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CENTRAL INTELLIGENCE AGENCY
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
in Chinese military successes in Korea has certainly been out-
weighed by popular resentment of high casualties, heavier
assessments, increased conscription and intensified security
measures, Paiping'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; in-
dustrial 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,
cause 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
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.

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 im-
pelled 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.