the last seven months suggest that the drive for "normalization of relations" with the non-Communist world is to be the new tactic to attain what the tough policy had failed to attain. The long-term aims remain the same. In the West, these are to prevent the incorporation of a re-armed Germany (Western or united) into the Western alliance; to lessen U.S. influence in Europe and cause the withdrawal of U.S. armed forces; and by isolating the U.S. from its friends to destroy the Western alliance. In the East, it is similarly to isolate the U.S. from its friends; by lessening U.S. influence to cause the withdrawal of U.S. and allied strategic bases on the periphery of the Sino-Soviet bloc; and to expand the area of Communist influence by legal or illegal means short of major war in the uncommitted countries. In this connection, an article on the "Spirit of Geneva" which appeared in the August issue of Communist, the organ of the Central Committee of the Communist Party, is revealing. This exposition of the post-Geneva "party line" continues to insist on the "annulment of NATO" as the essential precondition to German re-unification; gives no indication that the U.S.S.R. is ready to accept a fool-proof system of control in the field of disarmament; ascribes the current thaw to popular world-wide insistence on peaceful policies; puts the full blame for violation of the Geneva Agreement on South Vietnam; and gives no indication that it would agree to a Korea united through genuinely free elections held under the supervision of an impartial international agency or commission. In short, evidence is still lacking that the Soviet Union is willing to concede on really fundamental issues.

40. In the main, the aggressive Stalinist policy had had exactly the reverse effect to that desired. The Soviet Union could probably have maintained the status quo of the cold war by a continuation of the tough policy. But it was apparent that no further advance could be made by these methods. In addition to the failure of the tough policy, there were other reasons which made a return to negotiation and diplomacy seem desirable. In the first place, there is the internal problem. Not only is agriculture in particular in a serious state, but it has become apparent that there is not available an endless supply of labour and resources to meet all the demands on the economy. The economy cannot indefinitely meet the needs of heavy industry, re-armament caused by the situation in Europe and the Far East, atomic energy development, consumer goods, and Chinese industrialization. Added to this is the unsettled problem of the leadership, as no one of Stalin's stature has emerged to enforce rigid control. The economic and political pressures within the country require a relaxation of international tension in order to lessen the demands on the economy. Secondly, there are the demands of Communist China. If China is to be turned from a primitive economy into a powerful industrial state, it must have outside assistance. Failure to get that substantial assistance from the Soviet Union would seriously weaken Moscow's influence over Peking, tend to turn over Communist leadership in Asia to China, and perhaps run the risk of war as a result of Chinese rashness. Thirdly, there is the re-emergence of Germany as a major European power which, with the ratification of the Paris Agreements, was obviously allying itself firmly with the West. Its potential military

TOP SECRET

.... /12

BEST AVAILABLE COPY

DOWNGRADED TO SECRET

- 12 - **REDUIT A SECRET**
TOP SECRET

and industrial strength could tip the European balance heavily in the West's favour and thus posed the spectre of a revived threat to the Soviet Union. Finally, there is the factor of the atomic and hydrogen bombs. Ideologically correct statements to the contrary, the Soviet leaders are increasingly aware of the vulnerability of all countries, including the Soviet Union, to the annihilative effect of nuclear warfare. If any major war may develop into a thermo-nuclear war, then it constitutes a threat to the Soviet system, and policies less likely to lead to war must be adopted.

41. A combination of these motivations and a variety of lesser ones has led to a number of developments in the past months all designed to give the impression of a return to normal and friendly relations with the West: the disarmament proposals at London on May 10th; the signing of the Austrian State Treaty; the visit of the Soviet delegation to Yugoslavia; the opening of Soviet-Japanese peace treaty negotiations in London; the Geneva Conference of Heads of State; the reduction of Soviet armed forces; the agreement to establish diplomatic relations with the Federal Republic of Germany; and the return to Finland of the Soviet base at Porkkala. There has also been a marked lifting of the Iron Curtain permitting a freer flow of visitors to and from the Soviet Union.

The Geneva Conference of Heads of State

42. The Soviet Union made it quite clear before the Geneva Conference in July that it was not prepared to discuss either the position of the satellites or the role of international communism. Discussion was in fact limited to German re-unification, European security, and disarmament. With the exception of President Eisenhower's proposals on the exchange of military blue-prints, neither side advanced new proposals, and neither side abandoned any of its positions. However, the problems were clearly defined in a joint directive which would permit the Foreign Ministers to continue negotiations in October, and the conference seems genuinely to have led to the relaxation of tensions and the creation of an atmosphere in which negotiation and diplomacy are possible. President Eisenhower's performance seems to have done a great deal to convince the Russians and the rest of the world that the aim of the Western alliance is peace with security.

43. Leaders on both sides appear to have convinced one another that German re-armament will not be allowed to lead to war. The Russians clearly prefer the status quo to the jettisoning of Communism in Eastern Germany and the resultant shock to the satellites. They may therefore be expected to reject any European security system which has as a pre-condition German reunification. They prefer to establish direct contact with the Germans in order to increase the flexibility of their position, and then gradually let the movement towards unification on Soviet terms develop inside Germany.

German-Soviet Relations

44. Before the entry of the German Federal Republic into NATO the Soviet Union warned that this action would make further negotiations about the future of Germany impossible. The eleven fold increase in road tolls between West Germany and West Berlin on April 1 seemed to indicate that the Soviet threat was to be taken seriously. Actually the Soviet Union's German policy remained flexible, as the invitation extended to Chancellor Adenauer on June 7 to visit Moscow demonstrated. Chancellor Adenauer went to Moscow in September, after an exchange of notes, in which the Soviet Union emphasized that it wished to discuss the establishment of diplomatic relations and the promotion of Soviet-German trade and cultural exchanges, while the German Federal Republic insisted on discussions on German reunification and the return of prisoners held by the Soviet Union.

TOP SECRET

..../13

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

45. The negotiations in Moscow resulted in agreements for the establishment of diplomatic relations and the release of nearly 10,000 German "war criminals" held by the Soviet Union. Although the Soviet Union agreed to recognize a Government it had considered illegitimate and honoured a man it had attacked for his alleged revanchist policies, it gave away no ground on the major question of reunification. Both before and after Adenauer's visit, in fact, the Soviet Union stressed its support for its East German satellite. Khrushchev and Bulganin had visited Berlin after the Geneva Conference in July, and immediately after Adenauer's departure from Moscow the East German leaders were invited to Moscow for discussions which led to a formal grant of sovereignty to the German Democratic Republic. At Geneva the Soviet Union resisted suggestions that an early settlement of the German problem was essential. Rather, the Russians appeared to consider the continuance of the present division of Germany as better than any of the practicable alternatives. They probably hope that eventually, by direct negotiations with the West Germans, it might be able to wean them away from their present allies.

Soviet - Austrian Relations

46. After years of refusing to conclude a settlement for Austria separately from a German Peace Treaty, the Soviet Union suddenly reversed its stand. Discussions were begun with the Austrian Ambassador in Moscow late in February and then, in a dramatic move, continued directly with Chancellor Raab, who accepted an invitation to come to Moscow in April. The treaty which emerged from these talks and Four-Power negotiations in Vienna, although based on the draft treaty negotiated among the Four-Powers between 1947 and 1950, was more favourable to Austria than anything the Soviet Union had previously been willing to consider. Austria was forbidden to enter a political or economic union with Germany, agreed to remain militarily neutral, and had limits put on the sort of military equipment its armed forces might use. The Soviet Union, however, gave up its earlier insistence on maintaining occupation forces in Austria until a German Peace Treaty was signed and, in fact, withdrew its forces well within the 90 day period allowed under the Treaty, which came into effect on July 27. The Soviet Union also agreed to give back certain factories and oil fields it had been operating, although the compensation upon which it insisted will be a heavy burden on the Austrian economy.

47. In agreeing to the Treaty, the Soviet Union evidently hoped to gain the gratitude of the Austrians and to impress public opinion elsewhere. In particular, before the German Federal Republic had yet created an army to meet its new NATO commitments the Soviet Union may have wished to demonstrate to the German public the advantages of direct negotiations with the Soviet Union and to suggest that neutralization might be a solution to the German problem. The Russians no doubt also had in mind the desirability of an allied military withdrawal from Austria, creating a neutral zone between the German and Italian areas of NATO.

The Warsaw Pact

48. The signing in mid-May of an East European treaty patterned after NATO, with a Joint Command under Marshal Konev, is expected to do little to change Soviet-Satellite armed strength and the balance of power. There was no indication of the increase of armed forces (integration itself, apparently, is to increase "effectiveness"), and since then reductions of armed forces have been announced with due fanfare. Nevertheless, the Treaty and the Joint Command provide the rudiments of a useful political and military structure which can be developed if need be. It may make more palatable any necessary redeployment of Soviet forces consequent upon the withdrawal from Austria. According to the signatories, this purely defensive grouping had had to be created in answer to the threat of German re-armament. It is allegedly open to any European nation.

TOP SECRET

.... /14

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

49. The Warsaw Pact structure is seen primarily as a propaganda move and a bargaining point in Soviet discussions of European security, German re-armament and the disbandment of NATO. It may be a negotiable element in a drive to get U.S. forces out of Europe in return for some combination of a general European security pact and a German settlement. When the Pact was signed, the question of East German forces was set aside for later consideration. Under the Soviet-East German agreement signed in Moscow in September, granting "independence" to East Germany, that Government will now contribute forces to the joint command but Soviet troops will continue to be stationed in East Germany.

Scandinavia

50. The visit of the Finnish President and Prime Minister to Moscow in September resulted in the return to Finland of the Soviet naval base at Porkkala and an agreement to extend for twenty years the Soviet-Finnish Treaty of Friendship which was due to expire in 1958. The return of Porkkala does little to diminish the security of the U.S.S.R., but serves a propaganda purpose in emphasizing the peaceful intentions of the Soviet Union. The U.S.S.R. has drawn unfavourable comparisons with the U.S.A. and has again demanded the withdrawal of U.S. bases, ignoring the essential difference in the strategic importance of Porkkala and the U.S. bases in Europe. The Porkkala move is no doubt meant to reassure the Scandinavian countries in particular, to encourage whatever neutralist and anti-NATO sentiment exists in Denmark and Norway, and to confirm Sweden's belief in the rightness of its foreign policy.

Relations with Japan

51. Discussions between the U.S.S.R. and Japan opened in London in May with the object of restoring normal relations and concluding a peace treaty. The discussions are still in progress. The Soviet initiative is in line with its policy of restoring normal relations with ex-enemy countries. The purpose is, in general, to re-establish Soviet freedom of diplomatic action in order to be in a position to influence Japanese policies. In particular, the U.S.S.R. hopes to lessen U.S. influence and ultimately bring about the removal of American bases, in effect neutralizing Japan on the Austrian pattern. Discussion centres around a Soviet draft peace treaty which was presented on June 14. One article would set limitations on Japan's freedom to enter military alliances and another would close certain straits around Japan to the warships of countries other than the Soviet Union, Japan and Korea. Japan is proving a hard bargainer, and has rejected both these articles. Indications that the Soviet Union may not insist on the abrogation of the mutual defence treaty with the U.S.A. and minor Soviet territorial concessions, suggest that the U.S.S.R. attaches considerable importance to reaching agreement with Japan.

Middle East

52. The Soviet Union is still making moves towards normalization of its relations with states in the area. These include ratification of the financial and frontier agreement with Iran, a barter agreement with Egypt (oil for cotton), agreement with Syria for an exchange of parliamentary delegations, an offer to the Sudanese Government to supply technical experts to assist in Sudan's development, and an offer to exchange diplomatic missions with Libya and Saudi-Arabia. Col. Nasser has been invited to visit the U.S.S.R. Opposition to military alliances which are friendly to the West continued to be expressed. This was particularly true of the Baghdad Treaty (Turkey, Iraq, Pakistan), which was denounced in an official Soviet Government statement and in Pravda.

TOP SECRET

..../15

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

53. Of serious concern to the Western Powers has been the announcement by Colonel Nasser that Egypt has concluded a deal for the acquisition of arms from communist supplies. It now seems clear that the transaction is with Czechoslovakia and that the Soviet Union will supplement the supplies when Czechoslovakia cannot provide the necessary arms. They are reported to be substantial and include jet aircraft, destroyers, submarines and tanks. It is too early to judge now whether this presages a Soviet move to interfere more actively in Middle Eastern affairs. The major Western Powers have made representations to Egypt and the Soviet Union, drawing attention to the dangers of upsetting the military balance between Israel and the Arab states and precipitating an arms race between them. If the deal goes through it will become necessary for the Western Powers to reappraise their policies with regard to the shipment of arms to the Middle East. The question of the type of aircraft to be maintained on bases in the Middle East would also have to be reviewed.

Relations with China and the Far East

54. It has been suggested that one external reason for the soft policy may be the demands of Communist China for arms and industrial goods, and the necessity of not letting Communist initiative in the Far East slip into Chinese hands. The Soviet Union needs better relations with the West, especially in Europe, if it is not only to build up its own economy, but also to make substantial contributions to the Chinese economy and at least token contributions to both Communist and non-Communist countries in Asia. Agreements to provide economic assistance to Afghanistan and to Northern Vietnam are examples of the extension of Soviet influence in the Far East. It fits in well with its desire to lessen U.S. influence in Asia and not to leave the provision of economic assistance entirely in Western hands.

55. There is no indication that there has been any change in the Soviet desire to discourage Chinese bellicosity over Formosa. The U.S.S.R. may well have helped persuade the Chinese that a period of peaceful relations with the non-Communist world would be most conducive to extending Communist influence in the uncommitted countries, and also Chinese admission to the United Nations. In any event, the U.S.S.R. gave its blessing to the Bandung Conference, at which the Chinese took pains to please and be reasonable, as an example of the co-operation which is possible among countries with differing social systems.

56. Attendance of the Chinese Minister of Defence as an observer at the Warsaw Conference of May 11-14 was further evidence of Sino-Soviet co-operation. He assured the delegates that "peace and security in Asia and in Europe are indivisible" and pledged that "if peace in Europe is undermined China will struggle against aggression jointly with the peoples and Governments of our fraternal countries". But there was no suggestion that the Warsaw defence organization should be extended beyond Europe. The pledge was similar to the one given by the Russians over Formosa, that is, one intended to have the maximum deterrent effect on the West short of automatic commitment to involvement in any war on the lengthy periphery of the Moscow-Peking Axis.

Disarmament

57. The Russians have made substantial concessions to the Western point of view on disarmament in the last few months. On May 10, at the disarmament talks in London, the Soviet representative tabled a document (a) insisting on a rigid time-table which would see the whole disarmament programme implemented by the end of 1957; (b) accepting the Anglo-French compromise that the prohibition of the use of nuclear weapons should go into force upon the completion of 75% of the reduction of conventional armaments;

TOP SECRET

..../16

Document disclosed under the Access to Information Act
Document divulgué en vertu de la Loi sur l'accès à l'information

DOWNGRADED TO SECRET
REDUIT-A SECRET

TOP SECRET

(c) including the Anglo-French proposals on the levels of armed forces for the great powers (1 to 1½ millions for the U.S.S.R, U.S.A. and China, and 650,000 for the U.K. and France); and agreeing with the Western suggestion that nuclear weapons should not be used except in defence against aggression subject to Security Council approval. These proposals represented a substantial advance, particularly as they abandoned the previous position that the total prohibition of thermo-nuclear weapons must precede any general disarmament. But the Soviet position on the essential question of an effective inspection and control system was not clear, and the Soviet plan was linked with a number of political proposals (military bases, occupation troops, war propaganda, trade) which were unacceptable to the Western powers and in any event went well outside the field of disarmament.

58. Most of the May 10 proposals were reiterated by Bulganin at Geneva. In addition, he announced that the Soviet forces withdrawn from Austria would be demobilized, and suggested that the other occupying powers should follow suit; suggested that pending a disarmament convention the Big Four undertake not to be the first in the use of atomic weapons against any nation; and proposed that the armed forces of countries other than the Big Five be limited to 150,000 to 200,000 men. This plan was stripped of the unacceptable political proposals. In addition, the Russians have agreed to make a contribution to the proposed international atomic energy agency "as soon as an agreement on setting up the agency has been reached". In a recent letter to President Eisenhower, Bulganin commented on the President's Geneva proposals concerning the exchange of blue-prints of military installations and aerial reconnaissance. There is partial acceptance of the Eisenhower scheme and some Soviet suggestions for inspection teams. But the Soviet proposals on inspection and control certainly do not go far enough to ratify the requirements of Western security. The post-Geneva announcement that the armed forces of the U.S.S.R. were to be reduced by 640,000 troops was followed by similar announcements from the satellites. It must be seen primarily as a propaganda move, and its significance is considerably reduced due to the failure to make mention of the total armed strength of the U.S.S.R. and the satellites.

59. For the Soviet Union the primary preoccupation, because of its superiority in conventional armaments, remains the prohibition of thermo-nuclear weapons, and secondarily ceilings on the levels of armed forces; for the Western powers, it is an adequate system of inspection and control, with or without prohibition of thermo-nuclear weapons.

East-West Contacts

60. An integral part of the new Soviet tactics has been a determined effort on the part of the U.S.S.R. to encourage exchanges of visits to and from the Soviet Union. A number of Parliamentary delegations from non-Communist countries have visited the Soviet Union, and the Supreme Soviets of the U.S.S.R., the Ukraine and Byelorussia have joined the Inter-Parliamentary Union. Soviet agricultural delegations have visited the U.K., the U.S.A. and Canada; and a construction industry delegation visited the U.S.A. in late September. A Soviet group came to the Canadian International Air Show in Toronto, and subsequently some of the organizers of the Air Show paid a return visit to a Soviet air display. The Soviet Union is proposing an increase in cultural exchanges; France has indicated its desire to expand its cultural and information programme in the U.S.S.R. and the satellites; and the U.K. has set up a special body under the British Council to foster exchanges with the Soviet Union. The Soviet Union is granting some tourist visas; speaks of re-establishing Intourist offices abroad and improving its hotel accommodation; and has granted permission to some of its citizens to visit the satellites and Sweden. Politically, the new liberality on visits is designed to give the impression that the Iron Curtain is being lifted and that the Soviet Union is much the same as other countries.

TOP SECRET

..../17

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRETPosition of Yugoslavia

61. A main concern of the Tito regime in the past 6 months has been the re-evaluation and the re-adjustment of its position vis-à-vis both the West and the East as a result of the marked improvement which has taken place in the relations between the U.S.S.R. and Yugoslavia. The visit of the Soviet leaders to Belgrade in May 1955 succeeded in establishing a new basis for closer cooperation between the Soviet Union and Yugoslavia in the political, economic and cultural fields. Marshal Tito made clear to the Kremlin rulers, however, that his country would not go back to the Soviet fold. The communiqué issued at the conclusion of the talks stated that every country was entitled to conduct its internal affairs as it pleased and recognized the possible existence of different kinds of socialist development in the world.

62. The ideological implications of the Soviet visit to Belgrade are of considerable importance. The Soviet apology for the 1948 schism represents an open break with the major point of dogma that the Soviet Union is the fountain-head of all Communist wisdom and the pattern for development toward Communism in all other countries. The rapprochement with Yugoslavia recognizes for the first time the possibility of different paths leading toward the Communist goal, though it is hard to see how the Soviet leaders could have held indefinitely to the infallibility of their approach in view of the different paths which the Chinese Communists had followed. And despite the palpable and cumbrous attempt to blame the 1948 break on Beria, it was an open admission that the Soviet Union had made a mistake. There are dangers for the Soviet position in the satellites in such an admission, but presumably the Soviet leaders are sure enough of their control that they were prepared to run this risk. The main advantage for them, of course, lies in opening the way for a new penetration of the Yugoslav Communist Party and thus re-establishing the sentimental and at the same time intellectual bond between Marxists.

63. After this Soviet visit, talks were held in Belgrade between the Yugoslav leaders and the Ambassadors of the United States, the United Kingdom and France. During these conversations, the Yugoslav régime reiterated its desire to continue its co-operation with the West. However, subsequent development gave rise to some concern in the West about the long-term validity of these reassuring pronouncements. Numerous Yugoslav delegations have since June paid friendly visits to the U.S.S.R; Marshal Tito has announced that his country was anxious to have contacts with all socialist movements in the world including that of the Soviet Union. After the Kremlin's decision to cancel a Yugoslav debt of \$90 million, an extensive economic agreement was concluded which in 1956 will bring the volume of trade between Yugoslavia and the U.S.S.R. to the 1948 level. All these developments, combined with Yugoslav reluctance to let the U.S. know of the use made of the military equipment and assistance, supplied by the latter, disturbed somewhat the relations between Yugoslavia and the leading Western nations and especially the United States. In order to overcome these differences the State Department recently sent one of its senior diplomats to Belgrade to seek clarification of Yugoslav intentions and policies. The brief statement issued at the end of the conversations, on October 7, says that agreement has now been reached on all outstanding questions between the two countries.

64. Because Tito has of late shown inclinations to play off the Great Powers against one another and because he seems to overestimate his country's capacity to resist all Soviet pressures, a definite assessment of Yugoslav foreign policy would seem hardly possible at the present time. There has been sufficient evidence, however, that Yugoslavia is willing to move away

TOP SECRET

.../18

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

from the pro-Western alignment it chose to take after the break with Moscow in 1948, and to adopt a non-committal attitude in any dispute between the East and the West. This new orientation is in accordance with what seems to have become the constant objective of Tito's policy, which is to avoid any form of foreign interference in Yugoslav destinies.

"Return to the Homeland" Movement

65. During this period almost all the Iron Curtain Governments in Europe made an effort to persuade former nationals living abroad to return to their homelands. Several of these governments proclaimed amnesties for some categories of people who had left the country illegally. Printed appeals were sent out to refugees and former nationals in a number of countries from various centres, particularly from East Berlin, where a Soviet sponsored Committee organized the distribution of such material on a large scale. Some refugees have been lured back from among those who had not fared well in the West. The campaign scored a minor propaganda success when Hugo Hanke, a former Polish Socialist who held the position of Prime Minister in what one Polish group proclaimed to be the Polish Government-in-Exile, was persuaded to return to Poland to his family where he would be free to live quietly without engaging in political activities.

66. The general aims of this "return to the homeland" campaign are considered to be those of scoring whatever propaganda points are possible against the West, unnerving the emigré movements when "liberation" of the satellites seems farther off than ever, deriving information from and making useful contacts among former nationals abroad for the general purposes of the Soviet and satellite intelligence services and, in the case of some Iron Curtain countries, obtaining useful manpower. Printed material from East Berlin has been sent to persons in Canada. The Czech Legation has published a notice about an amnesty in several Canadian newspapers. It is apparent that efforts to persuade former Iron Curtain nationals to return are being directed at persons in Canada as much as in Western Europe and the United States.

