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SUPPLEMENT

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1. On 20 September Mihayev, Director of the Shanghai Moscow Narodny Bank, invited to a meeting at the bank a group of prominent local Soviet merchants including Chibunovsky, Druri, Borodin, Silin, and Birbrayer. Mihayev proposed a new Far Eastern policy, making the following observations:

(1) When the present local repatriation ends, only a few chosen families will be allowed to remain in China, according to the original Moscow plan. Compulsory repatriation will then begin in order to determine which citizens are loyal to the USSR and which became Soviet citizens for reasons of expediency. Moscow will instruct the Shanghai Consulate to take this action immediately as the international situation does not warrant delay. By the end of this year the Far East will be the focal point of critical relations between the USSR and the United States.

(2) The Central Cooperative Union (CCU is the former Central-Soyuz), ordered by the Politbureau to enlarge its activities abroad, plan to open branches in various places abroad, including China and the colony of Hongkong. Negotiations are required in Nanking prior to setting up the China branch of the CCU, but regardless of the outcome of these negotiations, it is important to prepare a flexible organization in Shanghai to act as an auxiliary organ to the proposed CCU branch, or to act independently as an export organ subject to CCU in Moscow through the local Torgpredstvo or the Narodny Bank.

(3) Local Soviet merchants must decide whether they are ready to cooperate with this plan and remain in China. The Shanghai branch of the CCU is to export from China used clothing, leather goods, textiles, and foodstuffs.

There were mixed reactions to this plan. Birbrayer and Silin were in favor; Chibunovsky was skeptical and believes that the proposed plan would mean smuggling, probably from Hongkong to the USSR.

2. The USSR is now using all possible means to import needed goods. The purchase of penicillin in Shanghai by crew members of the Ilich is probably sanctioned by Moscow.

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-2-

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25X1X6

3. One of the main tasks of Gosbez /GIB, Ministry of State Security/ in China is the supplying of arms to the Chinese Communist Party, especially in South China. Transactions are made mostly through Chinese and foreign firms connected with Soviet trade establishments. Agents who actually conduct the smuggling are Chinese Communist Party members. The Soviet Hongkong trade representatives Sizov and Kovalenko organized the smuggling of arms and wolfram sent from Hongkong to the USSR on Soviet ships.
4. At the last meeting of the Shanghai representatives of Torgpredstvo and the Narodny Bank it was decided to move the offices of the Soviet Citizens' Trade Association to 1 Avenue Edward VII /Chung Cheng Road, East 1st/ This was to be done so that Miheyev, reportedly head of the Economic Section of the local Gosbez, might control the organization more efficiently. The Narodny Bank, Torgpredstvo Export Khleb, and the Intourist office are all at 9 Avenue Edward VII.

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5. The Soviets will set up a special section of the Far Eastern Information Bureau within the Shanghai TASS office. This section, headed by Lozovsky, although independent of TASS will be officially a part of it. Appointees will arrive in Shanghai on the next repatriation ship. A new USSR-China policy will be initiated after the return of Ambassador Petrov. Top Soviet Shanghai officials are prepared to send their families to the USSR.

25X1X6

6. The appointment of Lozovsky - Soviet Far East expert - to head the Information Bureau in Irkutsk presents evidence of the importance of the Far East to Moscow. /SO-7479/. Extending Lozovsky's activities to Shanghai by setting up a TASS Information Bureau Section indicates that Moscow is expecting a show-down soon in the Far East.

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7. The Soviet Far East from Irkutsk to Vladivostok is now under martial law; no one can travel through or remain in the area without special permission. Considerable movement of troops and materiel was seen along the railroads in this area.

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The following points are based on comments
by Consul General Khalin.)

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8. (1) Through Ambassador Petrov, who will probably return to Nanking at the end of October, there will be a decided attempt to settle urgent differences with Nanking before any radical change is made in the USSR-China policy. Petrov has instructions in regard to a settlement of the Dairen question. Moscow hopes that this approach will cause former pro-Soviet leftwing Kuomintang members to influence Nanking and public opinion to adopt a more friendly policy.
- (2) The Nationalists know that they cannot gain control of North Manchuria; hence they will be compelled to accept mediation by the USSR. This must be preceded by an agreement on Dairen and an improvement of Sino-Soviet relations.
- (3) Shanghai Soviets believe that although this course of action will be brief and unsuccessful, it will gain time for the final change in USSR policy and divide Kuomintang and Chinese public opinion toward the USSR.

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-3-

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9. According to rumor in Shanghai Soviet circles, Lozovsky visited North Korea and Harbin incognito. Following this trip there were further rumors to the effect that large-scale maneuvers will take place this autumn on the Korean and Manchurian borders and that simultaneously there will be uprisings in the Ili River region in Sinkiang Province.

Shanghai Soviet leaders believe that repatriation must be accomplished quickly and that these rumors signify the beginning of a new era of Sino-Soviet relations where China will be forced to choose between the USSR and the United States.

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10. Grosbois [pro-Soviet French citizen] is covertly attempting to reactivate the Cosmopolitan Club for cultural and political discussions by Soviet and pro-Soviet non-Russian intelligentsia.

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