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Intelligence Memorandum

1. Malik's Speech and Western Reaction

Jacob A. Malik's speech on 23 June provides the first public suggestion from the Communist side of a cease-fire, not hedged with unacceptable conditions, that might lead to discussions of a general Korean settlement. The sincerity of this Soviet overture will be measured by whether such conditions are re-introduced and insisted upon in any future negotiations.

The official organ of the Chinese Communist Party editorially endorsed Malik's suggestions on 25 June; it failed to mention Peiping's previously stated conditions for peace in Korea, namely: (a) the withdrawal of UN forces from Korea, (b) admission to the UN, and (c) recognition of claims to Taiwan.

These conditions have been omitted from Moscow's propaganda and from statements by Soviet spokesmen since early April. Radio Moscow gave Malik's speech wide coverage and has commented that the US Government is forced by public opinion to accept Malik's proposal.

Western Europe's reaction to Malik's proposal did not match the deep skepticism apparent in the US. Because the proposal does not specify the conditions for ending the Korean War, it is not likely that it can split the West. There will, of course, be room for argument if and when specific conditions are set forth, but Western Europe, anxious as it is to have more attention given to its own military affairs, is by no means prepared to "sell out" the UN position in Korea.

2. The Chinese Communist Position.

The Peiping regime appears prepared politically, economically and militarily to continue its commitment in Korea.

a. Political.

There is no evidence that the stability of the Peiping regime has been or is now endangered by the Korean venture. Rumors of disagreement among the Chinese Communist high command and of disaffection among lesser leaders have not been confirmed. Although Chinese pride

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in Chinese military successes in Korea has certainly been outweighed by popular resentment of high casualties, heavier assessments, increased conscription and intensified security measures, Peiping's control over the Chinese people appears secure, and the regime can continue to compel the populace to contribute heavily to the Korean venture.

b. Economic

The economic situation in Communist China has continued fairly stable since the outbreak of the Korean war. The food outlook compares favorably with conditions of a year ago; industrial employment has been sustained by war orders, although raw material shortages have brought occasional interruptions to production. Prices have been kept under good control despite the inflationary pressure resulting from heavy military expenditures. The interruptions that the war brought to Chinese Communist plans for industrial expansion, the increased difficulties of obtaining industrial supplies from the West and the heavy financial costs of meeting added military commitments have, on the other hand, caused economic strains that the Communists must regard as serious but probably not critical.

On the whole economic indications reveal that the Chinese Communists are still preparing to meet the demands of the continuing conflict in Korea. These indications are: (a) the diversion of purchasing activities to India, Southeast Asia, and Orbit countries in the expectation that Western embargo measures will be intensified, (b) the institution of a seven months public fund-raising campaign for the purchase of planes and other heavy equipment, and (c) the increased rigor of land reform measures.

c. Military.

Chinese Communist Military losses in Korea do not appear to be severe enough to have forced the Communists to seek peace at this time. The overall Chinese Communist military strength is probably greater now than it was a year ago. As a result of heavy recruitment that has compensated for their more than 500,000 casualties in Korea, there has been no substantial change in the estimated total strength of the Chinese Communists' ground forces. However, continued heavy casualties might seriously impair Communist combat efficiency. Little heavy equipment has

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been committed in Korea by the Chinese, but, according to many reports, the USSR is training and equipping Chinese Communist infantry and tank divisions in Manchuria.

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The number of aircraft available to the Chinese Communist and North Korean air forces has risen sharply during the past year to an estimated 1,000 aircraft, almost all of Soviet manufacture, including the 400 jet fighters. Despite this air buildup, Communist air forces have not yet made a major offensive effort.

3. Conclusion

Neither the Soviet Union nor Communist China appears impelled by the current situation to end the war. Malik's suggestion, however may reflect a Soviet estimate that the current military stalemate is undesirable and cannot be broken at this time without Soviet intervention. This intervention could entail an undesirably great risk of global war for the USSR.

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