East-West Trade

67. Trade within the bloc continues to dominate the Soviet trade position although trade with the West has increased considerably over 1953. From information contained in the Chinese budget speech in July, it is now thought that the U.S.S.R. made a special loan of some \$500 million in 1954 to cover Soviet military material in Port Arthur and Dairen which was handed over to China.

68. Probably the most interesting development in the past six months has been the continued attention being paid to under-developed countries. With the final withdrawal of the French from North Vietnam, both the U.S.S.R. and China have extended economic aid and technical assistance so that North Vietnam is now almost entirely dependent upon the Sino-Soviet bloc. Chinese aid is reported to amount to \$338 million over a five-year period while Soviet aid amounts to \$100 million for 1955 and 1956. The aid being granted by the U.S.S.R. and China appears to be complementary rather than competitive. A new trade agreement has been concluded between Burma and the U.S.S.R. whereby Burma will supply some 200 thousand tons of rice in exchange for industrial machinery. Part of this rice is being delivered to North Vietnam as part of the Soviet aid programme. Communist countries are, for the first time, taking a large portion (about 40 per cent) of Burmese rice exports. Bloc trade is increasing with Iran and Afghanistan. The Afghan-Pakistan dispute provided the opportunity for the Soviet Union to conclude a new transit agreement whereby Afghan exports have been granted free transit within Soviet borders. Egypt and China have concluded a trade agreement whereby Egyptian cotton is to be exchanged for Chinese steel.

TOP SECRET

.../19

19
19
DOWNGRADED TO SECRET
REDUIT À SECRET TOP SECRET

69. In Europe the Soviet rapprochement with Yugoslavia has resulted in an agreement whereby Yugoslavia will receive economic aid in the form of three loans totalling more than \$84 million over the next three years. This aid is to be used to help finance the purchase of raw materials and the establishment of fertilizer and chemical factories. In connection with the Austrian State Treaty agreement was reached on compensation payments by Austria of \$150 million in goods over the next six years and the delivery of one million tons of crude oil each year for the next ten years. A five-year trade agreement has also been signed.

TOP SECRET

...../20

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~ **SECRET**

III - INTERNAL DEVELOPMENTS IN COMMUNIST CHINA

Internal Politics

70. Some details of the first high level purge since the Chinese Communist regime came to power were revealed on March 31 when a National Conference of the Party endorsed measures which had previously been taken by the Central Committee against a so-called "anti-Party alliance" headed by Kao Kang, former chairman of the State Planning Commission, and Jao Shu-shih, head of the Organization Department of the Party. The official charges against Kao were that he plotted to seize control over the Party and Government by obtaining for himself the posts of Secretary-General or Vice-Chairman of the Party and Premier of the Government, that as a former regional administrator in Northeast China and Manchuria he had built up an anti-Party faction and attempted to turn the Northeast into his own independent Kingdom, and that he attempted to win over Party members in the army to his support by making a distinction between "the party of the revolutionary bases and the armed forces" and "the party of the white (liberated) areas" on the basis that the armed forces had created the Party. The charges against Jao were that he supported Kao; that he had used his post as director of the Organization Department to support an intra-party struggle; and that he had followed a "rightist" policy towards capitalists and rich peasants in East China.

71. Although Kao Kang was usually ranked fifth in the Chinese Communist hierarchy, there is no evidence to link his downfall with serious dissension or a major schism in the ranks of the Party. Both he and Jao had built their careers in the regional administrations by which much of China was governed between 1949 and 1952, and both had been recalled to important jobs in Peking, when the regional administrations were abolished. It is possible that his subversion was attributable to his inability to fit into the more circumscribed atmosphere of the Central Government after several years of wide personal authority in North-East China. Whatever his purposes, he evidently failed to gain the support of senior Party members in the armed forces (for whom he made a special play) or of any other member of the Politburo. The affair can probably be explained as a fairly straightforward struggle for power in which Kao, motivated largely by personal ambition, was frustrated in his attempt to climb over Chou En-lai and Liu Shao-chi to a position next to Mao at the top of the Party hierarchy. It does not appear to have damaged the unity of the Party. It has been announced that Kao committed suicide and that Jao has been expelled from the Party. Seven other Party officials were publicly disgraced for alleged participation in the plot.

72. The immediate result of the affair was the setting up of an elaborate system of local and central Control Committees to enforce Party discipline. These committees replace the local and central Discipline Inspection Committees which have been operating since 1949. A member of the Politburo, Tung Pi-wu, has been appointed secretary of the central Control Committee and it is to be assumed that it will be more difficult in future to assail the central authority of the Party. An intensive campaign against "counter-revolutionaries" has been going on throughout most of the period under review. It is difficult to ascribe precise causes to this campaign, but it is at least a fair guess that an internal spy-mania is replacing the previous campaign for the "liberation" of Formosa, which has been progressively abated. Special attention has been directed to the activities of the "anti-Party and counter-revolutionary Hu Feng clique". Hu was a poet and litterateur of the non-Communist left living in Shanghai, and appears to have had fairly extensive influence on modern Chinese letters. He and his associates were accused of discouraging the writing and publishing of progressive literature and of not stressing Marxism-Leninism, but in reality his main fault appears to have been a disinclination to cut himself off from the traditional subjects of Chinese art. The affair reached a climax in July with the arrest of Hu and the Communist Vice-Mayor of Shanghai on charges of counter-revolutionary activities.

TOP SECRET

..../21

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET

73. There has been some re-organization of the Government. The National People's Congress held from July 5-July 30 approved the abolition of the Ministry of Fuel Industries and the creation of Ministries of Coal Industry, Electric Power Industry, Petroleum Ministry, and a Ministry for the Purchase of Agricultural Supplies.

The Chinese Economy

74. In July a new draft of the First Five-Year Plan (1953-57) was presented for approval to the second session of the National Peoples Congress of Peking. The Plan reaffirmed the long-term goal of the regime, to develop a powerful industrial state combined with large scale collectivization of agriculture. The principal difference from the original plan is that the time-table for the revised plan is on a more realistic basis. Chinese leaders have now admitted that fifty years will be required for China to develop to the level "of the more advanced capitalist countries". This is still extremely ambitious in view of the gap which must be bridged from the present backward starting point. The proceedings of the Congress reflected a considerable amount of inefficiency and waste in the development of the economy to-date. "Failure to understand the hardship to be undergone in socialist construction" was probably the key-note of the congress.

75. The main deficiencies facing the regime in drawing up a plan were stated to be a lack of sufficient knowledge of China's natural resources and of adequate statistical data, coupled with a general lack of experience in long-term planning. In fact one of the principal difficulties faced by Chinese planners has been that agriculture has lagged sadly behind the planned schedule. Since only by the export of surplus agricultural products can China hope to finance imports of industrial equipment, it is evident that any failure of the agricultural sector will have serious consequences for the Plan as a whole. The main weaknesses of Chinese agriculture are China's inability to manufacture sufficient agricultural machinery, and the predominance of the small peasant farm system. The failure of agriculture to live up to its goals has undoubtedly been due, in large part, to the extremely adverse weather. Last Year's disastrous floods, and a severe winter, contributed their share to the critical food situation in many regions. The blame for the famine conditions has been placed on greedy townspeople and has resulted in a drive to suppress "counter-revolution" (i.e. discontented peasants), the introduction of universal rationing for the first time, and a reduction of farm quotas to provide increased incentives to the farmers. The Chinese harvest is expected to be more favourable this year but any long-term improvement in agriculture will depend upon increased mechanization involving greater investment in industry. The resources for greater investment in industry are however, dependent to a large extent on increased agricultural output. The dilemma is apparently to be resolved by a programme of rigid austerity and continued assistance from the Soviet Union.

76. There have been two developments in the field of distribution. A new system of grain rationing is coming into effect under which the nature of a consumer's work will determine his entitlement to all cereal grains. It was admitted by the Government that breakdowns in the grain distribution system had been the cause of serious shortages in certain regions in the spring. Concurrently, with regard to the distribution of other commodities, the authorities have been pursuing a campaign to revive small-scale private commerce, particularly in the countryside. To make up for the lack of properly developed "socialist" grade channels in rural areas, private pedlars and small private merchants are to be assisted to recover their former prominence. The authorities have been at pains to deny, however, that this move is a retreat from socialism; as the prosperity of the small trader is restored, the socialist trading enterprises which whom he will in any event have to secure his supplies are expected to educate him out of his capitalist ideology.

77. The emphasis is to continue on the development of heavy industry. The first five-year plan is to be completed by 1957. The first year of the plan, 1953, saw a 14.7% increase in total capital investment of over 132.5 billion Yuan. The 1954 plan, while less than 5 per cent is expected for agriculture.

TOP SECRET

BEST AVAILABLE COPY

- 22 **DOWNGRADED TO SECRET**
REDUIT A ~~TOP SECRET~~

77. That the emphasis is to continue on the development of heavy industry is made clear in the revised Plan. Industry is to be allocated over 58 per cent of total capital investment of some \$32.5 billion during the Five-Year Plan, while less than 8 per cent is earmarked for agriculture. Almost 20 per cent goes to transport, ports and telecommunications. Of the capital investment going to industry almost 80 per cent is allocated to heavy industry and only slightly more than 11 per cent is earmarked for light industry. The core of the industrial programme is the 156 projects on which the Soviet Union is to assist. These enterprises include steel and iron combines, non-ferrous metallurgical enterprises, coal mines, oil refineries, machine tool plants, automobile and tractor factories and power stations. Little is known about the development of the armaments industry within the Five-Year Plan. The only known production has been in the field of small arms and field guns. There has been no aircraft production or shipbuilding. The success or failure of the Plan will depend in large measure on the ability of the Soviet Union to satisfy China's ever increasing requirements for capital equipment.

78. The budget for 1955-56 which was introduced during the Congress reflects the regimes preoccupation with both the pace of heavy industry and its intention to improve its military capability through the re-equipment and modernization of its armed forces. Overall expenditures are up from \$10.4 billion in 1954 to \$12.5 billion, an increase of 21 per cent. National economic construction expenditures are set at \$6.0 billion (compared to \$5.2 billion in 1954, a 15.3 per cent increase. Defence expenditures have gone up 24 per cent, from \$2.4 billion to \$3.1 billion. Allocations for agriculture have been cut back slightly, reflecting the regime's difficulties in forcing the pace of agricultural mechanization. The high level of defence expenditures, accounting for almost 10 per cent of gross national product, reflects the increasing cost of improving the quality and fire-power of the Chinese armed forces, and the high cost of military imports.

Chinese Communist Army

79. Reorganization ^{within} ~~in the ground of~~ the Chinese Communist ^{Army} ~~Forces~~ has continued although at a somewhat less spectacular pace than during 1954. The principal feature was the reclassification of the Public Security Forces. Of these some 500,000 have been redesignated as Peoples Armed Police, removed from jurisdiction of the Army and placed under the Ministry of Public Security for the maintenance of public order. The remaining 200,000 are accepted as part of the regular ground force with the primary task of coastal and border security. This raises the strength of the Chinese Communist Army to approximately 2,514,000. The army continues gradually to withdraw forces from Korea where present Chinese strength is currently believed to be about 441,000. At the same time, following the adoption of a code of service regulations, time-expired veterans are being returned to industry and agriculture and used as a means of stiffening the Peoples' Militia (now numbering between six to ten million members).

Chinese Communist Navy

80. During this period the small number of modern ships of the Chinese Communist Navy was further increased by the transfer of additional Soviet destroyers and submarines as well as fleet minesweepers and anti-submarine escorts. Motor Torpedo Boat production is progressing in Chinese shipyards and a small number of landing craft have been built. It appears that Chinese shipbuilding capabilities have developed sufficiently to permit the construction of larger types of naval ships. The Chinese Communist Naval Air Force is equipped with modern Soviet jet fighters and jet light bombers, and over this period, it increased both in number and effectiveness.

TOP SECRET

.... /23

BEST AVAILABLE COPY

- 23 -

~~TOP SECRET~~
~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~

Communist Chinese Air Force

81. During the period the Air Force continued to improve its capabilities in the East China region principally in the area opposite Formosa. Although there has been some deployment of units to the South and East, there is still no evidence that aircraft have moved to fields in the coastal area opposite Formosa. An increase in aircraft strength is believed to have resulted from the evacuation of Soviet forces from the Kwantung Peninsula. There are strong indications that the Chinese Communist have taken over Soviet aircraft and facilities in that area. The increase amounts to an estimated 300 FAGOTs (Mig 15) and 90 BEAGLES (IL-28). The Communist Chinese Air Forces remain entirely dependent on the Soviet Union for equipment and it will be a considerable time before China has an aircraft industry capable of supporting a modern air force.

Airfield Construction

82. There has been firm evidence indicating airfield construction and development in South and East China substantially increasing the airfield potential in the Formosa Strait area. One new airfield has been completed and three others are presently under construction. Six other airfields have been or are being rehabilitated, and in addition, two other old airfields are in an advanced stage of improvement. There has been a significant increase in the Communist airfield potential in North Korea. The scale of airfield rehabilitation in North Korea since the Armistice in July 1953, can be gauged by the fact that of the 22 major airfields that were heavily damaged during the Korean War at least 16 are now serviceable.

TOP SECRET

.... /24

000224

~~DOWNGRADED TO SECRET~~
~~TOP SECRET~~
~~REDUIT A SECRET~~

IV - COMMUNIST CHINESE FOREIGN POLICY
AND EFFORTS TO EXPLOIT TROUBLED AREAS IN ASIA

General

83. In the period under review, there was a gradual but definite movement in Communist Chinese foreign policy towards a less aggressive and less threatening attitude on major Far Eastern problems. The period began during a serious crisis over Formosa, a situation which was, in fact, close to war, and ended with United States and Communist Chinese Ambassadors making slow but significant progress in bilateral talks at Geneva.

84. It is highly unlikely that the somewhat friendlier face which Peking now presents to the world is attributable to any basic change in external objectives. These remain the elimination of Western influence from Asia insofar as possible, and the concurrent spread of Chinese influence throughout South and Southeast Asia. There is evidence, however, that the Chinese now take a more realistic view of their ability to achieve these aims in the face of firm resistance on the part of the United States, and of a disposition on the part of the Chinese to pursue them by peaceful means rather than by force or threats of force. Inter alia, the following factors have probably combined to bring about this modification of the Chinese attitude:

- (a) a realization, reached at the beginning of the period, that an attack on the coastal islands of Quemoy and Matsu would involve a grave risk, and an attack on Formosa a certainty, of war with the United States;
- (b) the demands of Chinese internal development and reconstruction dictated, ipso facto, a policy of avoiding war;
- (c) a realization, developed or at least confirmed at the Bandoeng Conference, that Asian opinion was not whole-heartedly behind Chinese objectives vis-a-vis Formosa and the United States and would certainly be alienated by an armed attack on Formosa;
- (d) the restraining influence of the Soviet Union acting in "the spirit of Geneva".

Formosa

85. The first break in last winter's impasse on the Formosa question occurred at the Bandoeng Conference where Chou En-lai, after discussion with other delegates, issued a statement saying that the Chinese Government would be willing to negotiate with the United States for a relaxation of tension in the Formosa area. Chou's statement was followed by a somewhat hasty rejoinder in Washington to the general effect that the United States Government could not contemplate negotiations on Formosa which did not include Chinese Nationalist representatives, but which Mr. Dulles later clarified to mean that negotiations on matters other than Formosa would be possible. Bilateral talks between American and Chinese Ambassadors subsequently started at Geneva. Meanwhile, Chou En-lai re-directed his offer of Formosa negotiations to the "responsible local authorities" on Formosa.

86. There has been a marked diminution of Chinese internal propaganda agitating for the "liberation" of Formosa. As matters stand, it appears likely that the Chinese Communist Government has decided on the basis of a

TOP SECRET

...../25

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET **SECRET**

short or middle-term assessment that there is more to be gained by advocating negotiations than by threatening or actively preparing to use force. They may be encouraged in this by indications that United States policy towards them is becoming less rigid, and by the knowledge that the opinion held of them by the neutralist nations of Asia would not support armed action against Formosa, even though the neutralists may be in sympathy with the Communist Chinese side of the dispute. They may also believe, with some justification, that time is on their side and that lowering morale will eventually drive the Nationalist Government to seek an accommodation with the mainland.

Indochina

87. Chinese efforts to exploit the troubled situation in South Vietnam have been mainly in the field of propaganda. The unwillingness of the Diem Government to enter into pre-election consultations with the Viet Minh is ascribed in Chinese propaganda to American influence and attempts to prevent the fulfilment of the Geneva Agreements. On the assumption, presumably, that all Vietnamese elections would bring the Viet Minh to power in the south as well, the Chinese Government is pressing hard on its propaganda for the complete implementation of the Agreements, with emphasis on the holding of elections in July 1956. There has been no indication, however, that Communist China would support or favour any attempt within the next year by the Viet Minh to unify Vietnam by force in the event that the elections cannot be held: indeed it is possible that the Chinese may exercise some restraint upon the Viet Minh in this connection, as they presumably would wish to ensure that no situation arises which might result in the landing of American forces on the mainland, thus posing a new threat to China's southern borders.

88. The operations of the Pathet Lao in the two northern provinces of Laos appear to be more directly linked to the Viet Minh than the Communist Chinese. It appears that a settlement in Laos involving the abandonment by the Pathet Lao of their military hold on the two northern provinces may hinge upon a settlement in Vietnam favourable to the Viet Minh.

Korea

89. Few changes have taken place since the last report was prepared and in South Korea, the United Nations countries continue to have little control over the policies and attitudes of President Rhee. He and his government continue according to their own low and deteriorating standards. President Rhee longs to see the reunification of his country and considers that the Military Armistice Agreement stands in its way. In the northern half of the peninsula, the Democratic People's Republic of Korea, the presence of large Chinese forces still guarantees that Chinese influence will be strong in this area which is considered one of Chinese defence. The deadlock still continues over the formula for the unification of Korea.

Japan

90. Ever since late 1954 when the People's Republic of China made the first overtures to Japan for the resumption of friendly relations, the embargo on strategic material has made effective trade between the two countries virtually impossible; and Japan wishes a relaxation of this embargo. Japan has reacted with extreme caution to the Chinese advances although the Prime Minister in May 1955 said that an exchange of consuls with China was not inconceivable. Concerning relations with the two Koreas, an unofficial fishing agreement has been entered into by some Japanese and North Koreans. However, the Japanese Foreign Minister said in May that his country had no idea of setting up trade relations with North Korea. Japan-ROK relations have gone from bad to worse though the feud has not as yet ended in complete rupture.

TOP SECRET

.... /26

BEST AVAILABLE COPY

~~26~~
~~DOWNGRADED TO SECRET~~
~~TOP SECRET~~
~~REDUIT A SECRET~~

Indonesia

91. An active and well-organized Communist Party operates openly in Indonesian politics. Its leader, D.N. Aidit, is capable and Chinese-trained. The growth of the PKI (Partai Komunis Indonesia) since Aidit's take-over in 1950 has apparently been patterned after that of the Chinese Communist Party from 1941 to 1945. It has been consolidating local support and there is little doubt that it has made considerable gains in the last year. Preliminary returns from the Indonesian general elections indicate a heavy Communist vote and the probability that the PKI will be strongly represented in the next coalition government.
92. One source of PKI support is to be found in the two million overseas Chinese who control a large proportion of Indonesian retail business. It is estimated that at least 35 per cent of the Indonesian Chinese support the Peking Government and the reception given Chou En-lai at Bandoeng indicates that the Communists control the sympathies of most of the 15 to 25 age group of the Chinese in Indonesia. There is considerable evidence that the PKI has successfully penetrated the Chinese schools. Moreover, there are one thousand to four thousand Chinese students crossing between Indonesia and the Chinese mainland every month. The seemingly limitless financial resources of the PKI are believed to be provided largely by wealthy Chinese merchants.
93. The Chinese are a symbol of foreign economic domination to the Indonesians and are consequently unpopular. There is, however, evidence of an increasingly better relationship between the governments at Peking and Djakarta. An agreement was signed on April 22 between the Indonesian and Communist Chinese governments to settle the problem of dual nationality of overseas Chinese in Indonesia, although this has not yet been ratified by the Indonesian Parliament. China is already an excellent customer for Indonesian exports and will probably become an even better one if the United Nations embargo is lifted. Former Premier Ali Sastroamidjojo visited Peking in May and trade agreements have been signed between the two countries. The Chinese government does not, therefore, advocate open Communist rebellion in Indonesia as their interests were well served by the Ali government and open revolt might damage relations between China and the other Colombo powers. However, there is little doubt that China is a great source of strength and encouragement to the PKI.
94. In addition to the support of the overseas Chinese in Indonesia, the PKI commands the allegiance of two other valuable organizations, SOBSI, which controls 66 per cent of trade union membership, and PERBEPESI, an organization of 200,000 former armed fighters. These men are at present unarmed but the PKI has made at least two blatant attempts to obtain arms for them in return for undertakings to combat local rebellions and to maintain security during the recent elections. Both attempts were blocked by the cabinet, in which there is an apparent awareness of the danger of creating a Red Army.

TOP SECRET

.... /27

BEST AVAILABLE COPY



IN REPLY PLEASE QUOTE

No. CSC 9-4-3 (JIC)

Department of National Defence

JOINT INTELLIGENCE COMMITTEE

SECRET
(RESTRICTED without
attachment)

21 Nov 55

J. 43

50028-B 40

94 50

Copy of 12077-GOLOVESHKINE
H. S. Smith

MEMORANDUM FOR THE JIC:

Report by A/V/M W. F. Kennedy

1. Attached is a copy of a digest of a report by A/V/M Kennedy concerning a conversation he had with Col. Goloveshkine, the Soviet Air attache.

2. In accordance with DAI's request, this subject will be considered at the meeting tomorrow under "Other Business".

J. C. McGibbon
Squadron Leader, RCAF,
Secretary.

Encl.

JCM/5459/vm

c.c. CJS
CB NRC
JIS

12077
series
K. B. WILLIAMSON

FILE COPY

CSC 9-4-3 (JIC)
Nov 21/55SECRETAppendix "A" to
S961-102 (DAFS)
Dated 8 Nov 55DIGEST OF REPORT MADE ON 4 NOV 55 BYA/V/M W.E. KENNEDY REGARDING A CONVERSATIONHE HAD WITH COL. GEORGI GOLOVESHKINE, USSR MILITARY ATTACHE

A/V/M Kennedy arrived late at a cocktail party which followed a recent demonstration put on by the Bristol Aircraft Co. He was engaged in conversation shortly afterwards by Col. Goloveshkine, the Air Attache at the Soviet Embassy. The Attache was very talkative, and it was apparent that he was not entirely sober.

