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20 JUL 1949

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EUROPE

1. YUGOSLAVIA: Analysis of Yugoslav economic situation--US Ambassador Cannon expresses his belief that, largely as a result of tightened economic sanctions by the Soviet bloc without a compensatory increase in Yugoslav trade with the West, the Yugoslav economic situation will be critical for the next year. Cannon adds that without moderate western credits the Tito regime may be weakened to the point where it cannot be effective in the role the US expects it to play. In pointing out that such credits would be insurance against the collapse of Tito's regime, Cannon believes that early conclusion of the British-Yugoslav negotiations involving a credit of eight to ten million pounds would help counteract the effects both of the reduction in Yugoslav trade with the East and the suspension or slowdown of Italian-Yugoslav economic negotiations.

(CIA Comment: CIA has received no information which would indicate that economic conditions in Yugoslavia have reached the critical stage.)

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NEAR EAST-AFRICA

2. PALESTINE: Egyptians bitter over Gaza strip proposal--US Charge Patterson in Cairo reports that the Egyptian Foreign Minister and other high Egyptian officials have expressed bitterness, distrust, and a "very real intellectual and moral disdain" regarding the Israeli proposal that Israel be awarded the Gaza strip in exchange for accepting the Arab refugees in the area. Although Patterson believes that Egypt might take a more conciliatory attitude toward the proposal if the US were actually able to guarantee Egypt a land bridge to Jordan as compensation for the Gaza strip, he fears that "continued harping" on the merits of the Gaza plan might cause the Eygptians to regard the US as "an accomplice of an expansionist and aggressive Israel."

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