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State Department review completed

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FAR EAST

2. Philippines now appear willing to sign Japanese peace treaty.

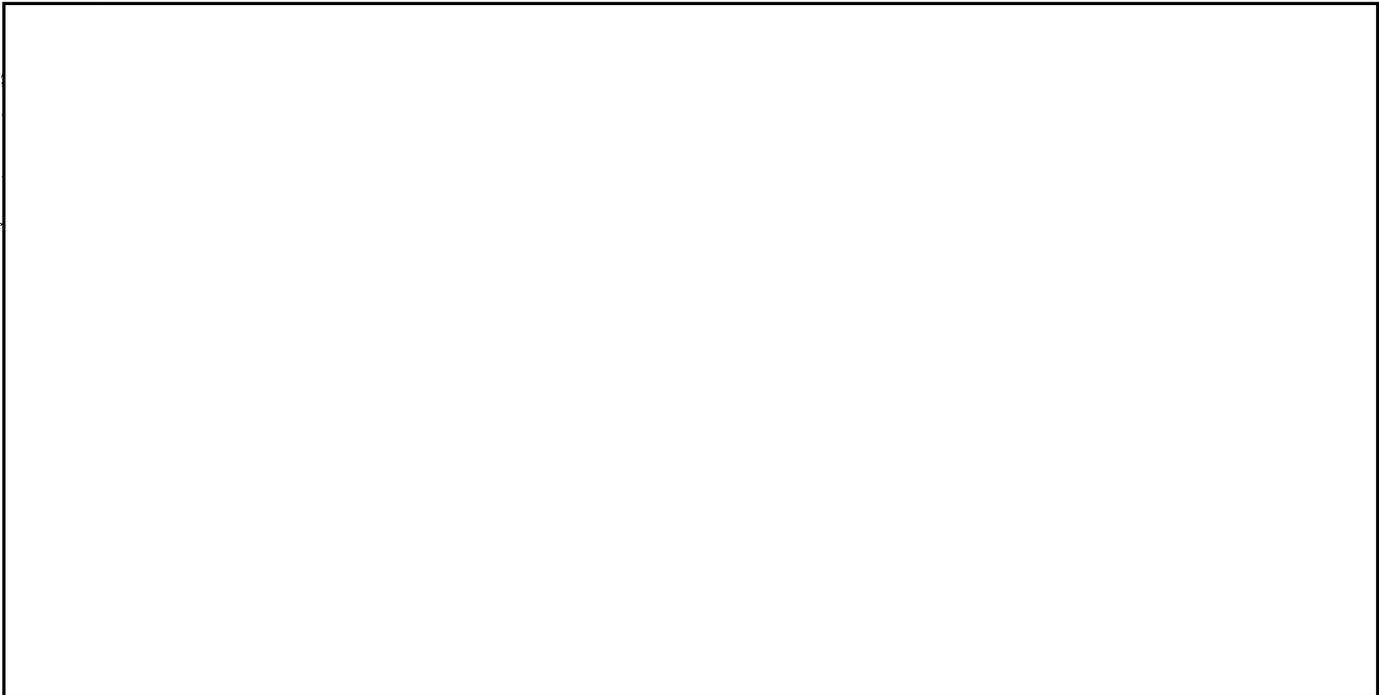
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The Philippines probably will accept the most recent revision of the Japanese peace treaty, according to US Ambassador Cowen in Manila. The principal modification provides that instead of "recognizing that Japan lacks the capability . . . to make adequate reparations," the Allied Powers shall recognize that "the resources of Japan are not presently sufficient . . . to make complete reparations."

Comment: The Filipinos made strong efforts until the last moment to leave the door open for reparations to be paid in money, goods and services whereas the reparations envisioned above are to be supplied from Japanese services alone.

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## NEAR EAST

5. Sternier British Middle East policy seen:

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Noting strong parliamentary and public dissatisfaction with the present situation in the Middle East, US Embassy London forecasts a stiffening of British policy in dealing with Middle Eastern countries. The Conservatives would certainly establish a "tougher" policy were they to come to power, and the present government, under heavy domestic pressure, is displaying impatience over developments there, as manifested in the current British attitude toward Egypt and Iran.

