

**TOP SECRET**

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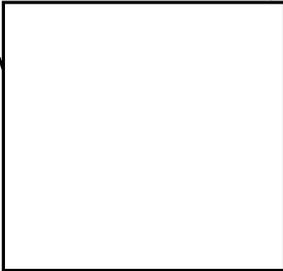
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GENERAL

1. British reservations delay talks on economic aid to Yugoslavia:

*UK*  
*YUGO*  
*US*  
*FRANCE*

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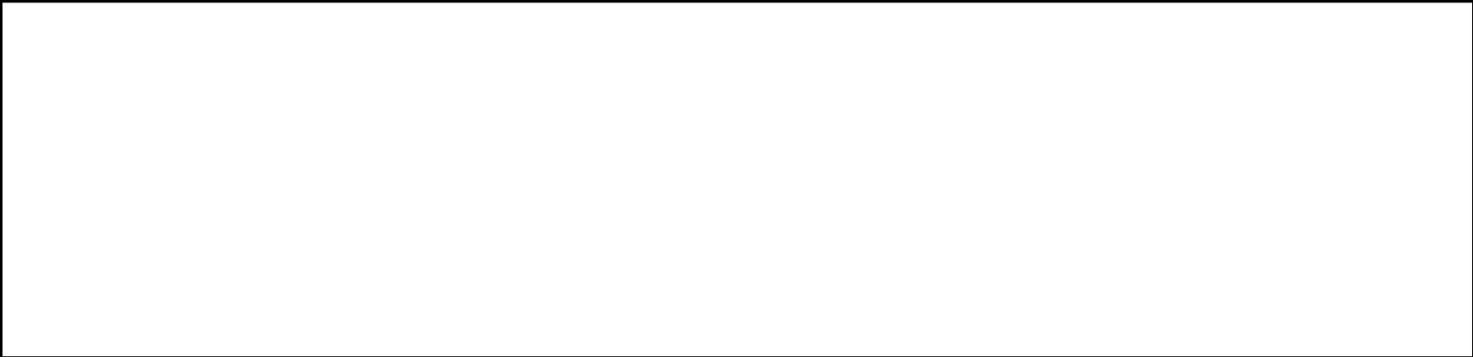


Talks on economic aid to Yugoslavia now taking place in London among representatives of the US, UK, France and the World Bank (IBRD) have become snarled over reluctance of the British to comit themselves on the revision of Yugoslav debt schedules to meet IBRD requirements. The UK has also indicated reluctance to give Yugoslavia British aid on a grant rather than on a loan basis.

Earlier the UK had insisted on including in the economic aid program "common use" items that might be used for both civilian and military purposes. The US delegation comments that the British seemed unmoved by US and French references to the overriding political considerations and appeared unconcerned that the IBRD loan might fall through as a result of the London talks.

Comment: The Yugoslav aid talks were initially conducted on a bilateral basis between the US and the UK, and then extended to include France. Representatives of the IBRD were invited in the hope of providing for eventual stabilization of the Yugoslav economy through an IBRD capital investment program, coordinated with the more immediate needs of Yugoslavia's balance of payments. The IBRD representatives have indicated that a four-year \$200 million capital investment IBRD loan could be carried by Yugoslavia if its current unfavorable balance of payments picture is corrected through other foreign aid. The earlier agreement of the three powers on the principles of the aid program has now become ensnarled in more specific questions of implementation. Despite the UK's recent caution, Britain has shown its concern for the Yugoslav situation through the recent extension of a loan of four million pounds and through encouragement of proposals for military aid.

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5. Fear of war reported in Manchuria:

~~CHINA~~  
~~USSR~~

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A Russian-born naturalized American, who left Harbin on 10 April and arrived in Hong Kong on 1 May, told the US Consul General in Hong Kong that the fear of war was growing in Harbin. The atmosphere was particularly tense in Manchouli (on the Sino-Soviet border in northwest Manchuria), where Chinese residents were being evacuated from the Sino-Soviet border and where the USSR was erecting fortifications on its side of the border. In Harbin, air raid precautions were inaugurated at the time of Chinese intervention in Korea and were being further implemented at the time of the source's departure. Several hundred Soviet airmen were stationed at the Harbin airfield, but few were seen in the city. Flights over Harbin were infrequent and never consisted of more than five planes in a group. Source reported a very heavy southward rail movement, largely after dark, through Harbin. He observed four or five train-loads of Russian tanks and one load of Mongol horses. Source stated that there was no doubt in the minds of the inhabitants that the real power in the area, though exercised through the Chinese, was held by the USSR. Many Russians have been discharged in preparation for the turn-over of enterprises including the railway to the Chinese in 1952.

