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GENERAL

1. UK rejects Chinese proposal for intervention in Indochina--US Embassy
London reports that Bevin has rejected the Chinese proposal for Sino-British intervention in Indochina (see Daily Summary of 26 December, item 1).

2. Chinese fear Dairen incident strengthens Soviet position--US Embassy
Nanking reports that the Chinese Foreign Office has informally taken exception to the State Department's announcement that Soviet authorities were within their rights in refusing recently to permit private US citizens to land at Dairen. The Foreign Office considers that the Soviets are not acting within their rights in refusing permission for Chinese occupation of the city. It fears the US statement may strengthen the Soviet position.

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4. Belgian interpretation of changed Soviet attitude in UN--According to US Charge Brussels, Foreign Minister Spaak attributes the "improved atmosphere" in the General Assembly to a specific Soviet policy decision reached between the Paris and New York Council of Foreign Ministers meetings. Spaak believes the decision was dictated by: (a) the drag on Soviet industrial recovery of present military forces abroad and at home; (b) possible unanticipated difficulties in atomic research; (c) the realization that Soviet obstructionist tactics at Paris had proved ineffective, had

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placed the USSR in a slightly ridiculous light, and had hampered its propaganda; and (d) a realization that only by more elastic tactics could the USSR hope to achieve anything through the UN.

5. US urges adjudication of UK-Albanian case--The State Department has suggested to the US Delegation in New York that it suggest to Cadogan that the UK-Albanian case might be handled by the International Court of Justice. The State Department understands that the British favor a political rather than legal solution of this case.

EUROPE

6. YUGOSLAVIA: Espionage trial to be used to discredit US officials-- A Yugoslav defense lawyer has informed US Charge Hickok that the trial of persons accused of aiding members of the US Embassy Belgrade in "unfriendly work and espionage against the Tito regime" will open on 31 December (see Daily Summary of 18 November, item 7). Hickok believes the trial to be an effort to intimidate the Embassy staff, to terrorize the Yugoslav people, and to limit Embassy contacts to representatives of the Tito Government.
7. ITALY: Deliberate anti-Allied agitation--The Supreme Allied Commander Mediterranean reports that anti-Allied "agitators" were active during the recent demonstrations in Padua. He adds that a large section of the Italian press, particularly Communist and Socialist papers, is directing an inflammatory campaign mainly against the British. SACMED expects increasing attempts to foment public demonstrations against Allied forces.
8. GERMANY: Koenig to be replaced on ACC--US Ambassador Caffery in Paris has been informed that General Koenig will soon be replaced as the French member of the Allied Control Council reportedly because of his failure to obtain clearance from Paris before making "numerous declarations." Caffery adds that Admiral Barjot (Assistant Chief of Staff of National Defense) is apparently receiving "most serious consideration" as successor to Koenig.
9. HUNGARY: Mass arrests of non-Communists--The Smallholder Minister of Information, Bognar, has told US Minister Schoenfeld that the 300 persons

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recently arrested by the Communist-controlled political police include the "leading figures of all Hungarian non-Communist anti-German war-time resistance movements." Bogнар admitted "the possibility" of an attempt to implicate the US and UK in a subversive plot, but said that the Smallholders regard the arrests as related primarily to the domestic situation and as Communist preparation for seizure of power by eliminating potential centers of resistance. Bogнар added that the Smallholders are postponing any action until the "degree of Soviet implication" in the arrests is determined.

10. FRANCE: Position of the Communist Party--According to US Ambassador Caffery, qualified observers consider that, because the Communist Party has nothing to gain from participating in a bourgeois Government which will have to carry out highly unpopular measures, a majority of French Communist Party leaders now favor swinging vigorously to the left and passing into opposition to the next Government. Soviet diplomatic interests, however, demand that the Communists continue their strategy of gaining as many high offices and as much influence within the Government as possible. Caffery doubts that any party or group in France can exploit the "widening contradiction" between French Communist and Moscow interests.

Blum not to be presidential candidate--Leon Blum has informed Caffery that "under no circumstances" will he be a candidate at the forthcoming elections either for the Presidency of the Republic or of the Council of Ministers (Cabinet). Caffery, however, "is not convinced" that Blum would decline the former post.

FAR EAST

11. INDOCHINA: New Vietnam Government may be established--US Consul General Saigon reports that the eventual solution of the present Franco-Vietnam difficulty may be found in a new Vietnam Government to be formed under either the former Annamite Emperor Bao Dai or the pro-Chinese former Vietnam Foreign Minister, Nguyen Tuong Tam. The latter is now reportedly forming a refugee Vietnam Government at Nanking. French authorities could deal with a new government without losing face and could then more successfully insist upon the independence of Cochín-China.

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12. **CHINA: Anti-US demonstrations**--US Consul General Feiping believes that current anti-US demonstrations and public feeling are to be taken seriously and reflect discontent both with US policy and with the National Government.

THE AMERICAS

13. **BOLIVIA: Argentina presses Bolivia for minerals**--US Ambassador Bowers reports from Santiago that Bolivia's Ambassador to Chile states that (a) Bolivia will receive no Argentine food supplies during 1947 unless it sells Argentina tin, lead, and antimony; (b) Argentina is offering to buy these minerals at prices above those paid by other countries and to install foundries to process them, and (c) shipments of necessities from the US might reduce Argentine pressure on Bolivia. Ambassador Bowers' informant predicts that unless the US makes a new contract for Bolivian tin, meeting Argentina's price offer, a "collapse of mining production in Bolivia is inevitable."
14. **PERU: Argentina offers Peru food and credit**--Haya de la Torre, leader of Peru's powerful APRA Party, has told Embassy Lima that (a) Argentina has offered Peru large credits and food in return for a trade agreement similar to the recent Argentine-Chilean agreement; (b) he believes Peron's plans for a southern economic bloc could and should be countered by a Peruvian-sponsored plan for increased trade among the countries of South America. In the Embassy's opinion, Haya is attempting to force the US to aid Peru financially without a prior settlement with Peru's US creditors. The Embassy advises against "any loans to Peru until the debt is settled."

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