During the conversation, Col. Goloveshkine mentioned that the Russians had been exploiting the land around the Arctic Ocean, and that it was a very feasible operation if handled correctly. He went on to say that they had built a new city on the shore of the Arctic Ocean, with buildings as much as fifteen stories high. Following a few general questions, A/V/M Kennedy asked him how they heated the place, in view of the long distance from normal supplies. Col. Goloveshkine replied that they had come a long way in developing atomic power packages.

He implied that they were much further ahead than Western nations in this field, and emphasized how Russia was influenced towards peaceful activities. While the Colonel was giving this information, A/V/M Kennedy asked him how many they had had the present time. The Colonel quickly answered "One", almost as if he had replied without thinking. He then attempted to retract his remarks somewhat by saying they were still very much in the experimental stage.

At about this stage of the conversation, the Czech Air Attache, Lt. Col. Jirasek came up and spoke to Colonel Goloveshkine in Russian or Czechoslovakian. The effect of this was that the latter stopped talking immediately, made a formal farewell to A/V/M Kennedy, and departed. The thought occurred to the A/V/M that it seemed strange that a Czech would speak to a Russian in such a manner, implying that Lt. Col. Jirasek may not be what he seems.

IN REPLY PLEASE QUOTE

NO. CSC 1735-2 (JIC)

Department of National Defence

CONFIDENTIAL

JOINT INTELLIGENCE COMMITTEE

File
15 Nov 55

500 28-B-40
129 | 50

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

15 NOV 1955

MEMORANDUM FOR THE JIC:

Semi-Annual Review of Intelligence

1. Memorandum of even file dated 2 Nov 55 attached a copy of the subject document and requested that comments be passed to the JIS by 9 Nov. No comments were received; however, Mr. Crean wishes to discuss the document at the meeting on Wednesday.

2. The Semi-Annual Review and its distribution will be considered under "Other Business" at the meeting to be held 16 Nov.

J.C. McGibbon
(J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.

JCM/5459/ff

c.c. CJS
CB NRC
JIS

BEST AVAILABLE COPY

50028-B-40	
129	50

RESTRICTED

November 14, 1955.

The Secretary,
Joint Intelligence Committee,
Department of National Defence,
O t t a w a .

Attached is a memorandum on the possible dissolution of the Cominform, prepared by the Commonwealth Relations Office in London and dated November 3, 1955. CRO sent it by Savingsgram No.Y.219 of that date to Earnscliffe, who in turn were good enough to transmit it to us.

This memorandum would be of interest to the JIC and I should be grateful if you would send a copy to each member.

G. G. Crean

G. G. Crean,
Chairman,
Joint Intelligence Committee.

DUPLICATE

R E S T R I C T E DOutward Telegram from Commonwealth Relations Office

TO: U.K. HIGH COMMISSIONER IN CANADA (ACTING)
U.K. HIGH COMMISSIONER IN AUSTRALIA
U.K. HIGH COMMISSIONER IN NEW ZEALAND
U.K. HIGH COMMISSIONER IN SOUTH AFRICA
U.K. HIGH COMMISSIONER IN INDIA
U.K. HIGH COMMISSIONER IN PAKISTAN
U.K. HIGH COMMISSIONER IN CEYLON

(Dated 3rd November 1955)

50028-B-40	
129	✓

Y. No. 219 SAVING RESTRICTED

THE COMINFORM

/ Enclosed is a memorandum on the possible dissolution
of the Cominform.

2. Please pass copies to Commonwealth authorities.
High Commissioners in London have received copies.

BEST AVAILABLE COPY

RESTRICTED

THE COMINFORM

There have been reports recently suggesting that the Russians may announce the dissolution of the Cominform, possibly in connexion with the Geneva Conference, as an earnest of their desire for peaceful co-existence and a gesture to the Yugoslavs.

2. The dissolution of the Cominform would have little practical effect because it has never had much importance as an organisation. It was set up in September 1947 to organise the exchange of experience between the member Communist Parties, and was not given the directive powers of the Comintern. It now only includes the Communist Parties of the Soviet bloc, Italy and France (the Yugoslavs having been expelled in 1948) and has not held a meeting since 1949. Its only present activity of any real service to the international Communist movement is the publication in numerous languages of the fortnightly Cominform Journal For a Lasting Peace, for a Peoples' Democracy which provides guidance for Communists throughout the world.

3. If the Cominform were dissolved this would doubtless be represented by Communist propaganda for external consumption as a sign of Soviet respect for the principle of non-interference in the internal affairs of other countries. In fact:-

- (a) Communist Parties in the free world which are not members of the Cominform have always been at least as reliable instruments of Moscow as the Italian and French Communist Parties which are; its dissolution would not affect Party policy;
- (b) quite apart from the Communist Parties, the international Communist movement is served by a whole series of other active organisations under Communist control: the "front" organisations. The most conspicuous of these are the World Peace Movement and the W.F.T.U.

Thus the formal abolition of the machinery of the Cominform would not affect the aims or activities of the international Communist movement.

4. Copies of this memorandum are being passed to the Governments of Canada, Australia, New Zealand, South Africa, India, Pakistan and Ceylon.

Commonwealth Relations Office Memorandum
dated 3rd November 1955.



Department of National Defence

IN REPLY PLEASE QUOTE

NO. **CSC 1735-2 (JIC)**

TOP SECRET

JOINT INTELLIGENCE COMMITTEE

**APPENDIX "B" - CANADIAN
EYES ONLY**

2 Nov 55

50028-B-40	
94	50

D-2	
1	
2	→
3	
4	
5	MB
6	
7	
8	
9	
10	

✓ **G.G. Crean, Esq.,**
Dept. of External Affairs.

DMI
DAI
DNI
DSI
RCMP
JIB

**DOWNGRADED TO SECRET
REDUIT A SECRET**

Semi-Annual Review of Intelligence

NOV 3 1955

1. In accordance with the decision reached at the 452nd meeting of the Committee, attached is a copy of the first draft of the Semi-Annual Review of Intelligence - 1 Mar 55 to 30 Sep 55 (appendices "A" and "B").

2. A summary of Appendix "A" will be prepared following receipt of comments from Directorates. May your comments be passed to the JIS by not later than 9 Nov.

3. In view of the late date it is hoped that the Semi-Annual Review might be cleared secretariaily.

for (J.C. McGibbon)
Squadron Leader, RCAF,
Secretary.

Enc.

JCM/5459/ff

c.c. JIS

000234

50028-B-40

TOP SECRET

FILE COPY

Appendix "A" to
JIC154/55
31 October 1955

esc 1735-2 (JIC)
nov 2/55

Semi-Annual Review of Intelligence
(1 March 1955 - 30 September 1955)

DOWNGRADED TO SECRET
REDUIT A SECRET

I INTERNAL DEVELOPMENTS IN THE SOVIET BLOC

Internal Politics

1. Since the resignation of Malenkov three major trends have been evident in the internal politics and government of the USSR. The relaxed nature of Soviet leaders and their apparent rejection of one-man dictatorial rule have demonstrated the success of the policy of "collective government". A second important feature has been the determined drive towards economic and administrative efficiency. The third trend has been a tendency by the new régime to end many of the old arbitrary injustices and create a feeling among the people of an increase in their individual freedom.
2. In the apparent maintenance of "collective leadership" no single individual has emerged to take the place of Stalin. At Belgrade, at Geneva, and in Moscow Soviet leaders seemed to act spontaneously as a team, and not as men who are waging a life and death struggle for dictatorial supremacy. While on occasions Bulganin seems to wield more authority, Khrushchev now is considered to be the key man of the Soviet régime. But while Khrushchev may be first among equals, apparently neither he, Bulganin nor anyone else exercises sufficient control to gain absolute authority. In fact they may all have tacitly agreed to a live and let live policy.
3. Recent appointments within the Party generally reflect Khrushchev's influence. Both Kirichenko and Suslov, appointed to the Party Praesidium in July, have served under Khrushchev. D.T. Shepilov, the chief editor of Pravda who was appointed to the Party Secretariat and who, it has been rumoured, may assume the position of Foreign Minister if Molotov resigns, has been an outspoken advocate of Khrushchev's agricultural policy. The delegation which accompanied Chancellor Adenauer to Moscow had the definite impression that Molotov, who is primarily associated with rigid Stalinist policies, was no longer a member of the inner circle, and that foreign policy was now largely decided by Khrushchev and Bulganin.
4. Changes in the Council of Ministers emphasize the government's concerted efforts to improve administrative efficiency, economic planning and production. Of the four new Deputy Chairmen, Kucherenko, Zavenyagin and Krunichev are thoroughly experienced in the administration of heavy industry while Lobanov is an expert in agricultural administration and has been an ardent supporter of Khrushchev's virgin lands campaign. Their appointments underline the current policy of selecting as Deputy Chairmen men who are skilled technicians and who will operate under the political direction of the Praesidium of the Council of Ministers. In line with this policy the Government has somewhat reduced its own central authority and granted greater autonomy to industrial directors and local leaders. At the same time however, the Party has exerted an increasing influence at lower levels of administration, so that any reduction of strict government control has been offset by closer supervision of Party authorities. Recent official statements lend force to the suggestion that under Khrushchev there has been a considerable transfer of authority from the Council of Ministers to the Central Committee of the Party.

TOP SECRET

.../2

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~ ~~SECRET~~

5. The pattern of production has been altered, with renewed emphasis on increased investment in capital goods industries rather than on consumer goods. Efforts are being made in industry to cut costs, re-adjust wage rates and overhaul the entire structure of industrial planning. This increased emphasis on greater practical planning and per capita productivity has led to widespread criticism of production methods and industrial slackness. Bulganin, in a major speech, highly praised certain industrial aspects of American capitalism, and the government has established an Institute of the Economy of Modern Capitalism to examine Western production methods and to re-appraise the entire structural bases of capitalist economics. In order to raise man-hour productivity working norms are being increased, wages re-adjusted and normal increases of nominal wages stopped. At the same time the Soviet labour newspaper Trud has severely criticized executives who discharge workers without adequate cause, who force workers to work overtime without meeting legal requirements, or who otherwise exercise arbitrary authority over their employees.

6. The government has continued its policy of increased collectivization and cultivation of marginal lands, to raise agricultural productivity. To produce the hoped for results and increase party control over the farms Khrushchev has appointed 30,000 party officials as chairmen of collective farms. In its enthusiasm for Khrushchev's virgin land policy, however, the government seems to have gambled with the basic instability of the new lands as a potential dust bowl area,--a period of adverse climatic conditions would be disastrous for the local inhabitants.

7. The government has issued a number of decrees liberalizing the structure of the Soviet legal system and providing greater protection to the rights of the individual. The role and the power of the Secret Police has been considerably reduced and its dreaded Special Board liquidated; prosecutors no longer exercise investigatory powers, and provisions for arbitrary arrest and imprisonment have been tightened up and curtailed. Penalties for minor political or administrative misdemeanours have been lightened and authorities are now overhauling the structure of the whole legal apparatus. On September 18, Izvestia announced a general amnesty for alleged collaborators during World War II. All but the most serious sentences have been revoked. The amnesty is directly related to the agreement to return to Germany 10,000 "war criminals", and to the "return to the homeland" movement. For such nationalities as the Crimean Tartars, the Volga-Germans and the Chechen-Ingush who were exiled for having supported the Germans, the announcement if taken literally means rehabilitation and the restoration of status as free citizens. Such measures are in line with a shift away from "Russification" to encourage those minority traditions and folkways which do not directly clash with government policy or fundamental Communist doctrine.

8. A significant aspect of the "new look" is the greater degree of scientific and intellectual freedom permeating Soviet life. While Marxist-Leninism is still fundamental, the present régime has not found it necessary to lay down strictures on all points of differences. This is especially the case in the scientific fields. Since Geneva, Soviet press reports of events in Western countries have been much less belligerent. Diplomats and correspondents in the USSR enjoy a greater degree of personal freedom of activity. Visas are now fairly easily obtained, and less arbitrary restrictions encumber foreigners travelling inside the country. Cultural activities also exhibit a greater degree of intellectual freedom. The recent stage productions, "Wings" by Korneichuk, and "Personal Affair" by Shtein, both make strong attacks on the position of the Secret Police and the misuse of the organs of law and order to promote personal ends. Leading composers are denouncing the "dogmatism" and "orthodoxy" imposed on composers of popular music, and the Russian radio now broadcasts an

TOP SECRET

.... /3

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

increasing number of popular American, British and Western tunes. The "...better use of foreign experience..." in radio, television and other branches of science has been urged. Several Soviet writers who were once condemned as "ruthless cosmopolitans" are again actively at work in Moscow.

The Economy

9. Probably the most significant development in the Soviet economy during the period under review has been the increasing emphasis attached to the improving of industrial efficiency and the raising of productivity in all sectors of the economy. The regime apparently fully realizes that continued industrial expansion at a high rate during the Sixth Five-Year Plan will depend to an even greater extent on increasing the productivity of capital and labour through the wider use of automatic and mechanized processes, better use of existing equipment, improved organization and supervision of industry, more specialization, better co-ordination of research and industry, and more extensive technical training. During the present five-year plan, the regime was able to overcome the short-fall in labour productivity by the unplanned absorption of a higher number of persons into industry. However, due to the impact of the war on birth rates, the net increment to the labour force during the next five years will be substantially lower than during the past five years. Bulganin laid great stress on the need for higher productivity when he warned the Central Committee of the Communist Party that "we shall encounter difficulties in supplying the economy with labour".
10. In his report on industrial problems delivered at the plenary session of the CPSU Central Committee on 4 July, Bulganin was remarkably frank in his analysis of the shortcomings of Soviet industry. He re-affirmed the policy of preferential development of heavy industry, and outlined the direction in which further industrial development must proceed if a continued high rate of economic growth is to be sustained. These include improved technical equipment, accelerated application of science and technology, the production of new tools, fuller use of present equipment, greater specialization and co-ordination between research and industry, higher labour productivity, lower costs, improved planning and industrial leadership, and better location of industry in relation to material supply.
11. In support of these programmes, the regime has re-organized the GOSPLAN into two commissions, one for short-term planning, and one for long-term planning, and has set up a State Committee on New Technology and a State Committee on Labour and Wages. The separation of the GOSPLAN into two Commissions is probably motivated by the need to give greater effort to long-term planning, especially of the energy base. The problem of industry location has been stated by Bulganin as being a major task of the long-term planners, particularly in the Eastern regions. The minimization of transport and the fullest use of indigenous materials are to be key criteria in new industry location. The State Economic Commission for long-term planning has been placed under Baibakov, the former Minister of the Oil Industry, and will concentrate on plans of a five, ten, and fifteen year nature. While the relationship between the two Commissions for planning is still somewhat obscure, it would appear that the State Commission for current planning under Saburov, the former GOSPLAN head and a First Deputy of the Council of Ministers, is to concentrate on yearly, quarterly, and monthly planning. The State Committee on New Technology under Malyshev, a production engineer and a Deputy Chairman of the Council of Ministers, is to supervise the planning for and introduction of advanced technological methods into industry. The State Committee for Labour and Wages, under Kaganovich, has probably been set up to undertake a complete overhaul of the wage structure and to work out a new set of norms, as a complete overhaul of wage rates and labour norms is long overdue.

TOP SECRET

.../4

DOWNGRADED TO SECRET
RÉDUIT A SECRET ~~SECRET~~

12. The carrying out of the new programme for industrialization, particularly the introduction of automatic processes, will require a continuing high level of investment in new plants and equipment. The programme of expanding agricultural output will also require a heavy outlay of resources if it is to achieve some degree of success. In addition, the tremendous cost of the new weapon systems in terms of medium and heavy jet bombers, the series production of new fighter aircraft, and an enlarged guided missile programme, would also indicate that defence expenditures may be expected to rise further. With the priority in the allocation of resources remaining with investment and defence, it is thought that the rate of growth of per capita consumption will be slowed down in the foreseeable future. The heavy demands on the domestic economy will in all likelihood impose a limitation on the capability of the USSR to increase substantially its exports of industrial equipment and materials to China, the Satellites, and underdeveloped countries.

13. The Soviet 1955 mid-year plan report indicates that the recent measures to improve organization and planning, and the emphasis on the introduction of new technology, have already resulted in some improvement in efficiency. The report confirms previous announcements that the goal for total industrial output of the original Fifth Five-Year Plan was fulfilled about eight months ahead of schedule. Impressive gains are claimed in the expansion of the energy base in terms of coal, oil, and electric power production, while the sharp rise in oil production suggests that the original plan of 70 million metric tons by 1955 may now be attainable. Production of steel and production in many sections of the engineering industry (especially agricultural machinery) indicate a rate of growth higher than in the first half of 1954. As expected, the rate of increase for consumer goods was somewhat lower than a year ago. The seven percent increase in industrial labour productivity coupled with the 12 percent increase in industrial output indicate a further rise of five percent in the industrial labour force. While the capital investment plan was under-fulfilled by seven percent, it apparently represented an increase of 11 percent over the corresponding period of 1954. Investment in heavy industry accounted for a large proportion of the increase. In the field of agriculture, a substantial expansion of the area under cultivation was achieved. Some 50 million acres of new lands were sown, 17 million acres more than the original objective. The total area under spring crops was stated to be 53 million acres greater than in 1954. The area under maize, 45 million acres, is 34 million acres greater than last year. Despite the serious drought conditions in the new land area, there is every indication that a record grain crop will be achieved in 1955.

14. Although strains and stresses have developed in the economy due to the competing demands of defence, investment and consumption, it would appear that the defence and investment goals are being largely achieved by enforcing a somewhat lower rate of growth of consumption. The inflationary danger inherent in the slower rate of growth of consumer goods was to some extent set off by the increase in the state loan and the failure to reduce retail prices this year. On the whole, it would appear that the Fifth Five-Year Plan for industrial production has been eminently successful, with a rate of progress some 6 percent above the original plan. Despite the spectacular new lands programme, it is obvious, however, that the Fifth Five-Year Plan for agriculture, especially in grain production, has failed. Although agriculture continues to be the weakest link, it is thought that a modest degree of success in the new programme will maintain the supply and demand picture for grain on an even keel for at least the foreseeable future.

TOP SECRET

.../5

DOWNGRADED TO SECRET
RÉDUIT A SECRET ~~TOP SECRET~~

15. The budgets of the European Satellites for 1955 suggest that there was no major revision of the economic policy adopted in 1954. Despite propaganda, agriculture and consumer goods industries were to receive larger funds than in the previous two years. Military allocations, after a decline in 1954 have risen in most countries, but are still below the 1953 level in Bulgaria, Roumania and Hungary. This development is the only significant reversal of the 1954 policies. Plan fulfilment reports suggest that increases in consumer goods have been maintained rather better than in the USSR. Despite increased support, agriculture is lagging and is particularly serious in Poland, while there has been underfulfilment in Czechoslovakia over a long period and no sign of improvement in Roumania. Heavy industry is still beset by shortages of ores and scrap, for example, Czechoslovakia's problem of coal shortage reappears with monotonous regularity and only Roumania and Poland have been able to raise their output of coal and consequently expand their production of iron and steel. Production in the heavy industrial sector remains stagnant in Czechoslovakia and Hungary.

TOP SECRET

.../6

DOWNGRADED TO SECRET
- RÉDUIT À SECRET -
TOP SECRET

Transportation

16. Throughout the period under review, all countries of the Communist Bloc have continued the rehabilitation and expansion of their transport systems and associated services. Although no one development noted has outstanding strategic importance, all developments collectively point to a steady improvement of their economic and strategic positions. The period has brought evidence which throws some further light on both these positions; and certain developments have implications for the long-term intentions of various members of the Bloc. The major developments have occurred within the U.S.S.R. and China. The satellite areas of Europe and Asia have been less interesting.

17. The over-fulfilment of transport plans within the U.S.S.R. has shown that the existing system has been adequate to support an expanding economy. The tonnages moved have increased, particularly in the Soviet North, and between the U.S.S.R. and China. Little new construction has taken place, although certain improvements have been made to the L of C between Central and Northern Russia. With the exception of slight but not negligible developments to pipe-lines and in dieselization and electrification, the main effort has gone into the improved use of existing surplus capacity. The Soviet merchant marine has demonstrated a capacity to deliver oil in bulk to Arctic ports and an increased capacity to make similar deliveries to Chinese ports. Commercial aviation has continued a modest programme of experimentation with jet aircraft, and has greatly expanded its services, both domestic and foreign. The necessary expansion of the commercial infrastructure, including the Arctic, has been proportional. Both commercial and military aviation have proven capable of the wider use of large transports in the high Arctic than was previously known.

18. A number of developments appear to have implications for the wider and longer-term intentions of various members of the Bloc. Although for some time Poland has had and retains priority in the Soviet airfields programme in Eastern Europe, within the last three months (East Germany) where an airfield complex out proportion with any national requirement already exists, has begun to receive greater attention. Soviet agreements with Afghanistan concerning transport will undoubtedly augment Russian influence in that area at the expense of the West. The Sino-Soviet rail link is to be of Soviet gauge throughout the Mongolian People's Republic as contrasted with Sinkiang and Manchuria. There has been an expansion in civil air Services flying into both the Soviet Union and China. Most of the East European countries and Finland are running services to Moscow and flights have begun between India, Burma and China.

Military Geography

19. There has been in the past six months a change in policy of publication of material on the physical sciences. More and better articles are being published, more papers are being presented at an increasing number of meetings both in the USSR and abroad, and more scientists are travelling to outside conferences and meetings than in previous years. The general relaxation of regulations controlling the flow of material to the outside world and the increased participation in world scientific organizations, such as the World Meteorological Organization and the International Geophysical Conference, are in line with current policy. While some acceleration has been noted in the general programmes for geological mapping, topographical, aerial and astro-geodetic surveys of the USSR, which are nearing completion, it is evident that attention is being paid to certain areas including such remote areas as the Chukotsk Peninsula and the Arctic Islands. At the same time scientific research activity is being carried out at two drifting stations in the Arctic Basin on approximately the same scale as in 1954, which was an exceptional year for such activity. In the field of meteorological analysis the Soviet Union has demonstrated for the first time an ability to produce world Northern Hemisphere weather charts. In the past six months the Soviet Union has shown considerable interest in developments in the Antarctic, and in particular has begun to implement its programme for work in connection with the International Geophysical Year (1957-8).

