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CENTRAL INTELLIGENCE AGENCY

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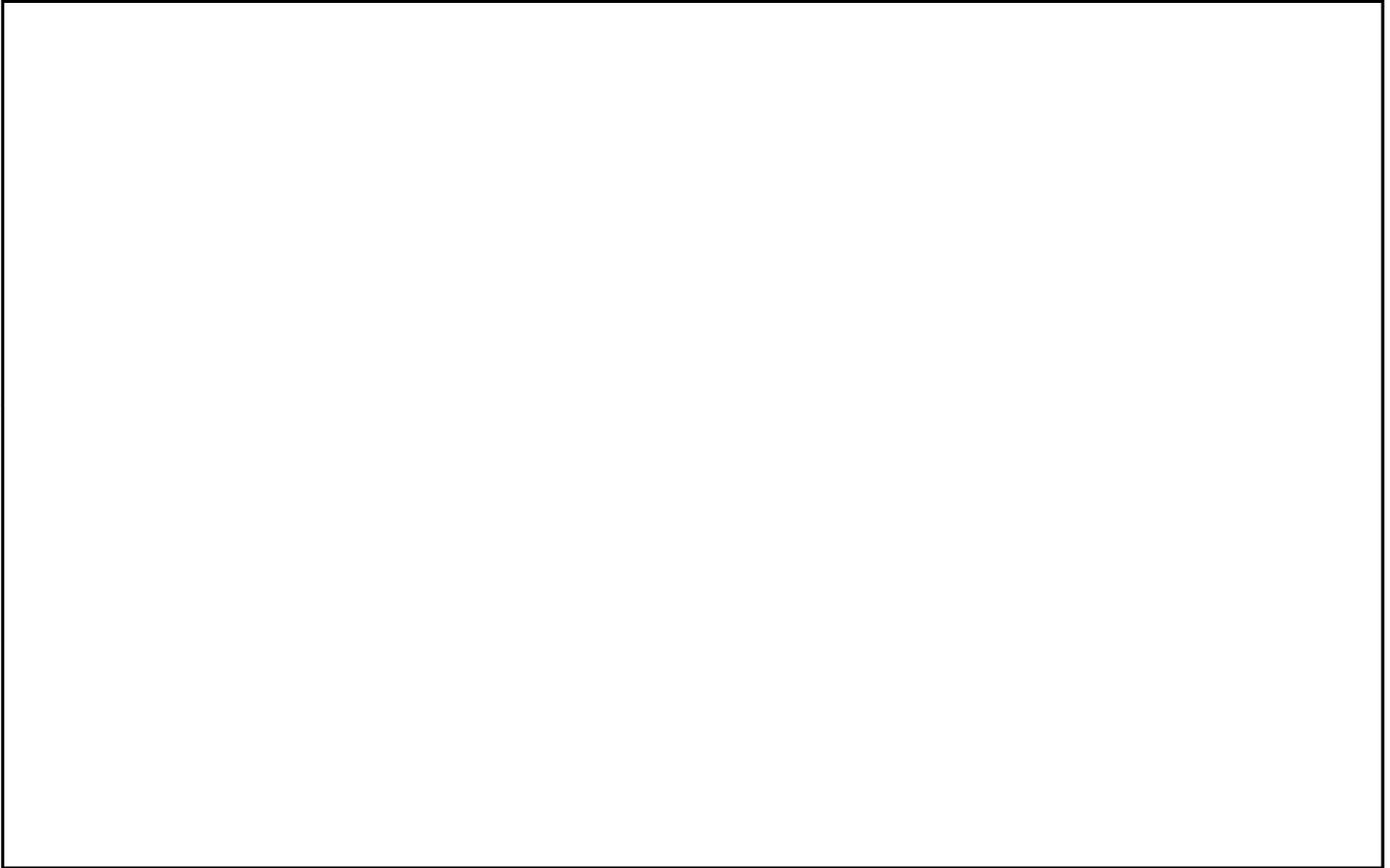
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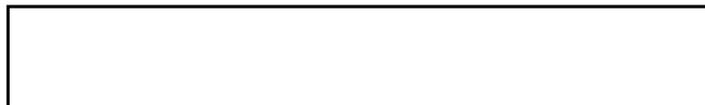
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2. Comment on current fighting in Indochina:

Coordinated Viet Minh attacks, beginning about 1 December, have continued against the southern and western edges of the French defense perimeter in Tonkin. Fragmentary and ambiguous French communiquees maintain that the Viet Minh has been repulsed everywhere,

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but [redacted] the Viet Minh has been successful at several points and has seriously infiltrated French defenses at others. Heavy French losses are suggested by the number of litter cases airlifted from Saigon and by the statement of a French official in Paris that much equipment has been "chewed up" and that replacements were badly needed.