The embassy emphasizes further that the British take seriously their "major responsibility" in the Middle East, but that their appreciation of their need for US military and economic support was one of the most significant aspects of the recent House of Commons Middle East debate. The embassy adds the caution, however, that the British "will listen

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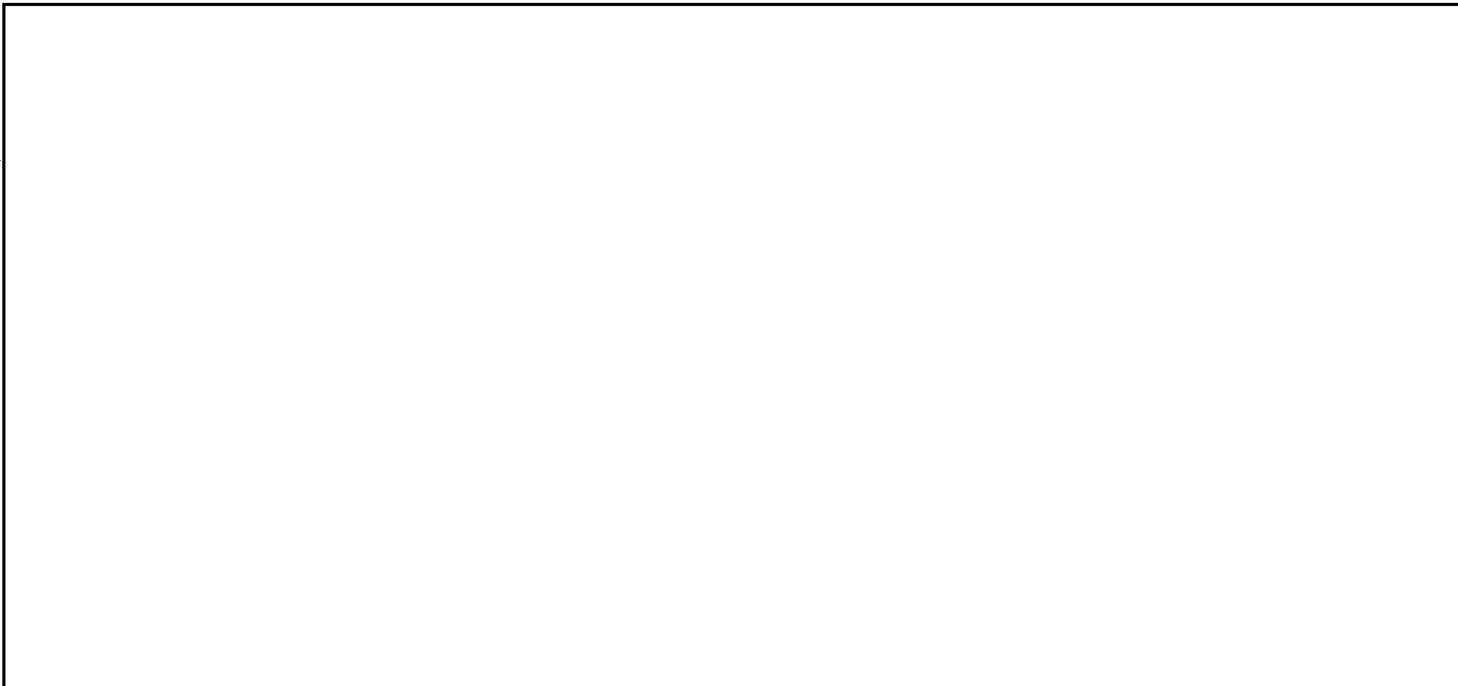
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to our advice, but will definitely not want to be displaced or relegated to a secondary role in the Middle East."

Comment: Various indications since the onset of the Iranian crisis have suggested the growing concern of both government circles and informed public opinion over the state of British interests in the Middle East -- at times excluding consideration of other pressing matters.

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**EASTERN EUROPE**

**7. Yugoslav Government maintains over-optimistic capital investment policy:**

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US Ambassador Allen in Belgrade believes that a warning to the Tito government on its over-ambitious capital investment program should be deferred until funds have been made available

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for the US-approved portion of the investment program.

Allen suggests the importance of considering Yugoslav over-optimism regarding its productive capabilities when formulating US policies for financing Yugoslav investment in strategic materials projects and economic aid. He believes the Yugoslav Government tends to minimize its need for production geared for immediate export, expansion of agricultural and consumer goods production, and completion of existing investment projects which can be quickly productive.

Unless these conditions are met, Allen believes that Yugoslav economic plans are likely to become unworkable.

Comment: The Yugoslav economy has consistently suffered from the highly theoretical and overambitious economic schemes of its Marxist planners. This tendency has recently been partially overcome by the advice of US economists and technicians.

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