TOP SECRET

.../7

BEST AVAILABLE COPY

TOP SECRET

- 7 -

DOWNGRADED TO SECRET
REDUIT A SECRET

Armaments Production and Armed Forces

Aircraft Production

20. The most significant development during the past six months was the appearance in the pre MAY day air rehearsals of a large swept wing bomber approaching the BISON (type 37 heavy bomber) in size, and powered by four large turbo prop engines. Seven of these aircraft, designated BEAR for identification purposes, were seen at the Tushino Air Show in July, indicating that this type is being produced serially, although the location of production has not been determined. The BEAR is the first Soviet bomber to appear having a truly inter-hemispheric capability without refueling. It has an all-up weight of 3000,000 lbs at take off, while the combat radius of action is estimated to be 3200 n.m. with a total combat range (one way mission) of 8300 n.m., with 10,000 lb bombload. It is estimated that about 15 BEARS may have been produced to date and that this type will be introduced into operational service early in 1956. Although it was estimated that serially produced BISONS powered by engines of 20,500 lbs would not appear until early 1956 at least 11 BISONS were observed in pre MAY Day rehearsals and 12 BISONS flew in the Air Force display July 3. The rapidity with which the BISON programme has been carried out indicates that the production order was placed at least a year before the prototype was completed. Under normal circumstances the building and testing of several prototypes is carried out before such a complex and costly aircraft would be ordered into serial production. It is believed however that the BISON is still powered by a smaller engine than the 20,500 lbs thrust engine required. It is estimated that the first BISONS with the required engine will not be produced until mid-1956. As a result it seems likely that BEAR production will be pushed in order to provide an interim two-way mission threat to North America which the BISON with the smaller engine is unable to do due to range limitations. It is not yet possible to determine the future of these two aircraft as far as production is concerned, but if full series production is actually underway, BISON and/or BEAR should be introduced into operational units early next year.

21. Series production of BADGER the medium bomber is continuing at Factory 22 Kazan and at either Factory 1 or Factory 18 at Kuibyshev. Production at Kazan is believed to have levelled off while peak production at Kuibyshev will probably be reached by the end of this year. Cumulative BADGER production as of 1 August was 160 aircraft available for operational units on that date.

22. FRESCO (MIG - 17) and its variants continues to be the main fighter in production. In spite of this, the Soviet Union was able to commence (serial production last year) of two new fighters. In the MAY Day air rehearsals a new swept wing day interceptor, designated FARMER, and the long awaited swept wing all weather fighter, designated FLASHLIGHT were first seen and at least 50 of both of these aircraft were displayed at the Tushino Air Show in July.

Land Armaments

23. Modernization and re-equipment of the Soviet Army continues. Five new artillery weapons were shown on the MAY Day Parade. It is likely that standardization of armaments is proceeding in the Satellites, although for the most part these countries continue to utilize obsolescent Soviet Weapons. Hungary is producing a high speed artillery towing tractor, the first such vehicle to be made in any of the Eastern European countries, while Czechoslovakia has introduced a new semi-automatic rifle believed to be of native design. The T 34/85 medium tanks are believed to be still in production in Czechoslovakia and Poland.

.../8

TOP SECRET

000241

BEST AVAILABLE COPY

TOP SECRET

- 8 -

DOWNGRADED TO SECRET
REDUIT A SECRET

Naval Shipbuilding

24. Shipbuilding activity and in particular the construction of submarines has continued at a high rate. No assessment can yet be made of the type of the large vessel which has been under construction in Leningrad since mid-1952, except that it is larger than a Sverdlov class cruiser. It is not known whether Sverdlov class cruisers will continue to be built in Leningrad. The twelfth and last known Sverdlov laid down in Leningrad was launched in June. However, these cruisers are also being built at Nikolaev, in the Black Sea and Molotovsk in the White Sea. Two classes of anti-submarine vessel now in production have been distinguished: the Kola class and the Riga class, both of 1,500 tons. The production of Z and W class long range submarines continued at an estimated rate of about 70 a year. This does not represent a net gain for the submarine force, as some older submarines are going into reserve and some are being transferred to Satellite navies. A motor torpedo boat, the first naval vessel built in East Germany apart from small mine-sweepers and patrol boats, may have been completed.

.... /9

TOP SECRET

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
- 9 -
REDUIT A SECRET ~~TOP SECRET~~

ATOMIC ENERGY AND NUCLEAR WEAPONS

26. The period under review was noteworthy for the changes in the Soviet attitude to the release of information on the peaceful uses of atomic energy. While the first indications of this new policy appeared in December 1954, its full impact was not felt until the two international conferences held in Moscow in July and Geneva in August. The latter of these two conferences were the more important because of the much broader international representation. At Geneva Russian scientists gave details of four different types of experimental reactors, as well as the details of their 5000 kw atomic electric station. There were also a considerable number of papers dealing with the results of fundamental research in the fields of nuclear physics. The testing of Soviet atomic weapons was recommenced during the late summer, with two explosions at the atomic testing ground at the beginning of August. These explosions appeared to be of weapons of small and medium yield, and are thought to represent the standard tactical and medium yield air weapon of the Soviet forces. It is considered that these weapons were exploded for weapon effects studies, and had an appreciable Service participation. Late in September a further nuclear explosion occurred in the Barents Sea area near Novaya Zemlya, and is thought to have been an underwater explosion for the testing of the effects of an atomic explosion on ships. It is considered that the 1955 nuclear test program may well extend beyond the end of the period of this report.

Guided Missiles

27. There is little more positive evidence concerning Soviet guided missiles than was available six months ago. There are indications that the Soviet Union has a continuing, high priority guided missile programme, and there is reason to believe that research and development work is being conducted in surface-to-surface, air-to-surface, and surface-to-air missiles. There have been unconfirmed reports of the Soviet launching experimental missiles from submarines, and although a requirement exists for the Soviets to possess an all-weather air-to-air missile no evidence of such development has become available. One of the more interesting developments in recent intelligence has been the increasing number of sightings of grid-like construction sites in the vicinity of Moscow. So far over forty of these sights have been detected, and it has been reported that air-to-surface missiles of the Wasserfall type have actually been seen in the vicinity. It is therefore possible that these construction sights are launching bases for air-to-surface guided missiles, although the number of sites, their close juxtaposition, and the scale of effort involved would appear to be excessive for this purpose. Alternatively, it has been suggested that these sites are locations for unguided anti-aircraft rockets designed primarily to give protection against low-flying aircraft. It is also still possible that these sites have been constructed for some other, as yet undisclosed, purpose.

Biological - Chemical Warfare

28. Evidence has now accumulated to confirm the belief that the Soviet BW program is intimately connected with their work on anthrax. The Soviets have also produced aerosol filters which would be primarily suitable for use in the rapid sampling of BW clouds. Activities reported from the Soviet Far East may support the anticipated extension of the Soviet BW

TOP SECRET

...../10

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

- 10 -

program to that area, but firm evidence on this point is still lacking. The possibility of Soviet military research into the use of psychogenic drugs is suspected, although this assumption is as yet based on a negative evidence.

Military Electronics

29. The output of military electronics has tripled since 1950, and continues to rise at the same rate. The length of Soviet bloc perimeter covered by effective radar warning and control is over 7000 miles, and includes an estimated 700 radar stations of which some 400 have been detected. New name radars have continued to be observed; the total number of these is 15, most of which show evidence of original native design, and fully modern capabilities. There is some evidence that the Soviets have now developed an air intercept radar for single seater fighters; if this proves a success in air operations it is an example of radar research work at an advanced level. An increasing amount of Soviet published material on missile guidance techniques has appeared in the last six months which may well indicate a requirement for operating and servicing personnel. These advances in military electronics have been accomplished at the expense of concentrating on military electronics. In Canada 73% of the electronics output goes into civilian products, and the remaining 27% into military equipment. In the Soviet Union military requirements have been consistently absorbing 70% of the electronics product, and there has been to date no indication of slacking off.

The Army

30. On 12 March 1955 the Soviet Union created 10 new marshals, and one airforce marshal, Zhigarev, was promoted to the rank of Chief Marshal of the Soviet Air Force. This was the first group promotion since the war. All but one of these are known to have served at one time or another in the Ukraine during the Second World War, an area in which the present Minister of Defence, Marshal Zhukov, campaigned with some distinction. Four of the new marshals are native born Ukrainians. This nearly unanimous association with the Ukraine may not be mere coincidence. It may reflect close association with Zhukov or possibly an attempt by Khrushchev, wartime party leader in the Ukraine, to strengthen his position within the Armed Forces. Although these promotions enhance the prestige of the Soviet Army, there is no evidence that the Party hierarchy intends to relax firm control of the Armed Forces.

31. There has been no change in the estimated strength of $2\frac{1}{2}$ to 3 million men organized into about 175 line divisions given in the last semi-annual review. On 13 August 1955 the Soviet government announced its intention to reduce the Soviet armed forces by 640,000 men. Even if this reduction is carried out and is applied preponderantly to ground forces and security troops, it is considered that it could be effected without appreciably reducing the Soviet Army's value or readiness for war. The military commitments of the army have been considerably diminished by the withdrawal of forces from the Kwantung Peninsula, Porkkala and Austria and further cuts could be made by reduction or elimination of cadre units in the Soviet Union. In addition, the recent emnesties granted to various categories of political prisoners will release MVD troops engaged in supervisory and guard duties at prisons and forced labour camps. The Soviets have continued energetically to build-up the military effectiveness of their forces in East Germany by large scale importations of the latest types of heavy equipment. By the end of the period under review approximately 2000 T-54 tanks had arrived in East Germany, sufficient to equip fully all tank divisions and to commence distribution to mechanized divisions. Substantial improvement has also been made in both quality and quantity of motor transport. It is believed that most of the major Soviet units in East Germany are now at or close to war establishment in motor vehicles, but that Rear Services are still deficient of third line transport.

TOP SECRET

.../11

000244

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
RED TOP SECRET

- 11 -

32. Generally speaking training in GSFG has followed the usual pattern established by the training cycle. Again this year there was some indication of emphasis on movement and in March and April short movement exercises were conducted at regimental or higher level. The move to summer training areas began in the third week of April and it appears that certain divisions moved to areas different from those occupied in past years. Toward the end of August and the beginning of September divisional exercises were conducted in at least five of the six Soviet armies in GSFG. In the last semi-annual review it was indicated that the Soviet Army was conducting limited training in atomic warfare and that emphasis was on defensive aspects. A recently acquired summer training schedule for subordinate units of a rifle regiment lists two topics concerning atomic warfare training. The significance of this document lies in the fact that it provided the first evidence that training is being carried out in offensive as well as defensive operations under conditions of atomic warfare.

The Navy

33. During the period under review the largest transfer of Soviet warships ever recorded between fleet areas took place when 2 carriers, 12 destroyers, 12 submarines, 12 anti-submarine vessels and one submarine depot ship transferred from the Northern to the Pacific Fleet area via the Northern Sea route. A number of ships and aircraft were turned over to the Chinese at the time Port Arthur was given back to the Chinese Peoples Republic and as well the Chinese received 2 Gordy class destroyers, 2 MV class range submarines, 2S class Long range submarines, and possibly 6 Kronstadt class anti-submarine vessels. 2 Gordy class destroyers and 5 MV class submarines were transferred to the Roumanian Navy. General exercise activity has continued at a high level and each Soviet fleet has carried out at least one major exercise. The theme of these exercises appears to emphasize co-operation between forces. In the Black Sea emphasis appeared to be on combined operations, in the Baltic on surface-air co-operation, and in the North submarine, surface and air co-operation, and in the Pacific long range submarine patrol. In all fleet areas the intensity of training in submarine warfare has increased. Air activity during recent months suggest the use of advanced electronic airborne equipment by naval fighters.

34. Admiral Sergei Georgevich Gorshkov has been appointed First Deputy C-in-C Naval Forces in Naval Headquarters, Moscow. This officer was formerly C-in-C Black Sea Fleet. At the end of the period arrangements were made for and exchange of visits between six Russian ships and six British ships to visit Portsmouth and Leningrad respectively.

The Air Force

35. Developments in the Soviet and Satellite Air Forces during period ending 30 September 1955 included continued modernization primarily through conversion to jet aircraft. The most significant development was the appearance of a large swept wing four engine, turbo-prop bomber, designated the BEAR. An estimated reduction of over 1000 aircraft in the Soviet and Satellite Air Forces has taken place because of reassessment of unit strengths and a reduction in the number of ground attack units, but this has been offset by an increase in jet aircraft. The overall strength of the Soviet Long Range Air Force increased during the period with addition of approximately 100 BADGER (Type 39) jet bombers making a total 110 BADGERS in the possession of the Soviet LRAF. Overall capability however still depends on the BULL(TU4)

36. The most significant developments in the Tactical Air Force have been indications of increased jet fighter capabilities through the use of airborne intercept radar equipment. Introduction into the TAF of single seat (FARMER) and two seat (FLASHLIGHT) jet fighters, which appeared in numbers at the Tushino Air Show, should increase the offensive and defensive capabilities of this force. In the Naval Air Forces the conversion from Mig 15 fighters to FRESCO (Mig 17) is 80% completed while two engine flying boats (similar to the Martin Mariner) are believed to be replacing Catalinas in naval reconnaissance units, and helicopters are being introduced in increasing numbers.

TOP SECRET

...../12

000245

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
- 12 - **REDUIT A SECRET** ~~TOP SECRET~~

37. It is extremely difficult to give a true assessment of airfield developments in the Soviet Union, however, during the past six months there were indications that the Soviets were extending and improving runways to accommodate the new aircraft of the Long Range Air Forces. It is believed that this development work has been largely concentrated in the more exposed areas extending from the Kola Peninsula in the North, along the western border area of the Soviet Union, to the Caucasus in the South. Some evidence also suggests that a similar airfield development programme has been instituted in the Far East, particularly in the Southern Maritime District. One of the salient features of the airfield development programme in the European Satellite Area during the period under review has been the continued emphasis placed on Poland and to a lesser extent on Eastern Germany. Although construction of new airfields in most of the other Satellite Countries has almost stopped, the development programme in Poland has continued, with 35 airfields with paved long runways; out of 118 in all the European Satellite Countries. In addition, there are nine (possibly fourteen) other airfields currently under construction in Poland as against four which are being built in Eastern Germany, one in Roumania, and one in Albania.

European Satellite Forces
and Armaments Production

38. The strength of the East European Satellite armed forces, including security troops, has remained relatively constant over the past six months with an estimated total strength of 1,500,000 men. The Satellite ground forces consist of approximately 1,100,000 men organized into an estimated 80 line divisions. However, following the lead of the Soviet Union, all of the Satellites except East Germany have announced plans for reducing their armed forces by the end of 1955. If these forces are actually reduced in accordance with announced figures, a reduction of about 170,000 men will occur by the end of the year -- about 11 per cent of the total personnel. The manner in which such a reduction will be accomplished is not known but it is not believed that it will change the number of basic formations or greatly decrease the effectiveness of the armed forces of these countries.

39. A joint Soviet-Satellite command structure came into being when the Soviet Union and Satellites signed the Warsaw Treaty in May of this year placing the forces committed to this treaty under the direction of Marshal Konev of the Soviet Union. The treaty provided for unity of action in the event of attack on any signatory and provided the right for the Soviet Union to station its forces in the Satellites. A Soviet-East German Treaty of Mutual Relations was concluded in Moscow during September and following this action, the East German Parliament (Volkskammer) passed an amendment to the Constitution which provided a legal basis for the creation of national armed forces. Recent evidence indicates that the East German police, including ground, naval, and air elements now have a common headquarters at Strausberg, East of Berlin. It is believed that Strausberg will be the home of the East German Defence Ministry and that Willi Stoph, who recently gave up his position as Minister of the Interior, will head the East German Ministry of Defence.

40. The senior Soviet generals who were withdrawn from positions as Military Attaches in the Satellite countries have now been replaced by colonels. It is not believed that this represents any relaxation in the degree of Soviet control but, rather, was a prelude to the Warsaw Treaty and the beginning of a new system of training and inspection under Soviet direction.

41. Corps level field training has been observed in Czechoslovakia and Poland; however, there have been no other notable developments in Satellite Army training except the increasing frequency of reports of training in atomic warfare which, to date, has consisted of training in defensive measures. In East Germany, field training reached a slightly higher level than noted in the preceding years. The Satellite armies still are short of heavy equipment and are dependent upon the Soviet Union for air and logistic support. No significant items of Soviet postwar equipment has appeared in the Satellite armies.

TOP SECRET

..../13

000246

BEST AVAILABLE COPY

- 13 -

TOP SECRET

II

SOVIET FOREIGN POLICY
AND
ATTEMPTS TO EXPLOIT DEVELOPMENTS IN TROUBLED AREAS
OF THE
WORLD OF SIGNIFICANCE IN THE COLD WAR

DOWNGRADED TO SECRET
REDUIT A SECRET

42. During the period under review, it became apparent that a major shift in Soviet foreign policy tactics had taken place. From the death of Stalin there were indications that the new leaders might be willing to abandon the tough policy toward the West which dated from 1947. The events of the last seven months suggest that the drive for "normalization of relations" with the non-Communist world is to be the new tactic to attain what the tough policy had failed to attain. The long-term aims remain the same. In the West, these are to prevent the incorporation of a re-armed Germany (Western or united) into the Western alliance; to lessen U.S. influence in Europe and cause the withdrawal of U.S. armed forces; and by isolating the U.S. from its friends to destroy the Western alliance. In the East, it is similarly to isolate the U.S. from its friends; by lessening U.S. influence to cause the withdrawal of U.S. and allied strategic bases on the periphery of the Sino-Soviet bloc; and to expand the area of Communist influence by legal or illegal means short of major war in the uncommitted countries. In this connection, an article on the "Spirit of Geneva" which appeared in the August issue of Communist, the organ of the Central Committee of the Communist Party, is revealing. This exposition of the post-Geneva "party line" continues to insist on the "annulment of NATO" as the essential precondition to German re-unification; gives no indication that the U.S.S.R. is ready to accept a fool-proof system of control in the field of disarmament; ascribes the current thaw to popular world-wide insistence on peaceful policies; puts the full blame for violation of the Geneva Agreement on South Vietnam; and gives no indication that it would agree to a Korea united through genuinely free elections held under the supervision of an impartial international agency or commission. In short, evidence is still lacking that the Soviet Union is willing to concede on really fundamental issues.

43. In the main, the aggressive Stalinist policy had had exactly the reverse effect to that desired. The Soviet Union could probably have maintained the status quo of the cold war by a continuation of the tough policy. But it was apparent that no further advance could be made by these methods. In addition to the failure of the tough policy, there were other reasons which made a return to negotiation and diplomacy seem desirable.

44. In the first place, there is the internal problem. Not only is agriculture in particular in a serious state, but it has become apparent that there is not available an endless supply of labour and resources to meet all the demands on the economy. The economy cannot indefinitely meet the needs of heavy industry, re-armament caused by the situation in Europe and the Far East, atomic energy development, consumer goods, and Chinese industrialization. Added to this is the unsettled problem of the leadership. No one of Stalin's stature has emerged to enforce rigid control, and the collective leadership must avoid crises. The economic and political pressures within the country require a relaxation of international tension in order to lessen the demands on the economy. Secondly, there are the demands of Communist China. If China is to be turned from a primitive economy into a powerful industrial state, it must have outside assistance. Failure to get that substantial assistance from the Soviet Union would seriously weaken Moscow's control over Peking, tend to turn over Communist leadership in Asia to China, and perhaps run the risk of war as a result of Chinese rashness. Thirdly, there is the re-emergence of Germany as a major European power which, with the ratification of the Paris Agreements, was obviously allying itself

TOP SECRET

.../14

~~TOP SECRET~~
~~REDUIT A SECRET~~

- 14 -

firmly with the West. Its potential military and industrial strength could tip the European balance heavily in the West's favour and thus posed the spectre of a revived threat to the Soviet Union. Finally, there is the factor of the atomic and hydrogen bombs. Ideologically correct statements to the contrary, the Soviet leaders are increasingly aware of the vulnerability of all countries, including the Soviet Union, to the annihilative effect of nuclear warfare. If any major war may develop into a thermo-nuclear war, then it constitutes a threat to the Soviet system, and policies less likely to lead to war must be adopted.

45. A combination of these motivations and a variety of lesser ones has led to a number of developments in the past months all designed to give the impression of a return to normal and friendly relations with the West: the disarmament proposals at London on May 10th; the signing of the Austrian State Treaty; the visit of the Soviet delegation to Yugoslavia; the opening of Soviet-Japanese peace treaty negotiations in London; the Geneva Conference of Heads of State; the reduction of Soviet armed forces; the agreement to establish diplomatic relations with the Federal Republic of Germany; and the return to Finland of the Soviet base at Porkkala. There has also been a marked lifting of the Iron Curtain permitting a freer flow of visitors to and from the Soviet Union.

46. All these events indicate not that the Soviet Union has abandoned any of its basic aims, but rather that it now hopes to achieve them by new tactics. These aims are primarily an expression of Russian nationalism, but are in no way inconsistent with the ideological conviction that communism will eventually triumph throughout the world. This is a still valid tenet of communist faith, however far off the millennium may be. Soft-peddalling the militarist threat to the West from the Soviet Union will diminish antagonism to the Soviet Union and to communism. It will also, in communist theory, accelerate the process under which capitalist countries, limited in their defence expenditures and more vulnerable to unemployment, become ripe for communist transformation. This long-run factor cannot be discounted as part of the explanation for the new soft policy.

The Geneva Conference of Heads of State

47. The Soviet Union made it quite clear before the Geneva Conference in July that it was not prepared to discuss either the position of the satellites or the role of international communism. Discussion was in fact limited to German re-unification, European security, and disarmament. With the exception of President Eisenhower's proposals on the exchange of military blue-prints, neither side advanced new proposals, and neither side abandoned any of its positions. However, the problems were clearly defined in a joint directive which would permit the Foreign Ministers to continue negotiations in October, and the conference seems genuinely to have led to the relaxation of tensions and the creation of an atmosphere in which negotiation and diplomacy are possible. President Eisenhower's performance seems to have done a great deal to convince the Russians and the rest of the world that the aim of the Western alliance is peace with security. To convince the West Europeans that the U.S. was not necessarily thirsting for war was in itself an important achievement of Geneva.

48. Leaders on both sides appear to have convinced one another that German re-armament will not be allowed to lead to war. The Russians clearly prefer the status quo to the jettisoning of Communism in Eastern Germany and the resultant shock to the satellites. They may therefore be expected to reject any European security system which has as a pre-condition German reunification. They prefer to establish direct contact with the Germans in order to increase the flexibility of their position, and then gradually let the movement towards unification on Soviet terms develop inside Germany.

