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SECTION 2 (EASTERN)

1. KOREA. Reorganization of North Korean Army again reported:
The reorganization of the North Korean I, IV, and VII Corps was completed on 20 February, with the reorganization of the II and III to be completed in the near future.

"Mixed North Korean and Chinese Communist units" will replace the two latter corps on the front.

the Chinese Communists, disturbed by the numbers of North Koreans who were "idle," had without authorization recruited many Koreans for Chinese units.

Comment: It appears obvious from this and many other previous reports that the North Korean Army has been undergoing some form of reorganization and rehabilitation during the past six months. There is no evidence, however, of the reported integration of North Koreans into Chinese Communist units.

2. Muccio reports possible method of repaying UN won drawings:
The ROK Foreign Minister recommended before the National Assembly on 8 March that the 28 July 1950 agreement on won advances to UN forces be amended in such a manner that repayment of the loans would be made in foreign exchange of materials, providing the UNC takes the ROK's material mobilization program into consideration. American Ambassador Muccio states that, from the ROK point of view, an accelerated aid program providing greatly increased imports of saleable goods, and concerted efforts to promote their resale, would be a satisfactory settlement of UN won drawings. (S Pusan 899, 12 Mar 52)

Comment: The ROK and the UN have been at odds on a repayment method which would counteract the inflationary effect of monthly won advances to UN forces. At present, aid goods deliveries are still far from sufficient to cover the monthly advances.

3. Inflation in South Korea threatens government: Ambassador Muccio believes that the 34 percent increase in rice prices in South Korea from 1 to 8 March brings runaway inflation closer and may lead to the fall of the government. Rice has risen 114 percent in the past two months, and other food prices have also increased.

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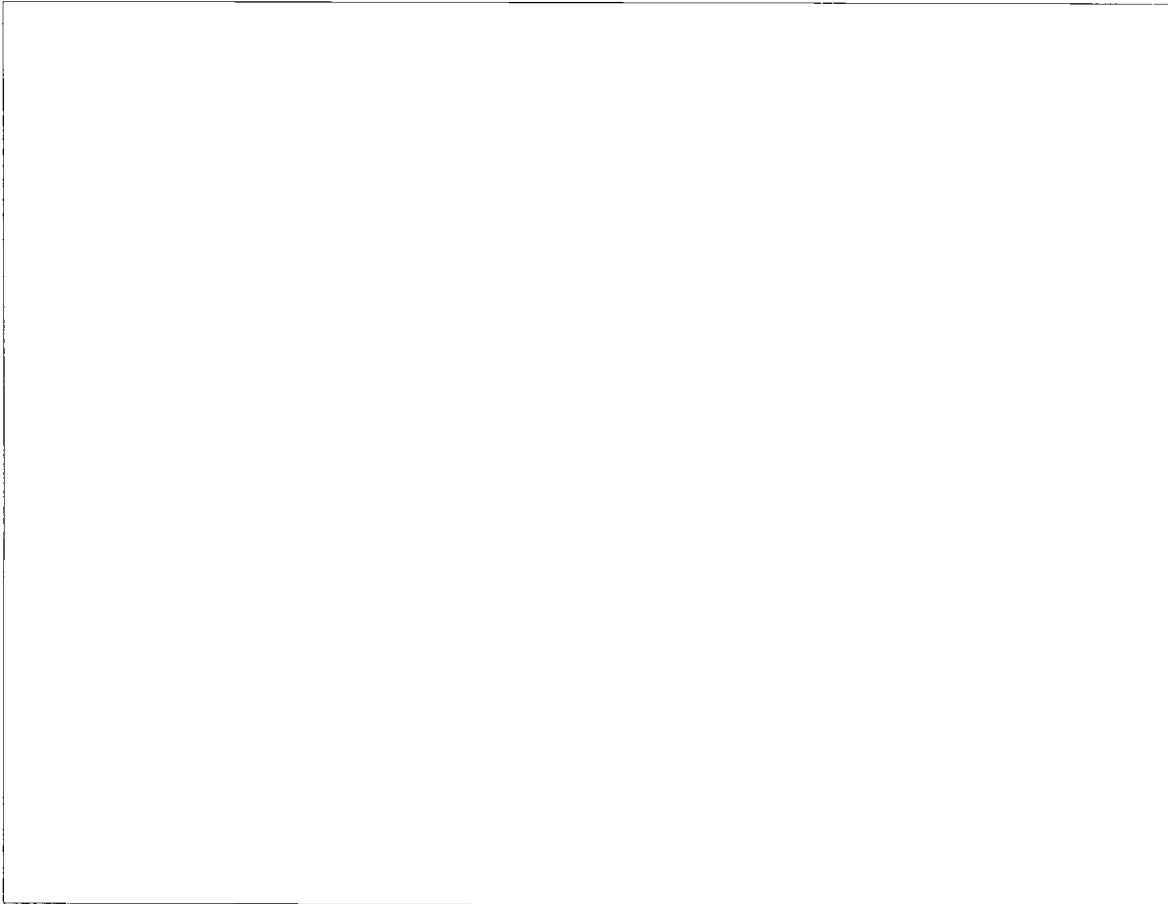
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The Ambassador observes that inflationary pressure, characterized by a rise of a thousand per cent in note issue since the beginning of the Korean war, is principally due to South Korea's inability to finance war costs. Hoarding, political uncertainty, poor publicity about the recent rice harvest and lack of transportation are contributing factors to the inordinate price advances. (C Pusan 887, 11 Mar 52)

Comment: The sharp rise in South Korean food prices during 1952 has resulted in the resignation of the Minister of Agriculture, and the press has warned that rice riots are probable if prices continue to skyrocket.



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