SOUTH ASIA

3. Comment on recent traffic from Sinkiang into northern Pakistan and Kashmir:

Between September and November 1951 several hundred Kazakh tribesmen from Communist-controlled Sinkiang arrived in eastern Kashmir, while two trade caravans from the same area reached northern Pakistan and Kashmir. This unusual new movement across a border closed since 1949 coincides with the Chinese Communist occupation of western Tibet and growing Communist activity in the area of Nepal. If Communist penetration of both the northern and eastern Himalayas increases appreciably, India may shortly be faced with a police and military problem of considerable magnitude.

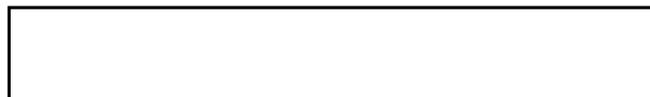
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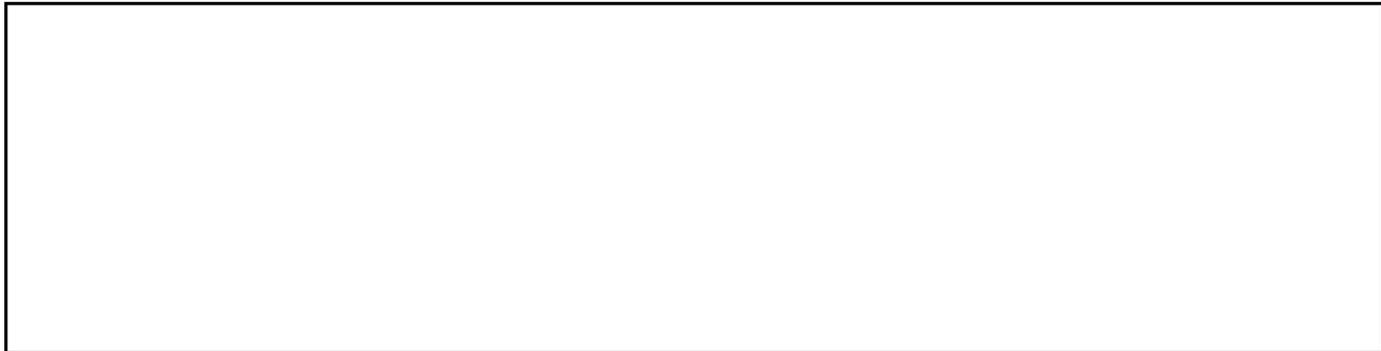
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5. France rejects Tunisian petition; appoints new Resident General:

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The French Cabinet has rejected the Tunisian petition for a greater share in government, but has proposed to prolong the term of the Tunisian Grand Council and to establish a French-

Tunisian commission which would consider the formation of a truly representative legislature.

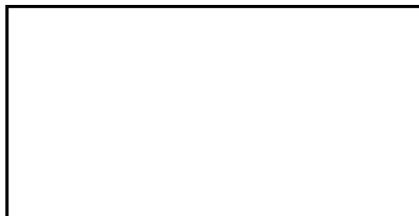
The Cabinet has also selected Pierre Voizard to replace the present Resident General.

Comment: The French Cabinet delayed denying the Tunisian petition until it was certain that the UN General Assembly would not discuss the Moroccan issue. Nationalist disappointment over the French Cabinet's action will be somewhat lessened by the replacement of the unpopular and dictatorial Resident General Perillier. Although demonstrations against the French decision are probable, no serious disorders are likely at this time.

EASTERN EUROPE

6. American Ambassador in Prague concerned over safety of Western diplomats:

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Ambassador Briggs in Prague, commenting upon the recent arrest of two British Embassy employees, points out that the personal safety of



all Western diplomats in Czechoslovakia may now be in jeopardy. It is not known whether the Czech charges are true or false, since the British Ambassador in Prague has refused to discuss the case with his American colleague and the British Government has remained silent.

Czech propaganda has accused the United States of instigating the plot and financing the operation out of funds appropriated in the Mutual Security Act.

Comment: The Czechs have, as a result of this incident, a valuable propaganda weapon to employ against the Mutual Security Act. In any case, the affair provides a ready pretext for possible restrictive actions against Western diplomats in Czechoslovakia.

WESTERN EUROPE

7. West Germans balk at size of financial contribution for European defense:

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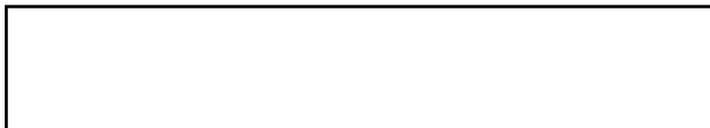
Chancellor Adenauer told the Allied High Commissioners on 14 December that Germany will probably be unable to contribute the full amount assigned by NATO as the German share of Western defense costs. He alleges that a constitutional amendment permitting the federal government to tax sources of revenue which the state governments now tax would be required in order to raise this sum. Adenauer doubts that Parliament would pass such an amendment.

