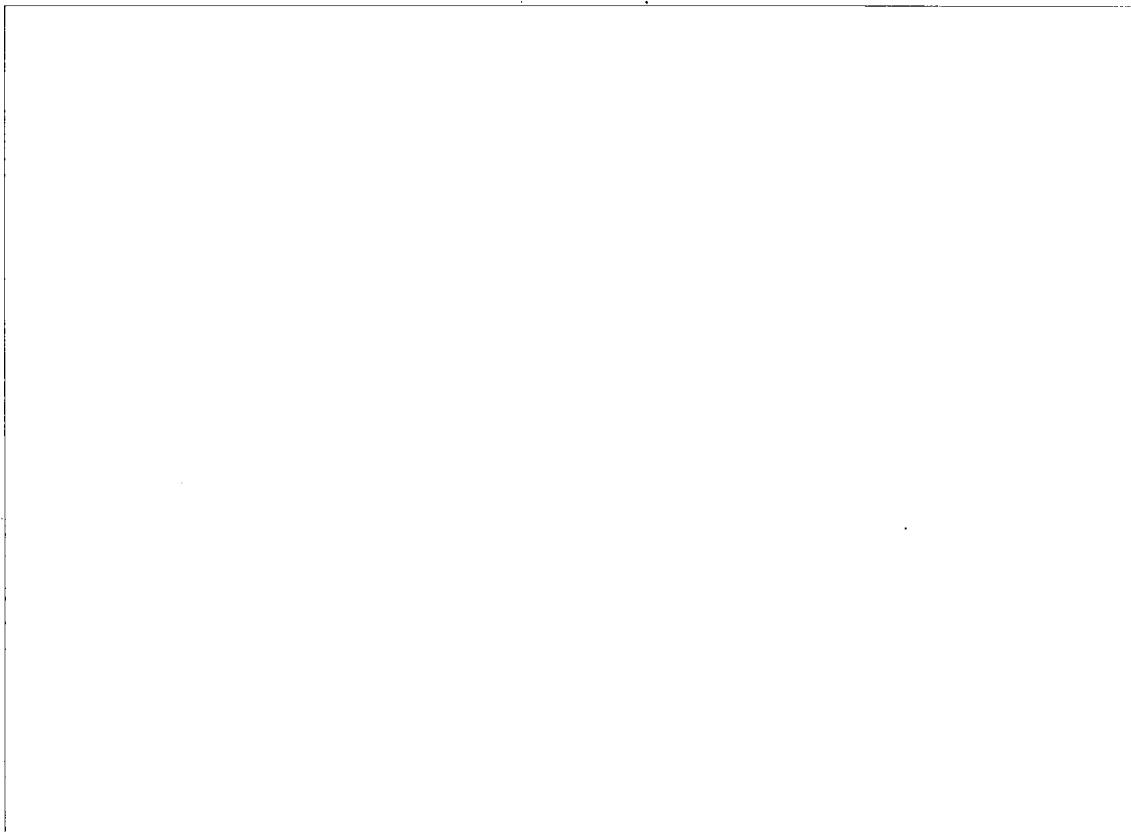


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9. KOREA. Chinese captured recently in Korea report defensive mission: Chinese Communist prisoners of war captured in both the west-central and east-central sectors have reported that their units were assigned a defensive mission. One prisoner from the newly-identified 67th Army in east-central Korea stated that his battalion's mission was to defend for approximately one month beginning on 10 September, while a prisoner from the west-central front stated that his army -- the 42nd -- was to defend for a month until bridges in the rear areas could be repaired and the front line units resupplied. The latter prisoner stated that following this an offensive was to be launched to drive UN forces to the 38th parallel.

Comment: These unconfirmed reports are unique in that this is the first mention of an additional defensive period prior to the launching of an offensive. Of equal interest are the allegations that additional supplies are needed by the front line units and that the objective of the coming offensive is the 38th parallel.

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On the basis of currently accepted information, Communist forces in Korea are still believed capable of launching a powerful, sustained offensive where and when they choose.

10.

11. North Koreans reportedly excluded from policy role at Kaesong: [redacted]

[redacted] North Korean Communist leaders have been deprived "of authority to make decisions concerning the Kaesong truce talks" by the "new Sino-Soviet mission." Previously, North Koreans were allowed to participate as equals while the "Chinese Communist Political Mission" (on the Kaesong talks), now reportedly in Manchuria, was in Korea. [redacted]

Comment: No confirmation has been received concerning either a Chinese political mission or a joint Sino-Soviet mission in Korea. It is believed that decisions on Communist policy in Korea originate with the senior partner--the USSR--and are carried out jointly by the North Koreans and Chinese Communists.