TOP SECRET

..../15

BEST AVAILABLE COPY

- 15
~~TOP SECRET~~
~~DOWNGRADED TO SECRET~~
REDUIT A SECRET

German-Soviet Relations

49. Before the entry of the German Federal Republic into NATO the Soviet Union warned that this action would make further negotiations about the future of Germany impossible. The eleven fold increase in road tolls between West Germany and West Berlin on April 1 seemed to indicate that the Soviet threat was to be taken seriously. Actually the Soviet Union's German policy remained flexible, as the invitation extended to Chancellor Adenauer on June 7 to visit Moscow demonstrated. Chancellor Adenauer went to Moscow in September. After an exchange of notes, in which the Soviet Union emphasized that it wished to discuss the establishment of diplomatic relations and the promotion of Soviet-German trade and cultural exchanges, while the German Federal Republic insisted on discussions on German reunification and the return of prisoners held by the Soviet Union,

50. The negotiations in Moscow resulted in agreements for the establishment of diplomatic relations and the release of nearly 10,000 German "war criminals" held by the Soviet Union. Although the Soviet Union agreed to recognize a Government it had considered illegitimate and honoured a man it had attacked for his alleged revanchist policies, it gave away no ground on the major question of reunification. Both before and after Adenauer's visit, in fact, the Soviet Union stressed its support for its East German satellite. Khrushchev and Bulganin had visited Berlin after the Geneva Conference in July, and immediately after Adenauer's departure from Moscow the East German leaders were invited to Moscow for discussions which led to a formal grant of sovereignty to the German Democratic Republic. At Geneva the Soviet Union resisted suggestions that an early settlement of the German problem was essential. Rather, the Russians appeared to consider the continuance of the present division of Germany as better than any of the practicable alternatives. They probably hope that eventually, by direct negotiations with the West Germans, it might be able to wean them away from their present allies.

Soviet - Austrian Relations

51. After years of refusing to conclude a settlement for Austria separately from a German Peace Treaty, the Soviet Union suddenly reversed its stand. Discussions were begun with the Austrian Ambassador in Moscow late in February and then, in a dramatic move, continued directly with Chancellor Raab, who accepted an invitation to come to Moscow in April. The treaty which emerged from these talks and from Four-Power negotiations in Vienna, although based on the draft treaty negotiated among the Four-Powers between 1947 and 1950, was more favourable to Austria than anything the Soviet Union had previously been willing to consider. Austria was forbidden to enter a political or economic union with Germany, agreed to remain militarily neutral, and had limits put on the sort of military equipment its armed forces might use. The Soviet Union, however, gave up its earlier insistence on maintaining occupation forces in Austria until a German Peace Treaty was signed and, in fact, withdrew its forces well within the 90 day period allowed under the Treaty, which came into effect on July 27. The Soviet Union also agreed to give back certain factories and oil fields it had been operating, although the compensation upon which it insisted will be a heavy burden on the Austrian economy.

52. In agreeing to the Treaty, the Soviet Union evidently hoped to gain the gratitude of the Austrians and to impress public opinion elsewhere. In particular, before the German Federal Republic had yet created an army to meet its new NATO commitments the Soviet Union may have wished to demonstrate to the German public the advantages of direct negotiations with the Soviet Union and to suggest that neutralization might be a solution to the German problem. The Russians no doubt also had in mind the desirability of an allied military withdrawal from Austria, creating a neutral zone between the German and Italian areas of NATO.

TOP SECRET

....16

DOWNGRADED TO SECRET
REDUIT À SECRET

TOP SECRET

The Warsaw Pact

53. The signing in mid-May of an East European treaty patterned after NATO, with a Joint Command under Marshal Konev, is expected to do little to change Soviet-Satellite armed strength and the balance of power. There was no indication of the increase of armed forces (integration itself, apparently, is to increase "effectiveness"), and since then actual reductions of armed forces have been announced with due fanfare. Nevertheless, the Treaty and the Joint Command provide the rudiments of a useful political and military structure which can be developed if need be. It may make more palatable any necessary redeployment of Soviet forces consequent upon the withdrawal from Austria. The signatories are Albania, Bulgaria, Czechoslovakia, Hungary, East Germany, Poland, Rumania and the USSR. According to the signatories, this purely defensive grouping has had to be created in answer to the threat of German re-armament. It is allegedly open to any European nation.

54. The Warsaw Pact structure is seen primarily as a propaganda move and a bargaining point in Soviet discussions of European security, German re-armament and the disbandment of NATO. It may be a negotiable element in a drive to get U.S. forces out of Europe in return for some combination of a general European security pact and a German settlement. When the Pact was signed, the question of East German forces was set aside for later consideration. Under the Soviet-East German agreement signed in Moscow in September, granting "independence" to East Germany, that Government will now contribute forces to the joint command but Soviet troops will of course continue to be stationed in East Germany.

Scandinavia

55. The visit of the Finnish President and Prime Minister to Moscow in September resulted in the return to Finland of the Soviet naval base at Porkkala and in agreement to extend for twenty years the Soviet-Finnish Treaty of Friendship which was due to expire in 1958. The return of Porkkala does little to diminish the security of the USSR., but serves a propaganda purpose in emphasizing the peaceful intentions of the Soviet Union. The USSR has drawn unfavourable comparisons with the USA and has again demanded the withdrawal of US bases, ignoring the essential difference in the strategic importance of Porkkala and the US bases in Europe. The Porkkala move is no doubt meant to reassure the Scandinavian countries in particular, to encourage whatever neutralist and anti-NATO sentiment exists in Denmark and Norway, and to confirm Sweden's belief in the rightness of its foreign policy.

Relations with Japan

56. Discussions between the USSR and Japan opened in London in May with the object of restoring normal relations and concluding a peace treaty. The discussions are still in progress. The Soviet initiative is in line with its policy of restoring normal relations with ex-enemy countries. The purpose is, in general, to re-establish Soviet freedom of diplomatic action in order to be in a position to influence Japanese policies. In particular, the USSR hopes to lessen US influence and ultimately bring about the removal of American bases, in effect neutralizing Japan in the Austrian pattern. Discussion centres around a Soviet draft peace treaty which was presented on June 14. One article would set limitations on Japan's freedom to enter military alliances and another would close certain straits around Japan to the warships of countries other than the Soviet Union, Japan and Korea. Japan is proving a hard bargainer, and has rejected both these articles. Indications that the Soviet Union may not insist on the abrogation of the mutual defence treaty with the USA, and minor Soviet territorial concessions, suggest that the USSR attaches considerable importance to reaching agreement with Japan.

TOP SECRET

.../17

DOWNGRADED TO SECRET
REDUIT A SECRET **TOP SECRET**

Middle East

57. The Soviet Union is still making moves towards normalization of its relations with states in the area. These include ratification of the financial and frontier agreement with Iran, a barter agreement with Egypt (oil for cotton), agreement with Syria for an exchange of parliamentary delegations, an offer to the Sudanese Government to supply technical experts to assist in Sudan's development, and an offer to exchange diplomatic missions with Libya and Saudi-Arabia. Col. Nasser has been invited to visit the USSR. Opposition to military alliances which are friendly to the West continued to be expressed. This was particularly true of the Baghdad Treaty (Turkey, Iraq, Pakistan), which was denounced in an official Soviet Government statement and in Pravda.

58. Of serious concern to the Western Powers has been the announcement by Colonel Nasser that Egypt has concluded a deal for the acquisition of arms from communist supplies. It now seems clear that the transaction is with Czechoslovakia and that the Soviet Union will supplement the supplies when Czechoslovakia cannot provide the necessary arms. They are reported to be substantial and include jet aircraft, destroyers, submarines and tanks. It is too early to judge now whether this presages a Soviet move to interfere more actively in Middle Eastern affairs. The major Western Powers have made representations to Egypt and the Soviet Union, drawing attention to the dangers of upsetting the military balance between Israel and the Arab states and precipitating an arms race between them. If the deal goes through it will become necessary for the Western Powers to reappraise their policies with regard to the shipment of arms to the Middle East. The question of the type of aircraft to be maintained on bases in the Middle East would also have to be reviewed.

Relations with China and the Far East

59. It has been suggested that one external reason for the soft policy may be the demands of Communist China for arms and industrial goods, and the necessity of not letting Communist initiative in the Far East slip into Chinese hands. The Soviet Union needs better relations with the West, especially in Europe, if it is not only to build up its own economy, but also to make substantial contributions to the Chinese economy and at least token contributions to both Communist and non-Communist countries in Asia. Agreements to provide economic assistance to Afghanistan and to Northern Vietnam are examples of the extension of Soviet influence in the Far East. It fits in well with its desire to lessen US influence in Asia and not to leave the provision of economic assistance entirely in Western hands.

60. There is no indication that there has been any change in the Soviet desire to discourage Chinese bellicosity over Formosa. The USSR may well have helped persuade the Chinese that a period of peaceful relations with the non-Communist world would be most conducive to extending Communist influence in the uncommitted countries, and also Chinese admission to the United Nations. In any event, the USSR has given its blessing to the Bandung Conference, at which the Chinese took pains to please and be reasonable, as an example of the co-operation which is possible among countries with differing social systems.

61. Attendance of the Chinese Minister of Defence as an observer at the Warsaw Conference of May 11-14 was further evidence of Sino-Soviet co-operation. He assured the delegates that "peace and security in Asia and in Europe are indivisible" and pledged that "if peace in Europe is undermined China will struggle against aggression jointly with the peoples and Governments of our fraternal countries". But there was no suggestion that the Warsaw defence organization should be extended beyond

TOP SECRET

.... /18

18
DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

Europe. The pledge was similar to the one given by the Russians over Formosa, that is, one intended to have the maximum deterrent effect on the West short of automatic commitment to involvement in any war on the lengthy periphery of the Moscow-Peking Axis.

Disarmament

62. The Russians have made substantial concessions to the Western point of view on disarmament in the last few months. On May 10, at the disarmament talks in London, the Soviet representative tabled a document (a) insisting on a rigid time-table which would see the whole disarmament programme implemented by the end of 1957; (b) accepting the Anglo-French compromise that the prohibition of the use of nuclear weapons should go into force upon the completion of 75% of the reduction of conventional armaments; (c) including the Anglo-French proposals on the levels of armed forces for the great powers (1 to 1½ millions for the USSR, USA and China, and 650,000 for the UK and France); and agreeing with the Western suggestion that nuclear weapons should not be used except in defence against aggression subject to Security Council approval. These proposals represented a substantial advance, particularly as they abandoned the previous position that the total prohibition of thermo-nuclear weapons must precede any general disarmament. But the Soviet position on the essential question of an effective inspection and control system was not clear, and the Soviet plan was linked with a number of political proposals (military bases, occupation troops, war propaganda, trade) which were unacceptable to the Western powers and in any event went well outside the field of disarmament.

63. Most of the May 10 proposals were reiterated by Bulganin at Geneva. In addition, he announced that the Soviet forces withdrawn from Austria would be demobilized, and suggested that the other occupying powers should follow suit; suggested that pending a disarmament convention the Big Four undertake not to be the first in the use of atomic weapons against any nation; and proposed that the armed forces of countries other than the Big Five be limited to 150,000 to 200,000 men. This plan was stripped of the unacceptable political proposals. In addition, the Russians have agreed to make a contribution to the proposed international atomic energy agency "as soon as an agreement on setting up the agency has been reached". In a recent letter to President Eisenhower, Bulganin commented on the President's Geneva proposals concerning the exchange of blue-prints of military installations and aerial reconnaissance. There is partial acceptance of the Eisenhower scheme and some Soviet suggestions for inspection teams. But the Soviet proposals on inspection and control certainly do not go far enough to warrant the West disposing of its present stocks of nuclear weapons.

64. The post-Geneva announcement that the armed forces of the USSR were to be reduced by 640,000 troops was followed by similar announcements from the satellites. It must be seen primarily as a propaganda move, and its significance is considerably reduced due to the failure to make mention of the total armed strength of the USSR and the satellites. The demobilization will assist the manpower shortage, particularly in agriculture, though it must be regarded as part of a long-term plan rather than as a measure to meet immediate labour needs. There is no reason to believe that this move has decreased the effective armed strength of the Soviet Union, which is probably doing no more than adjust the number of its troops to modern strategic concepts and modern weapons. It is quite possible that the process of demobilization has been going on for some time, and that the announcement was made at this time to fit in with the "spirit of Geneva".

65. For the Soviet Union the primary preoccupation, because of its superiority in conventional armaments, remains the prohibition of thermo-nuclear weapons, and secondarily ceilings on the levels of armed forces; for the Western powers, it is an adequate system of inspection and control,

TOP SECRET

.../19

DOWNGRADED TO SECRET
REDUIT A SECRET

TOP SECRET

with or without prohibition of thermo-nuclear weapons. The difference in approach remains, but the gap has been narrowed in the last few months.

East-West Contacts R-14

66. An integral part of the new Soviet tactics has been a determined effort on the part of the USSR to encourage exchanges of visits to and from the Soviet Union. A number of Parliamentary delegations from non-Communist countries have visited the Soviet Union, and the Supreme Soviets of the USSR, the Ukraine and Byelorussia have joined the Inter-Parliamentary Union. Soviet agricultural delegations have visited the UK, the USA and Canada; and a construction industry delegation is currently visiting the USA. A Soviet group came to the Canadian International Air Show in Toronto, and subsequently some of the organizers of the Air Show paid a return visit to a Soviet air display. The Soviet Union is proposing an increase in cultural exchanges; France had indicated its desire to expand its cultural and information programme in the USSR and the satellites; and the UK has set up a special body under the British Council to foster exchanges with the Soviet Union. The Soviet Union is granting some tourist visas; speaks of re-establishing Intourist offices abroad and improving its hotel accommodation; and has granted permission to some of its citizens to visit the satellites and Sweden. Politically, the new liberality on visits is designed to give the impression that the Iron Curtain is being lifted and that the Soviet Union is much the same as other countries.

Position of Yugoslavia

67. A main concern of the Tito regime in the past 6 months has been the re-evaluation and the re-adjustment of its position vis-a-vis both the West and the East as a result of the marked improvement which has taken place in the relations between the USSR and Yugoslavia. The visit of the Soviet leaders to Belgrade in May 1955 succeeded in establishing a new basis for closer cooperation between the Soviet Union and Yugoslavia in the political, economic and cultural fields. Marshal Tito made clear to the Kremlin rulers, however, that this country would not go back to the Soviet fold. The communiqué issued at the conclusion of the talks stated that every country was entitled to conduct its internal affairs as it pleased and recognized the possible existence of different kinds of socialist development in the world.

68. The ideological implications of the Soviet visit to Belgrade are of considerable importance. The Soviet apology for the 1948 schism represents an open break with the major point of dogma that the Soviet Union is the fountain-head of all Communist wisdom and that pattern for development toward Communism in all other countries. The rapprochement with Yugoslavia recognizes for the first time the possibility of different paths leading toward the Communist goal, though it is hard to see how the Soviet leaders could have held indefinitely to the infallibility of their approach in view of the different paths which the Chinese Communists had followed. And despite the palpable and cumbrous attempt to blame the 1948 break on Beria, it was an open admission that the Soviet Union had made a mistake. There are dangers for the Soviet position in the satellites in such an admission, but presumably the Soviet leaders are sure enough of their control that they were prepared to run this risk. The main advantage for them, of course, lies in opening the way for a new penetration of the Yugoslav Communist Party and thus re-establishing the sentimental and at the same time intellectual bond between Marxists.

69. After this Soviet visit, talks were held in Belgrade between the Yugoslav leaders and the Ambassadors of the United States, the United Kingdom and France. During these conversations, the Yugoslav régime

TOP SECRET

.../20

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REBUT A SECRET

TOP SECRET

reiterated its desire to continue its co-operation with the Soviet Union. However, subsequent development gave rise to some concern in the West about the long-term validity of these reassuring pronouncements. Numerous Yugoslav delegations have since June paid friendly visits to the USSR; Marshal Tito has announced that this country was anxious to have contacts with all socialist movements in the world including that of the Soviet Union. After the Kremlin's decision to cancel a Yugoslav debt of \$90 million, an extensive economic agreement was concluded which in 1956 will bring the volume of trade between Yugoslavia and the USSR to the 1948 level. All these developments, combined with Yugoslav reluctance to let the US know of the use made of the military equipment and assistance, supplied by the latter, disturbed somewhat the relations between Yugoslavia and the leading Western nations and especially the United States. In order to overcome these differences the State Department recently sent one of its senior diplomats to Belgrade to seek clarification of Yugoslav intentions and policies. The brief statement issued at the end of the conversations, on October 7, says that agreement has now been reached on all outstanding questions between the two countries.

70. Because Tito has of late shown inclinations to play off the Great Powers against one another and because he seems to overestimate his country's capacity to resist all Soviet pressures, a definite assessment of Yugoslav foreign policy would seem hardly possible at the present time. There has been sufficient evidence, however, that Yugoslavia is willing to move away from the pro-Western alignment it chose to take after the break with Moscow in 1948, and to adopt a non-committal attitude in any dispute between the East and the West. This new orientation is in accordance with what seems to have become the constant objective of Tito's policy, which is to avoid any form of foreign interference in Yugoslav destinies. This is likely to last as long as Tito is in charge, but there is undoubtedly a large number of Yugoslav rank and file Communists who would take a less strong stand against Soviet attempts to restore the pre-1948 relations. Their influence might be to dominant one if Tito were removed.

TOP SECRET

.... /21

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET
TOP SECRET

RETURN TO THE HOMELAND MOVEMENT

71. During this period almost all the Iron Curtain Governments in Europe made an effort to persuade former nationals living abroad to return to their homelands. Several of these governments proclaimed amnesties for some categories of people who had left the country illegally. Printed appeals were sent out to refugees and former nationals in a number of countries from various centres, particularly from East Berlin, where a Soviet sponsored Committee organized the distribution of such material on a large scale. Some refugees have been lured back from among those who had not fared well in the West. The campaign scored a minor propaganda success when Hugo Hanke, a former Polish Socialist who held the position of Prime Minister in what one Polish group proclaimed to be the Polish Government-in-Exile, was persuaded to return to Poland to his family where he would be free to live quietly without engaging in political activities.

72. The general aims of this "return to the homeland" campaign are considered to be those of scoring whatever propaganda points are possible against the West, unnerving the emigré movements when "liberation" of the satellites seems farther off than ever, deriving information from and making useful contacts among former nationals abroad for the general purposes of the Soviet and satellite intelligence services and, in the case of some Iron Curtain countries, obtaining useful manpower. Printed material from East Berlin has been sent to persons in Canada. The Czech Legation has published a notice about an amnesty in several Canadian newspapers. It is apparent that efforts to persuade former Iron Curtain nationals to return are being directed at persons in Canada as much as in Western Europe and the United States.

EAST - WEST TRADE

73. Trade within the bloc continues to dominate the Soviet trade position although trade with the West has increased considerably over 1953. From information contained in the Chinese budget speech in July, it is now thought that the USSR made a special loan of some \$500 million in 1954 to cover Soviet military material in Port Arthur and Dairen which was handed over to China.

74. Probably the most interesting development in the past six months has been the continued attention being paid to under-developed countries. With the final withdrawal of the French from North Vietnam, both the USSR and China have extended economic aid and technical assistance so that North Vietnam is now almost entirely dependent upon the Sino - Soviet bloc. Chinese aid is reported to amount to \$338 million over a five year period while Soviet aid amounts to \$100 million for 1955 & 56. The aid being granted by the USSR and China appears to be complementary rather than competitive. A new trade agreement has been concluded between Burma and the USSR whereby Burma will supply some 200 thousand tons of rice in exchange for industrial machinery. Part of this rice is being delivered to North Vietnam as part of the Soviet aid programme. Communist countries are, for the first time, taking a large portion (about 40 percent) of Burmese rice exports. Bloc trade is increasing with Iran and Afghanistan. The Afghan - Pakistan dispute provided the opportunity for the Soviet Union to conclude a new transit agreement whereby Afghan exports and imports have been granted free transit within Soviet borders. In the Middle East Egypt appears to have been signalled out for special attention. Contacts established at the Bandung Conference between Egypt and China have lead to the conclusion of a trade agreement whereby Egyptian cotton is to be exchanged for Chinese steel. The Soviet Union has renewed its trade agreement and has offered economic aid and technical assistance. Czechoslovakia has apparently concluded an agreement with Egypt covering the delivery of unknown quantities of arms. Other Arab countries particularly Syria and Saudi Arabia, may also be involved in arms agreements with the Bloc.

TOP SECRET

..../22

22
DOWNGRADED TO SECRET
REDUIT A SECRET **TOP SECRET**

BEST AVAILABLE COPY

75. In Europe the Soviet rapprochement with Yugoslavia has resulted in an agreement whereby Yugoslavia will receive economic aid in the form of three loans totalling more than \$84 million over the next three years. This aid is to be used to help finance the purchase of raw materials and the establishment of fertilizer and chemical factories. In connection with the Austrian State Treaty agreement was reached on compensation payments by Austria of \$150 million in goods over the next six years and the delivery of one million tons of crude oil each year for the next ten years. A five-year trade agreement has also been signed.

III - INTERNAL DEVELOPMENTS IN COMMUNIST CHINA

Internal Politics

76. Some details of the first high level purge since the Chinese Communist regime came to power were revealed on March 31st when a National Conference of the Party endorsed measures which had previously been taken by the Central Committee against a so-called "anti-Party alliance" headed by Kao Kang, former chairman of the State Planning Commission, and Jao Shu-shih, head of the Organization Department of the Party.

77. The official charges against Kao were that he plotted to seize control over the Party and Government by obtaining for himself the posts of Secretary-General or Vice-Chairman of the Party and Premier of the Government, that as a former regional administrator in Northeast China and Manchuria he had built up an anti-Party faction and attempted to turn the Northeast into his own independent Kingdom, and that he attempted to win over Party members in the army to his support by making a distinction between "the party of the revolutionary bases and the armed forces" and "the party of the white (liberated) areas" on the basis that the armed forces had created the Party. The charges against Jao were that he supported Kao; that he had used his post as director of the Organization Department to support an intra-party struggle; and that he had followed a "rightist" policy towards capitalists and rich peasants in East China.

78. Although Kao Kang was usually ranked fifth in the Chinese Communist hierarchy, there is no evidence to link his downfall with serious dissension or a major schism in the ranks of the Party. Both he and Jao had built their careers in the regional administrations by which much of China was governed between 1949 and 1952, and both had been recalled to important jobs in Peking, when the regional administrations were abolished. It is possible that his subversion was attributable to his inability to fit into the more circumscribed atmosphere of the Central Government after several years of wide personal authority in North-East China. Whatever his purposes, he evidently failed to gain the support of senior Party members in the armed forces (for whom he made a special play) or of any other member of the Politburo. The affair can probably be explained as a fairly straightforward struggle for power in which Kao, motivated largely by personal ambition, was frustrated in his attempt to climb over Chou En-lai and Liu Shao-chi to a position next to Mao at the top of the Party hierarchy. It does not appear to have damaged the unity of the Party. It has been announced that Kao committed suicide and that Jao has been expelled from the Party. Seven other Party officials were publicly disgraced for alleged participation in the plot.