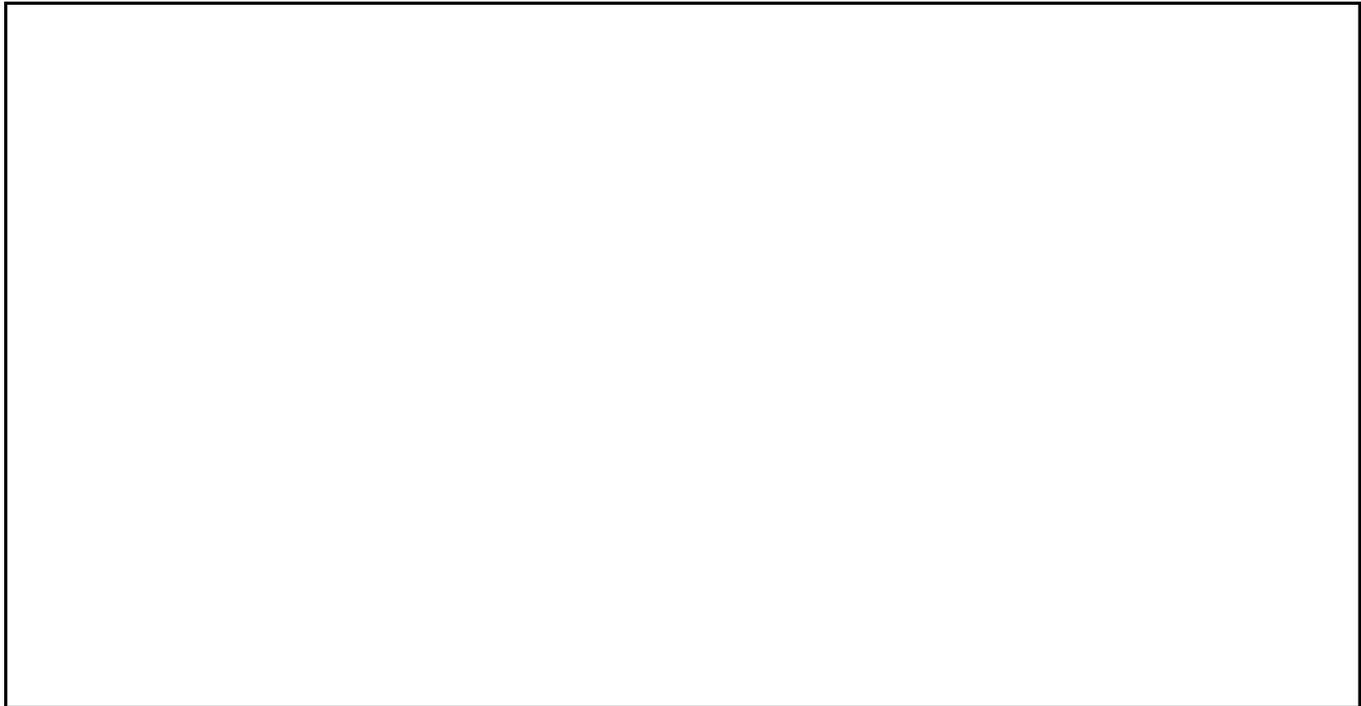
Comment: The Allied High Commissioners anticipate great difficulty in getting the West Germans to accept their 3.2 billion dollar share of European defense costs, but believe that additional revenue can be raised by a revision of the income tax structure. The coalition parties are loath to raise taxes in the upper-income brackets, however, and the Chancellor probably hopes that a considerable part of the German contribution can be financed by internal or foreign loans.

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9. Italian Budget Minister's financial policies at variance with American defense objectives:

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The US Embassy in Rome evaluates Budget Minister Pella's recent speech on Italian financial policy as "conservative, full of old, frequently repeated themes, and at variance with the

strenuous efforts US officials are now making to bring about a bold Italian defense program with the help of US aid. "

Pella said that Italy must make a defense effort compatible with "its need to safeguard civilian investments and consumption, increase employment, protect the value of the lira, and continue social progress."

Comment: Pella's fear of inflation has obstructed expansion of the Italian defense effort. In his "defense of the lira,"

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Pella, who exercises almost absolute control over the Italian budget, has the full support of Premier de Gasperi and President Einaudi. Italian defense expenditures are only 24 percent of the total budget.

The need for substantial appropriations to offset the recent serious flood damage in Italy will reinforce Pella's stand against pressure for a greater defense effort.

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