12. ROK suggests new counter-inflation measure: The ROK Ministry of Finance, in expectation of full or partial dollar settlement of their large won loan to the UN military command in Korea, anticipates issuing dollar bonds (two years maturity at two percent) to be subscribed for and paid in won. These bonds will be secured by US dollars derived from such a repayment. The bonds will have the dual effect of further attempting to stem inflation and protecting the investor against further won devaluation. [redacted]

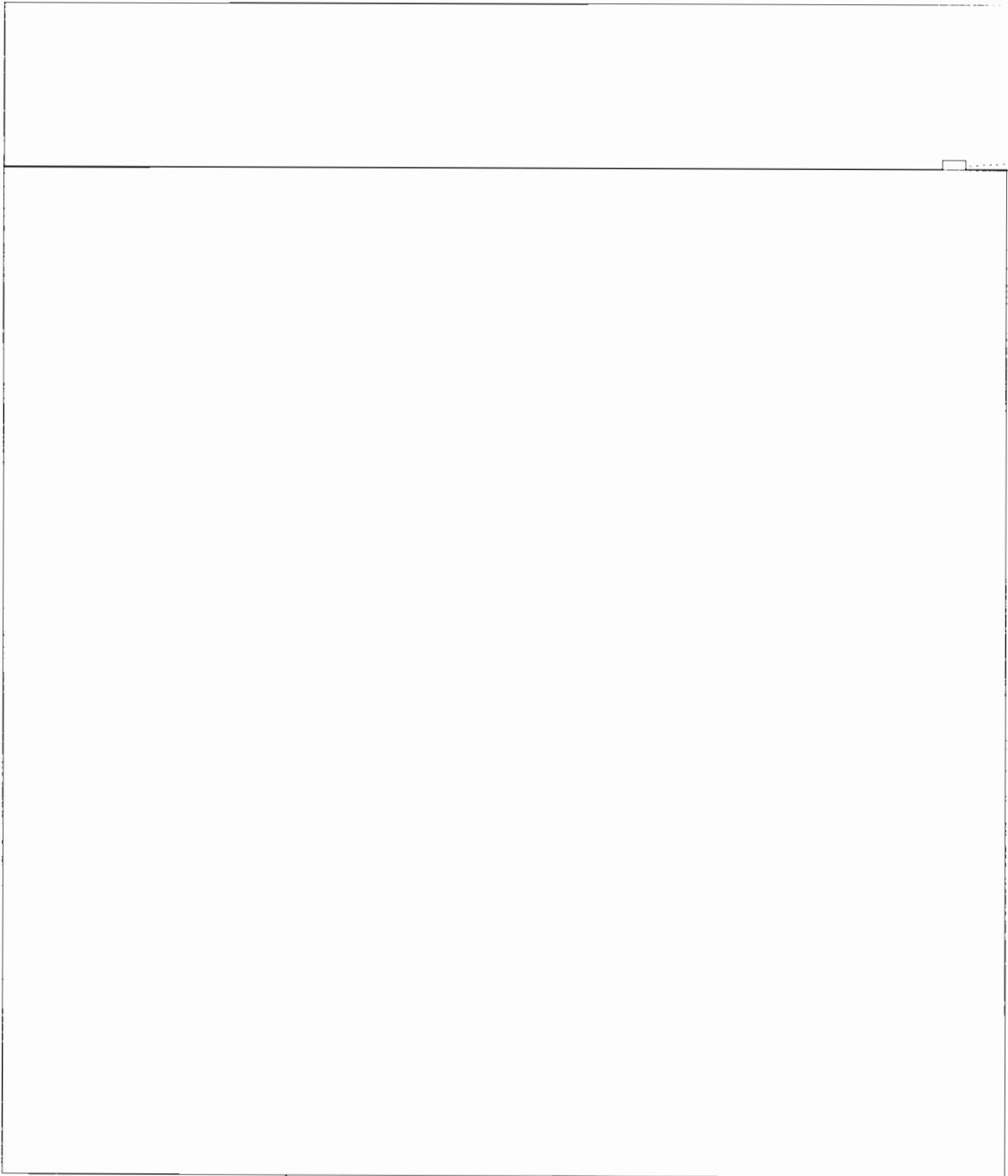
Comment: This suggestion by the ROK Ministry of Finance is noteworthy and sensible. The US Mission in Korea has recently emphasized the sincere effort being made by the ROK Government to bring the present ruinous inflation under control.

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