79. The immediate result of the affair was the setting up of an elaborate system of local and central Control Committees to enforce Party discipline. These committees replace the local and central Discipline Inspection Committees which have been operating since 1949. A member of the Politburo, Tung Pi-wu, has been appointed secretary of the central Control Committee and it is to be assumed that it will be more difficult in future to assail the central authority of the Party. An intensive campaign against "counter-revolutionaries" has been going on throughout most of the period under review. It is difficult to ascribe precise causes to this campaign, but it is at least a fair guess that an internal spy-mania is replacing the previous campaign for the "liberation" of Formosa, which has been progressively abated. Special attention has been directed to the activities of the "anti-Party and counter-revolutionary Hu Feng clique."

TOP SECRET

.... /23

000256

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
- 23 -
REDUIT A SECRET **TOP SECRET**

Hu was a poet and litterateur of the non-Communist left living in Shanghai, and appears to have had fairly extensive influence on modern Chinese letters. He and his associates were accused of discouraging the writing and publishing of progressive literature and of not stressing Marxism-Leninism, but in reality his main fault appears to have been a disinclination to cut himself off from the traditional subjects of Chinese art. The affair reached a climax in July with the arrest of Hu and the Communist Vice-Mayor of Shanghai on charges of counter-revolutionary activities.

80. There has been some re-organization of the Government. The National People's Congress held from July 5-July 30 approved the abolition of the Ministry of Fuel Industries and the creation of Ministries of Coal Industry, Electric Power Industry, Petroleum Ministry, and a Ministry for the Purchase of Agricultural Supplies.

81. There have been two developments in the field of distribution. A new sysgem of grain rationing is coming into effect under which the nature of a consumer's work will determine his entitlement to all cereal grains. It was admitted by the Government that breakdowns in the grain distribution system had been the cause of serious shortages in certain regions in the spring. Concurrently, with regard to the distribution of other commodities, the authorities have been pursuing a campaign to revive small-scale private commerce, particularly in the countryside. To make up for the lack of properly developed "socialist" grade channels in rural areas, private pedlars and small private merchants are to be assisted to recover their former prominence. The authorities have been at pains to deny, however, that this move is a retreat from socialism; as the prosperity of the small trader is restored, the socialist trading enterprises which whom he will in any event have to secure his supplies are expected to educate him out of his capitalist ideology.

TOP SECRET

.../24

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRET TOP SECRET

The Chinese Economy

82. In July a new draft of the First Five Year Plan (1953-57) was presented for approval to the second session of the National Peoples Congress in Peking. The Plan reaffirmed the long-term goal of the regime, to develop a powerful industrial state combined with large scale collectivization of agriculture. The principal difference from the original plan is that the time-table for the revised plan is on a more realistic basis. Chinese leaders have now admitted that fifty years will be required for China to develop to the level "of the more advanced capitalist countries." This is still extremely ambitious in view of the gap which must be bridged from the present backward starting point. The proceedings of the Congress reflected a considerable amount of inefficiency and waste in the development of the economy to-date. "Failure to understand the hardship to be undergone in socialist construction" was probably the key-note of the congress.

83. The main deficiencies facing the regime in drawing up a plan were stated to be a lack of sufficient knowledge of China's natural resources and of adequate statistical data, coupled with a general lack of experience in long-term planning. In fact one of the principal difficulties faced by Chinese planners has been the fact that agriculture has lagged sadly behind the planned schedule. Since only by the export of surplus agricultural products can China hope to finance imports of industrial equipment, it is evident that any failure of the agricultural sector will have serious consequences for the Plan as a whole. The main weaknesses of Chinese agriculture are China's inability to manufacture sufficient agricultural machinery, and the predominance of the small peasant farm system. The failure of agriculture to live up to its goals has undoubtedly been due, in large part, to the extremely adverse weather. Last Year's disastrous floods, and a severe winter, contributed their share to the critical food situation in many regions. The blame for the famine conditions has been placed on greedy townspeople and has resulted in a drive to suppress "counter-revolution" (i.e. discontented peasants), the introduction of universal rationing for the first time, and a reduction of farm quotas to provide increased incentives to the farmers. The Chinese harvest is expected to be more favourable this year but any long-term improvement in agriculture will depend upon increased mechanization involving greater investment in industry. The resources for greater investment in industry are however, dependent to a large extent on increased agricultural output. The dilemma is apparently to be resolved by a programme of rigid austerity and continued assistance from the Soviet Union.

84. That the emphasis is to continue on the development of heavy industry is made clear in the revised Plan. Industry is to be allocated over 58 per cent of total capital investment of some \$32.5 billion during the Five Year Plan, while less than 8 per cent is ear-marked for agriculture. Almost 20 per cent goes to transport, ports and telecommunications. Of the capital investment going to industry almost 89 per cent is allocated to the producer goods industries and only slightly more than 11 per cent is ear-marked for consumption. The core of the industrial programme is the 156 projects on which the Soviet Union is to assist. These enterprises include steel and iron combines, non-ferrous metallurgical enterprises, coal mines, oil refineries, machine tool plants, automobile and tractor factories and power stations. Little is known about the development of the armaments industry within the Five Year Plan. The only known production has been in the field of small arms and field guns. There has been no aircraft production or shipbuilding. The success or failure of the Plan will depend in large measure on the ability of the Soviet Union to satisfy China's ever increasing requirements for capital equipment.

85. The budget for 1955-56 which was introduced during the Congress reflects the regimes preoccupation with both the pace of heavy industry and its intention to improve its military capability through the reequipping and modernization of its armed forces. Overall expenditures are up

TOP SECRET

..../25

BEST AVAILABLE COPY

DOWNGRADED TO ~~SECRET~~
RÉDUIT À ~~SECRET~~ SECRET

from \$10.4 billion in 1954 to \$12.5 billion, an increase of 21 per cent. National economic construction expenditures are set at \$6.0 billion compared to \$5.2 billion in 1954, a 15.3 per cent increase. Defence expenditures have gone up 24 per cent, from \$2.4 billion to \$3.1 billion. Allocations for agriculture have been cut back slightly, reflecting the regime's difficulties in forcing the pace of agricultural mechanization. The high level of defence expenditures, accounting for almost 25 per cent of total budgetary expenditures, reflects the increasing cost of improving the quality and fire-power of the Chinese armed forces, and the high cost of military imports.

The Army

86. Reorganization in the ground forces of the Chinese Communist Forces has continued although at a somewhat less spectacular pace than during 1954. The principal feature was the reclassification of the Public Security Forces. Of these some 500,000 have been redesignated as Peoples Armed Police, removed from the jurisdiction of the Army and placed under the Ministry of Public Security for the maintenance of public order. The remaining 200,000 are accepted as part of the regular ground force with the primary task of coastal and border security. This raises the strength of the Chinese Communist Army to approximately 2,514,000. The army continues gradually to withdraw forces from Korea where present Chinese strength is currently believed to be about 441,000. At the same time, following the adoption of a code of service regulations, time-expired veterans are being returned to industry and agriculture and used as a means of stiffening the Peoples' Militia (now numbering between six to ten million members).

Communist Chinese Air Force

87. During the period the Air Force continued to improve its capabilities in the East China region principally in the area opposite Formosa. Although there has been some deployment of units to the South and East, there is still no evidence that aircraft have moved to fields in the coastal area opposite Formosa. An increase in aircraft strength is believed to have resulted from the evacuation of Soviet forces from the Kwantung Peninsula. There are strong indications that the Chinese Communists have taken over Soviet aircraft and facilities in that area. The increase amounts to an estimated 300 FAGOs (Mig 15) and 90 BEAGLES (IL-28). The Communist Chinese Naval Air Force has increased its strength and naval fighters have been more prominent in the East China area. This force has received a number of jet fighters since the deactivation of Soviet units in Manchuria. The Communist Chinese Air Forces remain entirely dependent on the Soviet Union for equipment and it will be a considerable time before China has an aircraft industry capable of supporting a modern air force.

Airfield Construction

88. There has been firm evidence indicating airfield construction and development in South and East China substantially increasing the airfield potential in the Formosa Strait area. One new airfield has been completed and three others are presently under construction. Six other airfields have been or are being rehabilitated, and in addition, two other old airfields are in an advanced stage of improvement. There has been a significant increase in the Communist airfield potential in North Korea. The scale of airfield rehabilitation in North Korea since the Armistice in July 1953, can be gauged by the fact that of the 22 major airfields that were heavily damaged during the Korean War at least 16 are now serviceable.

..../26

TOP SECRET

BEST AVAILABLE COPY

- 26 -

TOP SECRET

IV - COMMUNIST CHINA FOREIGN POLICY AND
EFFORTS TO EXPLOIT TROUBLED AREAS IN ASIA

DOWNGRADED TO SECRET
REDUIT A SECRET

89. In the period under review, there was a gradual but definite movement in Communist Chinese foreign policy towards a less aggressive and less threatening attitude on major Far Eastern problems. The period began during a serious crisis over Formosa, a situation which was, in fact, close to war, and ended with United States and Communist Chinese Ambassadors making slow but significant progress in bilateral talks at Geneva.

90. It is highly unlikely that the somewhat friendlier face which Peking now presents to the world is attributable to any basic change in external objectives. These remain the elimination of Western influence from Asia insofar as possible, and the concurrent spread of Chinese influence throughout South and Southeast Asia. There is evidence, however, that the Chinese now take a more realistic view of their ability to achieve these aims in the face of firm resistance on the part of the United States, and of a disposition on the part of the Chinese to pursue them by peaceful means rather than by force or threats of force. Inter alia, the following factors have probably combined to bring about this modification of the Chinese attitude:

- (a) a realization, reached at the beginning of the period, that an attack on the coastal islands of Quemoy and Matsu would involve a grave risk, and an attack on Formosa a certainty, of war with the United States;
- (b) the demands of Chinese internal development and reconstruction dictated, ipso facto, a policy of avoiding war;
- (c) a realization, developed or at least confirmed at the Bandoeng Conference, that Asian opinion was not wholeheartedly behind Chinese objectives vis-a-vis Formosa and the United States and would certainly be alienated by an armed attack on Formosa;
- (d) the restraining influence of the Soviet Union acting in "the spirit of Geneva".

Formosa

91. The first break in last winter's impasse on the Formosa question occurred at the Bandoeng Conference where Chou En-lai, after discussion with other delegates, issued a statement saying that the Chinese Government would be willing to negotiate with the United States for a relaxation of tension in the Formosa area. Chou's statement was followed by a somewhat hasty rejoinder in Washington to the general effect that the United States Government could not contemplate negotiations on Formosa which did not include Chinese Nationalist representatives, but which Mr. Dulles later clarified to mean that negotiations on matters other than Formosa would be possible. Bilateral talks between American and Chinese Ambassadors subsequently started at Geneva. Meanwhile, Chou En-lai re-directed his offer of Formosa negotiations to the "responsible local authorities" on Formosa.

92. There has been a marked diminution of Chinese internal propaganda agitating for the "liberation" of Formosa. As matters stand, it appears likely that the Chinese Communist Government has decided on the basis of a short or middle-term assessment that there is more to be gained by advocating negotiations than by threatening or actively preparing to use force. They may be encouraged in this by indications that United States policy towards them is

TOP SECRET

..../27

BEST AVAILABLE COPY

DOWNGRADED TO SECRET
REDUIT A SECRETTOP SECRET

becoming less rigid, and by the knowledge that the opinion held of them by the neutralist nations of Asia would not support armed action against Formosa, even though the neutralists may be in sympathy with the Chinese side of the dispute. They may also believe, with some justification, that time is on their side and that lowering morale will eventually drive the Nationalist Government to seek an accommodation with the mainland.

Indo-China

93. Chinese efforts to exploit the troubled situation in South Vietnam have been mainly in the field of propaganda. The unwillingness of the Diem Government to enter into pre-election consultations with the Viet Minh is ascribed in Chinese propaganda to American influence and attempts to prevent the fulfilment of the Geneva Agreements. On the assumption, presumably, that all Vietnamese elections would bring the Viet Minh to power in the south as well, the Chinese Government is pressing hard on its propaganda for the complete implementation of the Agreements, with emphasis on the holding of elections in July 1956. There has been no indication, however, that Communist China would support or favour any attempt within the next year by the Viet Minh to unify Vietnam by force in the event that the elections cannot be held: indeed it is possible that the Chinese may exercise some restraint upon the Viet Minh in this connection, as they presumably would wish to ensure that no situation arises which might result in the landing of American forces on the mainland, thus posing a new threat to China's southern borders.

94. The operations of the Pathet Lao in the two northern provinces of Laos appear to be more directly linked to the Viet Minh than the Communist Chinese. It appears that a settlement in Laos involving the abandonment by the Pathet Lao of their military hold on the two northern provinces may hinge upon a settlement in Vietnam favourable to the Viet Minh.

Korea

95. Few changes have taken place since the last report was prepared and in South Korea, the United Nations countries continue to have little control over the policies and attitudes of President Rhee. He and his government continue according to their own low and deteriorating standards. President Rhee longs to see the reunification of his country and considers that the Military Armistice Agreement stands in its way. In the northern half of the peninsula, the Democratic People's Republic of Korea, the presence of large Chinese forces still guarantees that Chinese influence will be strong in this area which is considered one of Chinese defence. The deadlock still continues over the formula for the unification of Korea.

Japan

96. Ever since late 1954 when the People's Republic of China made the first overtures to Japan for the resumption of friendly relations, the embargo on strategic material makes any effective trade between the two countries virtually impossible, and Japan wishes a relaxation of this embargo. Japan has reacted with extreme caution to the Chinese advances although the Prime Minister in May 1955 said that an exchange of consuls with China was not inconceivable. Concerning relations with the two Koreas, an unofficial fishing agreement has been entered into by some Japanese and North Koreans. However, the Japanese Foreign Minister said in May that his country had no idea of setting up trade relations with North Korea. Japan-ROK relations have gone from bad to worse though the feud has not as yet ended in complete rupture.

.... / 28

TOP SECRET

BEST AVAILABLE COPY

- 28 -
DOWNGRADED TO SECRET
REDUIT A SECRET
~~TOP SECRET~~

Indonesia

97. An active and well-organized Communist Party operates openly in Indonesian politics. Its leader, D.N. Aidit, is capable and Chinese-trained. The growth of the PKI (Partai Komunis Indonesia) since Aidit's take-over in 1950 has apparently been patterned after that of the Chinese Communist Party from 1941 to 1945. It has been consolidating local support and there is little doubt that it has made considerable gains in the last year. Preliminary returns from the Indonesian general elections indicate a heavy Communist vote and the probability that the PKI will be strongly represented in the next coalition government.

98. One source of PKI support is to be found in the two million overseas Chinese who control a large proportion of Indonesian retail business. It is estimated that at least 35 per cent of the Indonesian Chinese support the Peking Government and the reception given Chou En-lai at Bandoeng indicates that the Communists control the sympathies of most of the 15 to 25 age group of the Chinese in Indonesia. There is considerable evidence that the PKI has successfully penetrated the Chinese schools. Moreover, there are one thousand to four thousand Chinese students crossing between Indonesia and the Chinese mainland every month. The seemingly limitless financial resources of the PKI are believed to be provided largely by wealthy Chinese merchants.

99. The Chinese are a symbol of foreign economic domination to the Indonesians and are consequently unpopular. There is, however, evidence of an increasingly better relationship between the governments at Peking and Djakarta. An agreement was signed on April 22 between the Indonesian and Communist Chinese governments to settle the problem of dual nationality of overseas Chinese in Indonesia, although this has not yet been ratified by the Indonesian Parliament. China is already an excellent customer for Indonesian exports and will probably become an even better one if the United Nations embargo is lifted. Former Premier Ali Sastroamidjojo visited Peking in May and trade agreements have been signed between the two countries. The Chinese government does not, therefore, advocate open Communist rebellion in Indonesia as their interests were well served by the Ali government and open revolt might damage relations between China and the other Colombo powers. However, there is little doubt that China is a great source of strength and encouragement to the PKI.

100. In addition to the support of the overseas Chinese in Indonesia, the PKI commands the allegiance of two other valuable organizations, SOBSI, which controls 66 per cent of trade union membership, and PERBEPESI, an organization of 200,000 former armed fighters. These men are at present unarmed but the PKI has made at least two blatant attempts to obtain arms for them in return for undertakings to combat local rebellions and to maintain security during the recent elections. Both attempts were blocked by the cabinet, in which there is an apparent awareness of the danger of creating a Red Army.

TOP SECRET

000262

50028-B-40
FILE COPY

BEST AVAILABLE COPY

CSC 1735-2(510)
TOP SECRET
CANADIAN EYES ONLY
Appendix "B" to
JIC 154(55)

1

The International Communist Movement and the

Mass Organizations

DOWNGRADED TO SECRET
REDUIT A SECRET

1. During this period the various international organizations controlled by Communists and Communist Parties made adjustments in line with changes in Soviet policy so as to exploit the more relaxed relations between East and West. Although before ratification of the Paris Agreements, Communist propaganda had insisted that hope of peaceful negotiation was ending, Communist agencies quickly rallied after that event. In general it appeared during this six month period that the world Communist front was, with a few difficulties, readjusting fairly well, continuing its expansion (at least in organizations) and finding some opportunities of exploiting the fact that the Soviet Union and China were making some slight concessions to the West and showing a more civilized appearance to the world as a whole.

2. The World Peace Assembly, which met in Helsinki from June 22 to June 29, was to have met a month earlier but it seems clear that the change in Soviet declarations on disarmament announced in May forced a postponement. When the Assembly did meet emphasis on banning the atom bomb first of all was muted. Proclamations on the subject took the Soviet position into account fairly neatly while still emphasizing the irreparable damage of a thermo-nuclear war. Attacks on the Western nations were moderated, pacifist and "neutral" representatives were made much of and a Canadian clergyman, was even allowed to utter some genuine criticism of the Communist peace movement. The Assembly made a special appeal to organizations of a Christian and Social-Democratic nature to cooperate in seeking world peace and this indicated the direction of their efforts for the next year or so. Ilya Ehrenberg, the well known Soviet propagandist, admitted that there was suspicion among these other organizations that the World Peace Council was dominated by a single political party. He denied that this was so but emphasized that the Council and the Assembly must struggle to remove these suspicions. In March the Executive Committee of the World Peace Council meeting had said that the peace movement was stagnating and that it was no longer democratic. Despite this statement when the World Peace Assembly was over the slate of officers showed that there had been two changes only in the Vice-Presidential positions with no indication of any more "democratic" processes of selection. The Executive Committee had also earlier in the year emphasized that the movement must avoid "ideological points of view" considered to belong to "any particular party". The Assembly did give some indications that this advice was being followed in its more moderate references to the non-Communist world. It is obviously this line which the World Peace Council hopes will be most useful in attracting non-Communist groups of various kinds.

3. This warning against identification with an "ideology" was also found in other Communist dominated international organizations which were worrying about the proper tactics to employ in maintaining and extending their influence. At a meeting of the executive of the World Federation of Democratic Youth which took place in Warsaw after the World Youth Festival in August, the decision was made to cancel the "erroneous resolution" by which the Yugoslavs had been expelled from the organization in 1949. This was an important decision for any Communist organization to make but, simply followed the declaration made by Khrushchev at Belgrade in May. What was perhaps more indicative of the way in which the W.F.D.Y. might approach non-Communist groups was the decision of the Council to study "new forms of association" which might permit other youth organization to co-operate with W.F.D.Y. The executive was not convinced that the organization was trying hard enough to attract other youth groups.

.... /2

TOP SECRET

000263

DOWNGRADED TO SECRET
REDUIT A SECRET

- 2 -

TOP SECRET

4. The other Communist youth group, the International Union of Students made plans during this period for a Conference on International Student Cooperation in 1956. This was to bring together the various international youth groups to discuss cooperation in the new spirit of "live and let live". In the same spirit the International Organization of Journalists planned to hold an International Meeting of Journalists in 1956, not to discuss union of various groups but to have a meeting of minds. The non-Communist International Federation of Journalists made it clear immediately that it would not participate in any such meeting. For the most part, the World Federation of Trade Unions pursued its normal course, holding meetings, organizing new groups such as that which met at the International Building, and Wood Workers Conference in Berlin or at the Conference for Public and Allied Employees in Vienna. A recent appeal to the International Confederation of Free Trade Unions to collaborate was, as usual, rejected by that organization.

5. Although the switches in Soviet policy during this period produced some interesting changes in the activities of some major organizations, Communist front activities for the most part proceeded in well worn channels while their sponsors hoped that the changed international climate would remove suspicion of Communists and bring in new recruits. The "Vienna Appeal" for banning atomic weapons was carried on without change, in spite of Soviet policy changes on disarmament. The last total of signatures announced was about 600 million of which 90% were from behind the Iron Curtain. The campaign did not appear to be going well in non-Communist countries. A campaign against atomic weapons was carried on by an independent national group in Japan and this resulted in 32 million signatures. The Communists although they had not controlled this effort naturally made use of it for their purposes.

6. The World Congress of Mothers meeting in Lausanne in July put all the sentimental force it could muster behind various World Peace Council objectives. The Conference of European Workers against German Rearmament held in Leipzig called for greater efforts against implementation of the Paris Agreements and set up a continuing organization to supervise these efforts. An International Medical Conference on Radioactivity met in Tokyo in May but could show only 20 Japanese and 9 foreign delegates for its efforts. The "Hiroshima Rally" against atomic weapons did not come to much either although the Japanese Government gave a rather sorry example of indecision by banning attendance of foreign Government delegates and then rescinding the ban. An "Asian Conference for Lessening International Tension" held in New Delhi in April tried to identify itself with the Bandung Conference which followed shortly afterwards, but was disowned by the Indian and Indonesian Governments.

7. The new international climate seems to have had the following effects on the Communist international organizations:

- (a) Soviet foreign policy changes did not create many problems of readjustment for these organizations but on the whole provided them with new opportunities to extend their influence.
- (b) There was a tendency towards greater flexibility in admitting some errors, considering organizational changes, allowing some criticism at meetings and in tackling their basic problem, that of identification with Communism. All of this was directed towards establishing or renewing links with non-Communist organizations.
- (c) There seems no doubt that these organizations intend to continue proliferating both on a functional and a regional basis in order to make the most of "peaceful coexistence".