Comment: Few reports are received from the northeastern areas. This one appears credible.

6. British concerned over Chinese Nationalist troops in Burma:

~~UK~~  
~~CHINA~~  
~~BURMA~~  
US

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US Embassy London reports that the British Government is becoming increasingly concerned over the refugee Chinese Nationalist troops in the Burmese state of Kengtung. The British, apparently feeling that these forces are being supported by the US, may be expected shortly to make high level approaches on the subject in Washington. They consider that the Nationalists do not merely provide the Chinese Communists with an excuse to invade Burma but constitute a pressure on the Communists to act which would inevitably result in the establishment of a Communist government in Burma.

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~~CEYLON~~  
~~INDOCHINA~~

7. Ceylon may recognize Bao Dai government:

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A Ceylon diplomat who has been in Indochina on a rice purchasing mission hinted at the time of his departure that Ceylon might extend diplomatic recognition to the Bao Dai government. US Minister Heath in Saigon had assumed that Ceylon would follow the lead of India in continuing to refuse recognition, and speculates that the Ceylon envoy's remarks may reflect an evolution of his government's attitude, or may simply be a device for promoting a rice deal.

Comment: It is known that Ceylon has been considering recognition for some time and has generally aligned itself more closely with UK policy (the UK recognized Bao Dai in February 1950) than has India. Ceylon is a rice deficit area and may feel that it might be in a preferred position to obtain some Vietnamese rice if it opened diplomatic relations with Bao Dai. Thus far, Thailand has been the only southern Asian nation to recognize the Bao Dai government; the Western nations have been endeavoring to persuade other Asian countries to take similar action in order to bolster its prestige.

NEAR EAST

8. Nehru recently subject to strong anti-American influences:

~~INDIA~~  
~~UK~~

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US Ambassador Henderson reports that during the last few weeks Prime Minister Nehru has been in close association with V. K. Krishna Menon, Indian High Commissioner in London, and with Lady Mountbatten, wife of India's last Viceroy and Governor-General. Several responsible Indian officials have told Ambassador Henderson

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Menon tried to persuade Nehru not to accept US favors, and Lady Mountbatten's anti-American influence over Nehru is a subject of almost common gossip in India. One prominent Indian who dined with Nehru, Menon, and Lady Mountbatten later told Ambassador Henderson that he was shocked at the anti-Americanism which dominated their dinner conversation.

Comment: Nehru is known to be susceptible to the influence of Lady Mountbatten and Krishna Menon, both of whom are violently anti-American and the latter of whom is probably a Communist. These two

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persons may well have had a direct hand in producing (a) Nehru's statements of 29 April and 1 May to the effect that India does not have to accept food from any country which accompanies its offers with political "strings," (b) the 26 April statement of Secretary-General Bajpai, Indian Ministry of External Affairs, that UN Secretary-General Trygve Lie would serve no useful purpose in visiting India this spring, and (c) the 1 May proclamation convening a Constituent Assembly in Kashmir in defiance of the UN Security Council Resolution of 30 March.

9. Comment on Prime Minister Mossadeq's program:

Iranian Prime Minister Mossadeq presented his cabinet to the Majlis on 3 May and stated that his government did not believe it necessary to present an elaborate program to the Majlis. He proposed, however, to enforce the oil nationalization law, to use the proceeds to support the government's economic policy of "promoting the welfare and comfort of the people," and to amend the municipal and parliamentary election laws. All of these points are consistent with Mossadeq's avowed political convictions. As yet, however, even the Shah has indicated that he has no information as to the method by which Mossadeq plans to implement nationalization.

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