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EUROPE

1. ITALY: Plan for rearmament production--US Ambassador Dunn in Rome reports he recently took occasion to point out to Foreign Minister Sforza that the Italian rearmament program appears to be lagging behind that of other countries, emphasizing particularly that Italy has not yet come forward with a comprehensive production program which would make possible a discussion of US aid. Following this conversation Dunn was informed that the Italian Government is now preparing a specific production plan. Dunn comments, however, that an important obstacle to progress in this respect is the political situation within the government, particularly the increasingly acute conflict over financial and economic policy. Dunn concludes that the problem is a delicate one and that great care must be exercised if the US is to achieve its rearmament objectives without bringing on an Italian political crisis seriously damaging to US interests.



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2. FRANCE: Proposed military budget--In a discussion with US Ambassador Bruce in Paris regarding the proposed cut in the French military budget from 850 to 720 billion francs, both Premier Plevin and Finance Minister Petsche stated firmly that the French Government is fully committed to place 10 divisions in active status in Europe in 1951 and to carry out the military program in Indochina. Petsche maintained that this was certainly more than France's share in the NAT program for 1951 and for France to attempt to do more would lead to serious difficulties.



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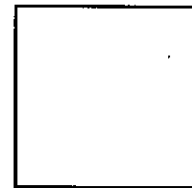
3. USSR: Soviet propaganda exploits Western disunity-- US Embassy Moscow points out that the first extended treatment by Soviet propaganda of the theme of NATO disunity appeared in the 27 November issue of "Pravda" and gave indications of having been written by an authoritative individual within the Soviet Communist Party. The Embassy observes that from this article which was digested in "The New York Times" of 28 November it is clear both that the USSR is extremely well informed on the actual divergencies of view among the Western nations and that the Kremlin means to exploit to the fullest any Western failure to agree on fundamental questions.



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4. INDOCHINA: Chinese Communist intentions--According to US Embassy Paris, French High Commissioner Pignon in Saigon finds it ominous that the Chinese Communists have not followed up their radio broadcast accusing the French of border violations with a formal note of protest. French Government officials fear that the Chinese Communists may now recruit "volunteers" for fighting in Indochina as they have in Korea. In this connection, the Embassy's informant pointed to recent indications that the Chinese Communists may have decided to expel all French consular officials from south China; the informant speculated that this development may have some relation to Chinese Communist plans vis-a-vis Indochina.



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Meanwhile, Pignon has informed US Legation Saigon that he "hopes for the best but plans for the worst" regarding overt Chinese invasion of Indochina. Pignon's latest information leads him to believe that the Viet Minh know they cannot launch

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mass attacks against the French in North Vietnam unless the Chinese intervene. Pignon added that Chinese Communist forces in south China could not arrive at the Indo-chinese border in less than three weeks. If sufficient motor transport were available to permit sizeable Chinese forces to arrive within a week, however, Pignon stated that French plans would have to be completely altered.

US Consul General Hong Kong estimates that war preparations in south and east China are precautionary and sees no signs of offensive build-ups in these areas. Regarding Korea, however, the Consul General considers it quite likely that the Chinese Communists will increase their forces there sufficiently to prevent the UN from consolidating its control over the country, but will maintain the fiction of "volunteers" in an effort to avoid all-out war.

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