TOP SECRET

...../3

DOWNGRADED TO SECRET
~~TOP SECRET~~ A SECRET

- 3 -

Communist Parties

8. The Communist Parties abroad were faced with somewhat different problems as a result of Soviet changes in policy than were the Communist dominated international organizations. In some cases, a change of Soviet policy towards the leaders of the countries in which they were the most virulent opposition element suddenly made it necessary for Communist leaders to alter their policy on foreign affairs or even on domestic matters. They were required to follow the lead for "peaceful coexistence" and play down alarm about ultimate Communist objectives without losing Party revolutionary elan or without letting all initiative among labour voters pass into the hands of democratic socialists or capitalist reformers. They had to meet the long range problems created by the fact that a long period of detente internationally might enable capitalist nations to make considerable economic progress with a consequent steady diminution in the support given a revolutionary party such as the Communists. A way had to be found to direct "coexistence" feelings, which originated with the international situation, into the channels of "popular front" feeling domestically.

France

9. One of these problems was the subject of a heated discussion at the congress of the Communist dominated Confédération General de Travail in France this summer. A minority group attacked orthodox Communist views on the grounds that they did not allow for any real economic betterment of the workers by trade union action in capitalist states. The majority view was the intransigent Communist one of the inevitable and increasing pauperization of the masses under capitalism. The Party apparently decided that a break in the "hard" line in this field would only benefit the socialists and reformers such as Mendes-France.

10. At the same time, the Communist Party has been seeking to arrive at some working agreement with the Socialists on particular points and to find situations (such as that in the shipyards at St. Nazaire) in which it could engage in common strike action with other groups. The impression it wanted to leave on the French people was that the Communists had eased off in their blind adherence to a "tough" policy laid down by Moscow but that they were still the most active fighters for the welfare of the masses. In view of the contempt shown in the C.G.T. discussions for the possibility of progress under capitalism, the attempt to create such illusions in the minds of Frenchmen was an obviously dishonest one. With regard to the Paris Agreements the statement of Thorez before and after ratification showed the same degree of dishonesty. The iniquity of the Paris Agreements was played down as a propaganda theme in case it hindered the development of friendlier relations with democratic leftists. This opportunism may have some limited dividends in the cantonal elections when, with only 22.5% of the popular vote as compared to 25% in the last election, the Communists got 43 seats instead of 37 by engaging in local deals with some socialist groups who ignored the wishes of their national leaders. This did not really advance Party interests very much, however, and the Party was still contending with the problem of a drop in membership. While the Party itself sought zealous converts to the pure ideology, the Central Committee, which met in May, urged upon the Youth Groups which it has under its control the desirability of getting more members regardless of their political and religious feelings. This appeal on two levels indicated the kind of problem with which the Communist Party in France currently has to contend.

Italy

11. In Italy during this period the Party has had to contend with the problems created by a change in Soviet relations with Yugoslavia and with domestic problems arising from an obvious weakness in its voting strength in some parts of the country. Thanks to Khrushchev's declaration in Belgrade an embarrassing altercation between Vidali, the Communist leader in Trieste and the Italian Communist Party took place.

TOP SECRET

...../4

DOWNGRADED TO SECRET
REDUIT A SECRET

- 4 -

TOP SECRET

12. In Italian domestic affairs, the Communist Party lost control of the workers councils in the Fiat Plant in Turin, and in one or two other industrial enterprises, had to concede an overwhelming victory to the Christian Democrats in small holder elections for health insurance boards, and lost ground in the Sicilian elections (although the Nenni socialists made gains). In an effort to regain momentum the Party urged "freedom, peace and a move to the left" and carried on with its campaign to "woo the Catholics". In both France and Italy Party moves to conciliate parties and groups to the right of them apparently left some elements in the parties unreconciled to a "soft" policy. There seemed little chance, however, that dissensions on these points would hamper these Parties seriously in their efforts to gain added power.

13. In Asia the re-emergence of the Japanese Communist Party "above-ground", the reported dissolution of its underground and military apparatus, and the attempts of the Party to "broaden its base" constitutes one of the striking features of this period. At one Party meeting the death two years ago in Peking of Tokuda, formerly the Party leader, was announced and at another meeting two other leaders who had been "under-ground" since 1950 reappeared. It was obvious that the Party was getting itself reorganized as an open political force to exploit whatever openings it could find, such as anti-American feeling or fear of atomic weapons.

14. In India too the Party moved with the times. After the visit of Premier Nehru to Moscow, the Party almost ceased its attacks on his foreign policy and even gave some credit to his Government on domestic policy. Until late September, when it attacked the Premier for alleged weakness over Goa, the Party carefully avoided any real attack over foreign policy. This "soft" policy persisted in spite of the fact that in the Andhra State election, where the Communists were hoping to do well and had an initial advantage, the Congress Party made a special effort to curb Communist strength and as a result obtained an overwhelming majority against the Communists. The "soft" policy has apparently its strong opponents among Indian Party leaders but they will obviously have to bide their time so long as the Soviet Government wishes to conciliate Premier Nehru and use its friendship with him for whatever purposes it can in its political struggle with the Western nations.

15. Reports from other countries indicate that where the Communist Parties were not simply struggling for existence in the backwash of Soviet moves (Austria and the German Federal Republic) they were behaving in a relatively conciliatory way and were trying to climb on as many political bandwagons as possible (e.g., in Indonesia and Brazil).

Soviet Intelligence Services

16. There has been little new information available to us on the organization and activities of the G.R.U. or the K.G.B. since the last review. The presentation of the report of the Royal Commission on Espionage to the Australian Parliament on September 14 again focussed attention on the Petrov case. The report confirmed that "for many years the Government of the U.S.S.R. had been using its Embassy at Canberra as a cloak under which to control and operate espionage organizations in Australia". It pointed out that "the only Australians who so far as the evidence shows knowingly assisted Soviet espionage directly or indirectly were Communists." According to the Report, no significant leakages of information from the Department of External Affairs had occurred since 1949, although this Department had been a principal target of the MVD. The Commissioners reported that so far as they were aware no "illegal apparatus" operated either by the G.R.U. or the M.V.D. had been functioning in Australia since Petrov's defection. The Report summarized Soviet intelligence service activities as follows:

TOP SECRET

...../5

DOWNGRADED TO SECRET
REDUIT A SECRET

- 5 -

TOP SECRET

- (1) from about 1943 until at least Feb. 1953 the Soviet Government had a G.R.U. "legal apparatus";
- (2) from 1943 until Petrov's defection on April 3, 1954, the Soviet Government had an M.V.D. "legal apparatus";
- (3) in June 1952 the Soviet authorities decided to set up a M.V.D. "illegal apparatus".

17. As a result of public disclosures by Petrov about recruitment of the former United Kingdom diplomats, Burgess and Maclean, by Soviet security authorities before they entered the Foreign Office, (Petrov also confirmed that they were both behind the Iron Curtain), the United Kingdom Government issued a White Paper on the case dated September 23. The report revealed to the public that Maclean had been the principal suspect in an investigation beginning two years before the disappearance of the two members of the Foreign Office. There was not enough evidence, however, to justify his arrest or even to render interrogation advisable before the date of his flight. The White Paper reviewed the background of each man and noted that in November 1951 more extensive security checks on members of the Foreign Office were decided upon by a special committee. It appears likely that the White Paper will be the subject of both Parliamentary and public debate in the next few months.

18. The evidence available in the Petrov case and in various research papers read during the period suggests that the main effort of the G.R.U. and the M.V.D. at present may be to set up wherever it can an "illegal apparatus" which will function effectively without involving the Soviet diplomatic mission in that country. This would be desirable in an era of relative detente between East and West. It would enable Soviet agents to make the most of the more relaxed atmosphere in making contacts, particularly among refugee groups and former citizens of Iron Curtain countries now living in Western countries. The "return to the homeland" campaign inaugurated this year by almost all the Iron Curtain countries strongly suggests that one of the aims of the movement is to improve intelligence opportunities. It is also clear from the way in which former citizens of Iron Curtain countries have been contacted that Soviet and satellite intelligence agencies have built up a remarkably complete index of their addresses.

.... /6

TOP SECRET

DOWNGRADED TO SECRET
- 6 - **REDUIT A SECRET**

Labor-Progressive Party - International Front

General Review

19. The international activity of the Labor Progressive Party (LPP) and its front groups during the period under review has for the most part been centred on the World Peace Assembly at Helsinki in June and on the Second Canadian Slav Congress at Toronto in July. Activity by the LPP-controlled trading companies (i.e. East-West Export Import Company, Vancouver; World Trading Corporation, Toronto; and M & M Trading Company, Montreal) formed subsequent to the Moscow Economic Conference in April 1952 has been limited to attempted sponsorship of Canadian trade delegations to China or to abortive trade deals such as the sale of small boats to Poland. Activity has also apparently been negligible for the newly-formed LPP Commission on Latin-American-Canadian Cooperation which was to provide a "solid basis for unity between Canada and Latin-America directed against the imperialist policies of the US ... a gigantic 'nut-cracker' in which the plans of Wall Street would be crushed."

World Peace Assembly - Helsinki

20. Two officials of the Canadian Peace Congress, James ENDICOTT and Bruce MICKLEBURGH respectively, were present at the World Peace Council meeting at Vienna in January and March to discuss inter alia the launching and conduct of the "Vienna Appeal" against the use of atomic weapons. These two officials headed a delegation of some fifty Canadians to the World Peace Assembly at Helsinki on June 22, fortified no doubt by the more than 50,000 signatures reputedly obtained during the campaign. ENDICOTT, MICKLEBURGH and one other Canadian were elected to the new World Peace Council established at the meeting. Twenty-eight of the women delegates who went to the Helsinki Peace Assembly proceeded to the Soviet Union as guests of the Women's Anti-Fascist Committee of the Soviet Union. Twelve of these attended the World Congress of Mothers in Lausanne, Switzerland, July 7-10, six of these in turn going on a three-week tour of China at the invitation of the All-China Democratic Women's Federation. Two officials of the Canadian Congress of Women were present in this latter group. Similar use of the Helsinki meeting as a focal point was observed for at least one of the two Canadian representatives to the World Jewish Conference Against German Rearmament in Paris on June 18 and 19. J. B. SALSBERG, LPP National Committee member recently defeated in the Ontario provincial election, went on to Moscow from Helsinki.

Second Canadian Slav Congress - Toronto

21. More than 500 delegates and observers (many of them with subversive records) from Slav committees and communities representing Canadians of Ukrainian, Russian, Polish, Czechoslovak, Bulgarian, Macedonian and Yugoslav origin were present at the Second Congress of Slav Canadians which took place in Toronto on July 1 and 2. Also present were representatives of several foreign Slav committees - two from the Soviet Union, two from Poland, three from Czechoslovakia, one from Uruguay and twelve from the United States. Two delegates from Bulgaria were forced to bypass the Congress owing to a hitch in obtaining Canadian visas. Included in a series of resolutions adopted to further Slav solidarity and ostensibly the "peace, independence and progress" of Canada were those urging government action on (1) the Soviet invitation to exchange parliamentary delegations (2) the return of the Polish art treasures and (3) the establishment of diplomatic relations between Canada and Bulgaria. Also advocated was pressure on the one hand against the Greek government to release Macedonian political prisoners and to grant Macedonian autonomy, and on the other against the Quebec government to repeal the Padlock Law to ensure unhindered Slavic cultural and social activity.

22. The extended South American and European tour of Gregory OKULEVICH, National Secretary of the Federation of Russian Canadians and member of the Canadian Slav Committee, was purportedly "to learn at first hand about the life of Slavic people in these countries" on behalf of the Russian-Canadian newspaper Vestnik and the Canadian Slav Committee. There is no doubt, however, that one of his principal aims was to drum up delegates to

BEST AVAILABLE COPY

- 7 **DOWNGRADED TO SECRET**
REDUIT A SECRET
TOP SECRET

the Second Canadian Slav Congress. His presence as "fraternal" delegate at the Twelfth Slav Congress in Montevideo, Uruguay in February was apparently the first official visit of its kind between North and South American Slavs. OKULEVICH also visited Slav Committees (and, incidentally, Soviet and Satellite diplomatic missions) in Argentina and Brazil before his journey to Moscow and his subsequent tour of Russia, Poland and Czechoslovakia. As indicated above, delegates to the Canadian Congress were received from all these countries except Brazil and Argentina and even for the latter there is good evidence that the sending of a delegate, albeit a Soviet citizen, was contemplated.

LABOR-PROGRESSIVE PARTY - NATIONAL FRONT

General Review

23. During the period under review the feature item of LPP activity on the national level was the National Committee meeting in Toronto on August 25, 26 and 27 which presumably had on the agenda ways and means of using to advantage the general feeling of detente brought on by the Geneva Conference. Of particular interest in this regard was Tim BUCK's report to the Committee which was published along with the Party's Plan of Work in a special Geneva issue of National Affairs Monthly, the theoretical organ of the LPP. Although no loss in effective LPP strength has been observed nor any apparent slackening in Party press or other activity, there were several indications that the Geneva Conference might provide for the Party a much-needed shot in the arm. As indicated in the Plan of Work put forward at the meeting,

...the National Committee registers deep concern about the growth of the Party membership and the circulation of the press. While since the 5th National Convention in March 1954, about 1,000 new members of the Party have been reported to the NEC /National Executive Committee/ in the regular check-up reports then instituted, it is clear that a number of these have not been held in the Party, and also that the rate of enrolment has declined in recent months.

The Committee also deplored "the widespread ignoring of National Affairs Monthly," a condition which seems to exist for other Party publications if the time and energy spent on subscription appeals and campaigns are any indication.

24. No significant increase in the popular vote accorded the LPP in the Alberta and Ontario elections was observed and, as noted above, J.B. SALSBERG lost his seat in the Ontario Legislature leaving the Party with no representation there. Moreover, although there was no decline in the number of Canadian trade unions controlled by the LPP, there were indications that the LPP was prepared when necessary to sacrifice their union executives to effect a merger with the larger labor congresses. The resignations of two Canadian officials of the LPP-controlled Fur and Leather Workers Union with respect to the merger of the International Fur and Leather Workers Union (Canada and the U.S.) and the AF of L Amalgamated Meat Cutters and Butcher Workmen was a case in point. One might also detect a certain laxity in Party security, especially in Quebec where the Provincial Police and the Montreal Anti-subversive Squad have had considerable success in their raids on the homes of LPP members. All these points of structural weakness were dealt with either by BUCK or by the National Committee.

Increase in Party Cadres

25. "It is clear /the National Committee declares/ that the improved situation as a result of the victories for peace now make it possible to win new members for our Party in greater number especially in the shops and factories, where the Party must now reach to strengthen its working class base."

TOP SECRET

.../8

BEST AVAILABLE COPY

- 8 -

DOWNGRADED TO SECRET
REDUIT A SECRET

Increase in Circulation of Party Publications

26. The use of the peaceful co-existence theme to increase subscriptions to the Party press, especially the official organs, was also evident. The National Committee noted

... an unsatisfactory state in the circulation of the press, and instruct ed the NEC to organize and lead a fighting campaign to extend its circulation in the present favorable period.

Extension of Electoral Activity

27. "The outcome of the Geneva Conference according to BUCK confronts the Party with the need to extend its electoral activity to all levels" using as a platform the "policy to put Canada First." This policy is based (in the name of peace) on curtailment of the so-called U.S. domination of Canadian affairs and includes the extended "development of basic and finished products industries in Canada", trade with the "socialist half of the world" i.e. the Soviet Union, People's China, and the People's Democratic Republics, and diversion of public spending "from war to welfare". With the idea of a "People's Coalition" in mind, BUCK stressed certain concessions made by the Party. One of these was that, although the National Committee urged that LPP members be nominated in every election in every municipality, it did not urge local Party organizations to insist upon direct Party candidates for each and every office. "The LPP seeks to cooperate with all progressive interests in municipal elections, with or without formal arrangements." And although "the patriotic demand for independence from the US is the requisite for bringing into being a People's Coalition", BUCK concedes that "an industry employing Canadians to process our raw materials in Canada is of advantage to Canadians even if it is owned by US capital".

The LPP Attitude to Trade Union Mergers

28. Surprisingly enough in view of the recent resignations of officials from the LPP-controlled Fur and Leather Workers Union for AF of L merger purposes BUCK declared that "the LPP opposes and will continue to oppose the use of the label of 'unity' as a means of creating disunity, the merging of unions as a means of excluding militant workers from membership or the holding of office, the exclusion from the national centre of bona fide unions". True, however, to the main "Canada First" plank of the Party platform was his advocacy of Canadian autonomy for the trade unions.

LPP Security Measures

29. A special meeting of the LPP National Review and Audit Committee with the provincial leaders in attendance was held in conjunction with the National Committee meeting. Instructions were issued to exercise vigilance in making telephone calls and in writing. It was laid down emphatically that Party offices were to be cleaned out carefully, documents for future reference being safeguarded in "archives" by the provincial executive committees. Furthermore, all members of provincial and regional committees were to be screened, even to the extent of enquiring about bank balances. These moves which indicate that the LPP is becoming more and more security conscious were in addition to the prior formation of "Control Committees" to protect Party records, identify informers within the Party and indentify Special Branch personnel. In Quebec the LPP has actually carried out its own raids to determine what might have been seized by the police.

...../9

TOP SECRET

BEST AVAILABLE COPY

~~DOWNGRADED TO SECRET~~
~~REDUIT A SECRET~~
TOP SECRET

Conclusion

30. There is really nothing new in the propaganda issued by the National Committee, merely a comprehensive re-statement and a re-emphasis. There is nothing new either in the basic aim of the LPP as presented by the National Committee or, more bluntly still, by BUCK in his recent speech to the Ontario and Quebec provincial Party schools:..."there is one fundamental applicable at all times, and that is the dictatorship of the proletariat". What is new is the spirit of optimism generated by the results of the Geneva Conference, a conviction that action now during the period of peaceful co-existence would further the ultimate aim of world communism.

TOP SECRET

ALL CORRESPONDENCE TO BE
ADDRESSED:—

BY HAND

THE COMMISSIONER,
R. C. POLICE,
OTTAWA

ROYAL CANADIAN MOUNTED POLICE
HEADQUARTERS

IN REPLY PLEASE QUOTE

FILE NO. G 355-51

Cross ref.: 50028-BM-40

OTTAWA,

CANADA

50028-BM-40	
129	50

31 Oct 55.

S E C R E T

Attention: Mr. E.P. Black

Attached is one copy of a paper
entitled "Probable Implications of a Pro-
longed Soviet 'Conciliatory' Policy on
Canadian Intelligence and Security Agencies"
which represents the RCMP contribution to a
brief to be prepared by the JIS for presen-
tation to the JIC.

2 NOV 1955

*This document is not
to be distributed
to Cabinet or other
in Canada. [Signature]*

[Signature]
(C.W. Harvison), A/Commr.,
Officer i/c Special Branch.

Mr. G.G. Crean,
Department of External Affairs,
Room 247,
East Block,
OTTAWA, Ontario.

Encl.

SECRET

S E C R E T

DRAFT

SUBJECT: Probable Implications of a Prolonged Soviet
"Conciliatory" Policy on Canadian Intelligence
and Security Agencies.

PURPOSE OF THIS PAPER:

The purpose of this paper (inasmuch as it represents the RCMP contribution to the above-mentioned brief to be prepared by the JIS for presentation to the JIC) is to show that the problems of the RCMP with respect to subversive activity and espionage in Canada would increase immeasurably should the Soviet "conciliatory" policy prove to be a prolonged one with the ultimate aim of establishing world communism.

I THE COMMUNIST MOVEMENT IN CANADA

Effect of "Soft" Policy on Reversing
Downward Trend of Communist Influence

1. Although a slight increase in Labor-Progressive Party (LPP) membership is believed to have occurred over the past two years, the strength of the Party is still confined to a small core of obdurate communists whose effectiveness has been reduced by the overall decline in membership since 1947. This decline is not surprising when one considers among other factors: (1) the fear of Russian imperialism (and of a third world war) engendered by Soviet conquest and intrigue since 1939; (2) the increased sensitivity to communist activity culminating in rigorous anti-communist measures, especially in the United States; and (3) the failure of certain Soviet prognostications, notably the collapse of the Western economies in the years immediately following the cessation of hostilities in 1945. With, however, the threat of Russian imperialism hidden under the guise of peaceful co-existence, with the feeling of hostility towards the Soviets mitigated to the extent of rendering current security legislation

- 2 -

and procedures less effective, and with any serious business recession seemingly justifying communist criticism of capitalism in general and American "big business" in particular, an increase in the numerical strength and influence of the Soviet-controlled communist movement (i.e. LPP and its front groups) in Canada could be expected.

Increase in LPP Activity

2. Much of the increase in Labor-Progressive Party cadres and influence would stem from the heightened propaganda campaign carried out by the LPP and related Canadian communist organizations through local Party activity and intensive use of the twenty-five or so publications now at their disposal. That this campaign has already begun is indicated by the results of the recent LPP National Committee meeting as published in National Affairs Monthly, the Party's theoretical organ: "It is clear [the National Committee declares] that the improved situation as a result of the victories for peace now make it possible to win new members for our Party in great number especially in the shops and factories, where the Party must now reach to strengthen its working class base." The National Committee also noted "an unsatisfactory state in the circulation of the press, and instruct[ed] the NEC to organize and lead a fighting campaign to extend its circulation in the present favourable period." Particularly stressed was the Party platform of "Canada First" based on a so-called independence from the United States and designed to drive a wedge between Canada and the U.S. through various tactical concessions to other dissident groups in Canada:

We look forward to eventual agreement between our Party and other democratic forces upon a minimum program. By such an agreement it will

- 3 -

be possible to bring into being in Canada an electoral coalition of democratic forces sufficiently strong to defeat the Liberals and the Tories and elect a People's majority to the House of Commons. In our immediate electoral activities we seek always to further the possibilities for the eventual achievement of such a People's Coalition Arousing and mobilizing the patriotic demand for independence is the requisite for bringing into being [this] People's Coalition.

Increase in Communist-Front Activity

3. Much of the upsurge in communist-front activity to be expected during the "soft" period would be attributable to persons having little or no sympathy with communism as such yet sufficiently naive to accept Soviet amiability at face value and to become consequently the unwitting tools of the LPP activists within the front groups. The increase in cultural exchanges between residents of East-European countries and Canadians having the same racial origin would tend to swell the ranks of the LPP-controlled mass-language groups in Canada. Similarly the stepped-up activity of international front groups would bring about an increase in the membership and activity of their Canadian counterparts. Front groups, national and international, would become more numerous.

4. The LPP through the Canadian Peace Congress has already decided to attempt to capitalize on "the widespread peace sentiment in Canada" by calling for a Canadian Forum on Peace to be held in Toronto in November. Of particular interest are the instructions to members of the LPP to increase the non-Party participation in this front-group activity:

To achieve this aim special measures should be undertaken by every provincial, regional and local committee to clarify all Party members on the significance of Geneva for the broadening of the Peace movement. At the same time every

- 4 -

Party committee should in every locality assign members of the LPP who will make it their primary task to cooperate with Canadians of other political and social trends to bring to a mighty expression the fervent desires of all Canadians to live in peace. Special care should be taken to assign those members who are most capable of working with Canadians of other political and social trends.

Increase in Public Opinion Favourable to the Soviets

5. A general increase in public opinion more favourable to the Soviet bloc (and by extension to the Canadian communist movement) could result from the "soft" policy. Many of those adopting this more optimistic view of Soviet intentions would have no connection with the LPP nor with any of its front groups but simply from a sincere, otherwise laudable, desire for peace would allow themselves to be unduly influenced by Soviet propaganda of word and deed spread through our non-communist mass means of communication. Some idea of the strength of this Western desire for peace and the encouragement accorded it by the Soviet "soft" policy is given by a recent dispatch from the British Embassy in Washington:

Despite the expectation of political difficulties, the feeling of human friendliness towards the Russian peoples is still strong. It is reported that nearly a hundred communities and organizations have made suggestions to the State Department for exchanges of visits with Russia.

In Canada the illusion of Soviet good intention would be furthered by increased trade with Russia and the Satellites and by exchanges of visits whether they be of parliamentarians, fishermen or mere tourists. A similar effect would be created by the activity of prominent secret or non-communists (e.g. clergymen, professors) in the front groups.

- 5 -

Probable Effect on Canadian Security both of the
Increased Activity of the LPP and its Fronts and
of the Friendly Attitude to the Soviet Bloc

6. The observed increase in the membership of the LPP would increase not only the Party's capabilities for sabotage in time of national crisis but also its usefulness (to the Soviets) in fomenting strikes and demonstrations while beating the propaganda drum for further disruptive effect. All these tasks would, of course, be insidiously and more successfully carried out by the secret Party members whose potentialities for affecting high-level policy or committing espionage would also have to be reckoned with. The chief effect of an increase in front-group activity under "soft" policy conditions would probably be its contribution to the formulation of a body of public opinion favourable to the Soviets and critical of Canadian security, counter-intelligence and defence measures.

7. This more docile attitude towards the Soviets on the part of Canadians swayed by front group activity, increase in Canadian-Soviet business and social relations, direct Soviet propaganda, etc. might well lead to considerable public indifference to the Red menace and, more important, to official apathy in positions of trust. This in turn could result in breaches of security and in laxity in carrying out security screening. Security forces themselves would face not only a considerable amount of non-communist criticism but would also be subjected to a more intensified campaign of communist criticism and their work possibly rendered less efficacious. Indeed, in the United States communist plans to launch an international propaganda campaign against the U.S. Department of Justice were underway within a week of the Geneva Conference while in Canada

*We must cut out
this sort of
frank.*

- 6 -

Tim BUCK in his recent report to the LPP National Committee complained of the "systematic 'watching and besetting' by the Royal Canadian Mounted Police" and urged "the setting up of civil rights organizations in every locality." These factors tending to reduce the efficacy of the Canadian internal security program would give greater opportunities for espionage activity not only to secret communists but also to known LPP members and sympathizers. The Russian and Satellite Intelligence Services would not hesitate to take advantage of these opportunities. /

II THE SOVIET AND SATELLITE INTELLIGENCE SERVICES

Increase in Embassy Missions and Mobility

8. It has been clearly established that much of the espionage activity carried out by members or sympathizers of the Communist Party of Canada was, and undoubtedly still is, controlled by Russian Intelligence Service (RIS) officers of legal residency. Any increase in the size and number of the Soviet and satellite missions in Ottawa and any relaxation in the travel restrictions imposed on them would perforce ease the task of the Russian and Satellite Intelligence Services in running existing agents and scouting prospective ones.

Increased Social Contacts - Embassy Personnel

9. Social functions under Soviet and Satellite Embassy auspices and meetings between Embassy personnel and outside commercial, recreational and cultural organizations have become more frequent during the "soft" policy period. This provides the officers of the Russian and Satellite Intelligence Services with added opportunities to attempt to subvert Canadians for espionage purposes and to derive classified information from unwitting sources.

- 7 -

Increased East-West Trade

10. Increased East-West trade, desirable and necessary though it be in other respects, would not only further the interests of the LPP-controlled trading companies now in existence but would probably lead to the establishment in Canada of Soviet and Satellite trading companies similar to or connected with the Amtorg Trading Company in New York. These trade officials with greater freedom of movement than diplomatic personnel could readily be used by both the Soviet and Satellite Intelligence Services. The latter would also take advantage of any espionage opportunities provided by shipping agreements with Russia and/or the Satellites. Similar opportunities provided through East-West trade would not, of course, be available to Canadian representatives in Iron Curtain countries.

Increase in Soviet Delegations Entering Canada

11. In addition to giving the LPP and related organizations more scope for propaganda and contributing to a false sense of security on the part of the Canadian public, the increase in Soviet and Satellite delegations permitted entry to Canada would also aid their intelligence services. In the recent Canadian tour of the Soviet agricultural delegation contacts were made with leading Canadian communists in Montreal, Winnipeg, London and Ottawa. It is significant too that MATSKEVICH, head of the delegation, is suspected to be a former official of the NKVD.

International Communist-Front Meetings in Canada

12. Some Soviet success in holding international communist-front organization meetings in Canada might also be achieved during a prolonged period of Soviet "conciliatory" policy. The meeting of the World Congress of Mothers

- 8 -

in Switzerland in July was but one example of Soviet success in arranging meetings on this side of the Iron Curtain where there is less chance of being viewed in proper perspective by world opinion. The opportunities for recruitment as well as propaganda, should such meetings take place in Canada, are again evident.

Increase in Number of Canadian Delegates
and Tourists to Iron Curtain Countries

13. The increase that can be expected in the number of Canadian delegates and tourists to Iron Curtain countries would further complicate the intelligence problem. Not only would the Soviet and Satellite Intelligence Services attempt to ferret out information but also strenuous efforts to recruit agents would be made.

Increased "Illegal" Espionage Activity

14. It is well established that Russia has been attempting to establish "illegal" apparatuses in other countries. Any weakening in internal security arrangements within Western countries would, of course, facilitate this attempt.

Exchanges of Information

15. In addition to information picked up by visiting Soviet and Satellite delegations and by Soviet and Satellite missions in Canada, considerable data of use to them would be obtained through mutual exchanges of information. The acquisition of this data would permit certain items to be cancelled as espionage requirements and would allow the Russian and Satellite Intelligence Services either to concentrate on other items already on their target list or to switch to new targets indicated by the information received on an exchange or other basis.

- 9 -

III EFFECT ON INTERNAL SECURITY SERVICES OF INCREASED CANADIAN COMMUNIST AND RUSSIAN AND SATELLITE INTELLIGENCE SERVICE ACTIVITY

Subversive Activity

16. The increase in the cadres and influence of the Labor-Progressive Party and its front groups together with the presence of a body of other public opinion favourable to the Soviet peaceful overtures would increase the responsibilities of the internal security services with respect to subversive activity. The mere increase in known communist strength would automatically increase the task of keeping subversive elements under surveillance with a view to rendering them incapable of sabotage or of such other fifth-column activity as jamming radar stations in time of attack or setting up homing beacons for Soviet bombers and transports.

Security Screening

17. Another function of the internal security services that would require more attention during a lengthy period of Soviet amiability is security screening - the application of the knowledge of subversive activity to prevent communist infiltration of positions of trust in government, the armed forces and the vital defence industries. Despite the present program of security screening and the Soviet losses suffered both in the smashing of a military intelligence network in 1945 and in the decline in the Canadian communist movement since that time, there are indications that considerable effort is being made to infiltrate positions of trust for purposes of affecting policy and/or committing espionage. The effectiveness of security screening would certainly be reduced should indifference to or an underestimation of the Soviet threat bring about a curtailment in the screening program.

- 10 -

Counter-Espionage

18. The counter-espionage tasks of surveillance, evaluation of "social approaches" reports and development of Soviet and Satellite personnel for defection purposes would be increased not only by the added opportunities for Soviet and Satellite agent recruitment provided through increased social contacts by Embassy personnel, visits of Soviet and Satellite delegations to Canada, etc., but also by the further extension of "legal" network activity made possible through increases in the size, number and mobility of Soviet and Satellite Embassies and through the establishment of their countries' trading companies and tourist agencies in Canada.

19. Although no stone would be left unturned by the Russian and Satellite Intelligence Services in their search for agent material, their most likely sources of information and the chief threat to Canadian internal security would perhaps reside in the secret communist, the LPP member or sympathizer with no subversive record at all or with one insufficient to warrant either an adverse security clearance or discharge from a position of trust already attained. A prolonged period of Soviet "conciliatory" policy might easily bring about in Canada conditions similar to those in the United States during the Popular Front heyday of HISS, WHITE and others.

IV CONCLUSION

20. Attempts to weaken Canadian internal security by the following means will probably be made by the Soviets and the Satellites under the impetus of the Geneva spirit:

- 11 -

- (1) increase in "legal" espionage activity;
- (2) increase in attempts to conduct "illegal" espionage activity;
- (3) increase in LPP and LPP front group activity;
- (4) increase in efforts to make the Canadian public more receptive to the communist line and thus
 - (a) drive a wedge between Canada and the United States,
 - (b) induce public criticism of security, counter-intelligence and defence measures and expenditures,
 - (c) instigate and/or support actual moves to cut such expenditures and
 - (d) create an atmosphere conducive to breaches of security and to laxity in carrying out security measures.

Since it is obvious from the foregoing that the "soft" period inaugurated by the Soviets could be of immense benefit to them, increased vigilance on the part of Canadian internal security agencies is certainly in order.

Ottawa - 28 Oct 55.



IN REPLY PLEASE QUOTE

NO. CC 1374-1 (JIC)

Department of National Defence

CONFIDENTIAL

JOINT INTELLIGENCE COMMITTEE

f.39

50028-B		40
94	50	

25 Oct 55

D-2	
1	
3	
4	
5	
6	
7	
8	
9	

DMI

Intelligence - Soviet Equipment

1. Attached for retention is a copy of SHAPE letter AG 0950/1 ID dated 15 Oct 55, together with one copy each of photographs ID-A-1 to ID-A-15, inclusive, showing current Soviet equipment.

2. As only one set of these photographs has been received may they please be made available to other Directors on request.

OCT 26 1955

file
YB

J.C. McGibbon
J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

Encs.

JCM/5459/ff

c.c. G.G. Crean, Esq.,
Dept. of External Affairs.

DAI
DNI
DSI
RCMP
JIB



IN REPLY PLEASE QUOTE
NO. CSC 9-27 (JIC)

Department of National Defence

CONFIDENTIAL

JOINT INTELLIGENCE COMMITTEE

50028-B-40
129150

12 Oct 55

Cross ref. 12230-40
FO 38.

D-2
1
2
3
4
5
6
7
8
9
10

13 OCT 1955

P. Leger

MEMORANDUM FOR THE JIC:

Exchanges of Visits Between Canada and the Soviet Bloc

1. Reference is made to memorandum of even file dated 23 Sep in which members were notified of the formation within the Department of External Affairs of the "Departmental Committee on Exchange of Visits with the Soviet Bloc". Copies of the terms of reference for this Committee were attached.
2. I now attach a copy of a letter dated 19 Sep from the Under-Secretary of State for External Affairs, addressed to the Deputy Minister, which refers to the Soviet Union's willingness to send visitors to Western countries and to receive visitors from the West; also, to the advantages which might be gained by ourselves as a result of these exchanges. The Under-Secretary further points to the political implications attached to these visits and the necessity for his Department to be kept informed of all invitations issued by Soviet bloc countries; of any plans made by Canadians, either official or unofficial, to visit countries of the Soviet bloc; and of any plans which may be made to invite citizens of those countries, whether officials or not, to come to Canada.
3. Mr. Leger has asked for comments on his letter and any suggestions which the Deputy Minister might wish to make on this subject.
4. Also attached is a copy of a memorandum dated 6 Oct from Mr. Wallace, addressed to the CCOS, requesting a suggested reply to Mr. Leger's letter, with particular reference to any action that should be taken to encourage the exchange of visitors between Canada and countries of the Soviet bloc.
5. The D/CJS has requested that this subject be considered by the JIC and suggests that the JIS be directed to prepare a memorandum for the CCOS containing any recommendations the JIC might wish to make on this matter. The JIS has accordingly been asked to prepare a preliminary draft for consideration by the Committee at an early meeting.

J.C. McGibbon
J.C. McGibbon
Squadron Leader, RCAF,
Secretary.

Encs.

JCM/5459/ff

c.c. CJS
CB NRC
JIS

50028-B-40
FILE COPY

C O P Y

HQC 2-67-85/705

OFFICE OF THE DEPUTY MINISTER OF NATIONAL DEFENCE

October 6, 1955.

CCOS

Would you kindly give consideration to the points raised in the attached letter of September 19 from the Under-Secretary of State for External Affairs to the Deputy Minister and suggest an answer for the Deputy Minister, with particular reference to any action that you recommend should be taken by this department to encourage the exchange of visitors between Canada and countries of the Soviet bloc.

With regard to the other point raised in the attached letter, I am circulating the attached memorandum.

(Sgd.) Dan Wallace

Chief Secretary.

FILE COPY

COPY

CONFIDENTIAL

OFFICE OF THE UNDER SECRETARY OF STATE FOR EXTERNAL AFFAIRS

OTTAWA

September 19, 1955.

Dear Mr. Miller,

The Summit Meeting of the Big Four recently concluded in Geneva seems to mark a definite step forward in the atmosphere of détente which has been created by the recent display of friendliness toward the West on the part of the Soviet leaders. It is difficult to say how long this atmosphere is likely to prevail, nor should there be any illusions that this in itself proves a complete change of direction in Soviet policy. Nevertheless, the present friendlier atmosphere is obviously to be welcomed, and full advantage taken of the opportunities it presents to work for a permanent improvement in East-West relations.

A symptom of the change is the greater willingness, even eagerness, of the Soviet Union to send visitors to Western countries and to receive visitors from the West. In our view such an exchange of visits, both official and unofficial, should be encouraged. We have always considered that we would benefit from a freer exchange of ideas with the Soviet Union and its European allies. We may not be able to convert from Communism the sort of people selected to come on official tours of Western countries, but we can show them our country, have them meet our people and explain to them our policies in ways designed to better their understanding of Canada and what freedom means. Similarly, we can benefit from sending competent observers to the Soviet bloc. Canadian visitors are frequently shown things which members of our missions are not allowed to see, and often bring to their observation a degree of specialized scientific or technical training not normally available at our missions in Communist countries.

In all these visits there are, I think you will agree, political implications which affect our relations with the Soviet Union. I am therefore anxious that this Department should be kept well informed of all invitations issued by Soviet bloc countries, of any plans made by Canadians, either official or unofficial, to visit countries of the Soviet bloc, and of any plans which may be made to invite citizens of those countries, whether officials or not, to come here. If the initiative on visits is left entirely in Soviet hands, as has largely been the case to date, the Soviet Union will be able to turn them to its own advantage. I am anxious that we regain some of the initiative, not only for political and propaganda purposes but also so that visits both ways may be of real advantage to Canada. I should be most grateful, if you would let me know as far in advance as possible of any projected visits in either direction which come to your notice.

In the case of official visits to this country, the role of the Government Hospitality Committee should be borne in mind. A description of the functions of this Committee is contained in a letter of June 14 from Mr. Pearson to his colleagues in the Cabinet.

I should appreciate receiving your comments on this letter, and any suggestions which you wish to make on this subject.

Yours sincerely,

(Sgd.) Jules Leger

F.R. Miller, Esq.,
Deputy Minister,
Department of National Defence,
O T T A W A.

Defence Liaison (2) Division

SECRET

Oct. 6, 1955.

Far Eastern Div./A.M.Ireland/b

Your memo of Sept. 6, 1955.

50028-B-40
50028-B-40
616

Semi-Annual Review of Intelligence

I give below material which might be included in the section "Developments in Troubled Areas of the World of Significance in the Cold War".

Korea

Very few changes have taken place since the last report was prepared, though the general world picture seems to be changing, and this has produced hot areas adjacent to thinning ice in Korea. In the Republic of Korea, the United Nations countries have little control over the policies and attitudes of President Rhee. He and his government continue according to their own low and deteriorating standards. President Rhee longs to see the reunification of his country and considers that the Military Armistice Agreement stands in its way. In the northern half of the peninsula, the Democratic People's Republic of Korea, the presence of large Chinese forces still guarantees that Chinese influence will be strong in this area which is considered one of Chinese defence. The deadlock still continues over the formula for the unification of Korea.

Japan

Since June, negotiations have been going on in London between Japan and Soviet representatives who are seeking to normalize the relations between the two countries. There is internal pressure from the Japanese people themselves who want very much to have the legal status of war abrogated. On one side there is the territorial question, particularly Habomai, Shikotan and also Kunashiri and Etorofu islands, the repatriation

-2-

problem of prisoners and some civilians held in the USSR, fisheries rights, and Japanese membership in the United Nations; on the other side there is the proposal that certain straits around Japan be open only to the warships of countries adjacent to the Japan Sea, and also the question concerning the prohibition of participation by Japan in any future coalition against the Soviet Union. The negotiations are now held up because the chief USSR representative is attending the current United Nations session, and it is not known when they will be resumed. Ever since late 1954 when the People's Republic of China made the first overtures to Japan for the resumption of friendly relations, the Japanese have been in a quandary. The CHICOM list makes any effective trade between the two countries virtually impossible, and Japan wishes a relaxation of this trade embargo. Japan has reacted with extreme caution to the Chinese advances although the Prime Minister in May 1955 said that an exchange of consuls with China was not inconceivable. Radio broadcasts from Peking are now telling the Japanese that they are downright sinful and that the Chinese People's Republic has a real grievance against them because of their standoffishness. Concerning relations with the two Koreas, an unofficial fishing agreement has been entered into by some Japanese and North Koreans. However the Japanese Foreign Minister said in May that his country had no idea of setting up trade relations with North Korea. Japan-ROK relations have gone from bad to worse though the feud has not as yet ended in complete rupture. Neutralism has a great appeal for the majority of Japanese and they are thinking seriously about their long-term desires - do they want the Soviet package of disarmament, non-alignment with the West and non-aggression pacts with communist countries, or the Western package of democracy and independence with their own armed forces?

A. R. Menzies

Far Eastern Division

Defence Liaison (2)/GGCrean/mh

BEST AVAILABLE COPY

Mr Black Base
and file

Mr. Ford

CONFIDENTIAL

September 14, 1955

G. G. Crean

50028-B-40	
129	✓

Copies on 5439-40 "S"

You will recall that I spoke to you the other day about a possibility of having the Joint Intelligence Staff prepare a paper on agriculture in the U.S.S.R. with the assistance of the Department of Agriculture. You will recall that you had addressed enquiries both to the Department of Agriculture and the Joint Intelligence Bureau on this topic. I have now spoken to Mr. Bowen who thinks that this might be feasible and has suggested the following procedure. JIB should prepare a first draft, consulting with the Economic Section in the Department of Agriculture with whom they have day-to-day relations. When the paper has reached its second draft and before it goes to the JIC, we would suggest that we write a letter for Mr. Léger's signature to Mr. Taggart, suggesting that we would like the views of the Department of Agriculture on the draft before we take it further. I might then make an appointment with Mr. Taggart taking the draft to him and explain why we are doing it this way and, at the same time, explaining the functions of the JIC and the methods used by them in preparing papers. I might also explain, at this time, that particular points in the draft had already been discussed with members of the Economic Section of his Department but that we would like to obtain the final views of his Department as a whole before finalizing the paper.

not

2. Bowen and I are agreed that it would be advisable to invite a member of the Department of Agriculture to take part in the JIS proceedings since it would be difficult to explain to a person how they operate for a one shot operation of this kind. Bowen also tells me that

BEST AVAILABLE COPY

- 2 -

it is quite important to ensure that we obtain the views of the right people in Agriculture and he suspects that the views so far prepared by Agriculture have not been done by the Economic Section which is most knowledgeable on the U.S.S.R.

3. Would you let me know if you agree with this proposed procedure. I am returning to you Mr. Taggart's letter which you requested.

4. Perhaps you would like to draft a statement of the object of the paper to be prepared. It will be important to keep it fairly specific, if we are to avoid preparing a book.

(Signed) G. G. CREAN

G.G. Crean

BEST AVAILABLE COPY

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

TO: ...FAR EASTERN DIVISION.....

SecuritySECRET.....

Date...September.6,1955.....

FROM: DEFENCE LIAISON.(2).DIVISION.....

File No.

50028-B-40

REFERENCE:

SUBJECT: ...Semi-Annual Review of Intelligence.....

The JIC has instructed the Joint Intelligence Staff to prepare for November 1 a new draft of the Semi-Annual Review of Intelligence to cover the period March to September inclusive. It would be appreciated if, as with the last Review, your Division could prepare a draft dealing with "Internal Developments in Communist China". We should also be grateful to have material for the section "Developments in Troubled Areas of the World of Significance in the Cold War", dealing with Communist China's activities in the Far East.

The Review will continue to have sections dealing with internal developments in the Soviet Union and developments in the troubled areas of the world. There is also a section dealing with the International Communist Movement. This material should, if possible, be ready by October 7.

Defence Liaison (2) Division.

Defence Liaison (2)/EPBlack/LS

DEPARTMENT OF EXTERNAL AFFAIRS

MEMORANDUM

TO: ...EUROPEAN DIVISION...

Security ...**SECRET**...

Date ...**September 6, 1955**...

FROM: ...DEFENCE LIAISON (2) DIVISION...

File No.		
50028-B-40		
6		6

REFERENCE:

SUBJECT: ...**Semi-Annual Review of Intelligence**...

The JIC has instructed the Joint Intelligence Staff to prepare for November 1 a new draft of the Semi-Annual Review of Intelligence to cover the period March to September inclusive. It would be appreciated if, as on previous occasions, your Division would prepare drafts on the first two sections of the Review dealing with "Developments in Troubled Areas of the World of Significance in the Cold War" and "Internal Developments in the Soviet Union".

The Review will continue to have sections dealing with Chinese Communist policy and the International Communist Movement. This material should, if possible, be ready by October 7.

S	
1	~
2	
3	
4	
5	
6	
7	
8	
9	
10	
SEP 6 - 1955	

[Signature]
Defence Liaison(2) Division.