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Carpenter
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~~TOP SECRET~~

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SUMMARY

GENERAL

- 1. Peiping's Foreign Office reaffirms position on Japanese peace treaty (page 3).
- 2. French Foreign Office takes pessimistic view of Far Eastern situation (page 3).

FAR EAST

- 3. Communist threat to Indochina seen unabated (page 4).

3.3(h)(2)

NEAR EAST



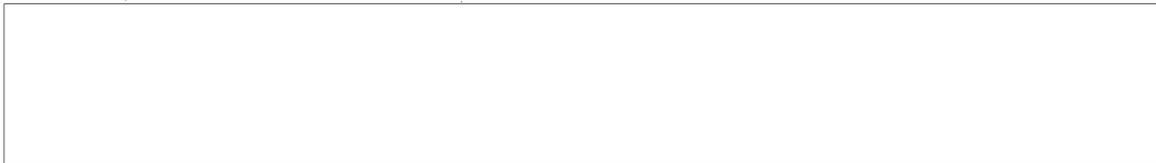
EASTERN EUROPE

- 7. Tito presses for US aid (page 7).

WESTERN EUROPE

- 8. French doubtful of ability to contain inflation and maintain rearmament program (page 8).

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3.5(c)

~~TOP SECRET~~



3.5(c)

~~TOP SECRET~~

GENERAL

1. Peiping's Foreign Office reaffirms position on Japanese peace treaty:

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The Netherlands Charge in Peiping informed his government on 16 August that he had been called to the Ministry of Foreign Affairs to receive a copy of Premier Chou En-lai's 15 August statement on the Japanese peace treaty. The ministry's spokesman emphasized to the charge the importance of the concluding paragraphs of Chou's statement.

Comment: The last three paragraphs of the Chou statement declare that, if Communist China does not participate in the "preparation, drafting and signing" of a Japanese peace treaty, Peiping will consider the treaty "illegal" and "null and void." These paragraphs also express agreement with the Soviet position that a peace treaty conference should include all the states whose armed forces were in conflict with Japan in World War II, and affirm that Peiping is prepared to "exchange views" on a Japanese peace treaty with all such states.

Chou's speech suggests the possibility that, after the San Francisco conference, Moscow and Peiping will call a separate conference of the Soviet bloc and those nations that do not sign the US-UK draft treaty at San Francisco.

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2. French Foreign Office takes pessimistic view of Far Eastern situation:

In recent talks with French Foreign Office officials, US Embassy representatives have discovered "little optimism" with regard to the Kaesong armistice negotiations and much "desperate casting around" for a solution in Indochina. While the French attitude toward recognition of the Chinese Communist regime and its admission into the UN has not changed, considerable political pressure is building up for negotiations looking to a settlement of all Far Eastern questions in the event of a successful outcome of the Kaesong talks. Foreign Office officials, however, view these talks as part of the Soviet peace offensive and expect them to be broken off once the USSR has achieved maximum propaganda advantage.

- 3 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

The Foreign Office is particularly gloomy about the situation in Indochina, "where France continues to pour out men and money" with no end in sight. There is some feeling that the US position on Formosa blocks the possibility of a general political settlement in the Far East and that the French Government has nothing to offer the Chinese Communists in return for a guarantee against intervention in Indochina.

Comment: The weakness of the new French Government, resentment against the inflexibility of US policies aimed at containing the USSR, and fear of worsening internal economic conditions resulting from increasing inflationary pressures form a background to the pessimism of the Foreign Office.

3.3(h)(2)

FAR EAST

3. Communist threat to Indochina seen unabated:

Despite the present lull in hostilities in Indochina, the US Legation in Saigon warns that a prudent estimate of the situation would indicate that the Viet Minh, with the close cooperation of Communist China, is preparing for a major effort. In support of this view, the legation cites several current reports indicating increased Chinese Communist interest in Viet Minh fortunes, as well as the Peiping propaganda charge that 35,000 Chinese Nationalist internees in Indochina have been equipped and trained and are now poised on the border for an invasion of South China.

Comment: The rainy season in the Tonkin delta area, which will continue through September, accounts for the present lull in hostilities. Despite heavy losses suffered by the Viet Minh earlier this year and a few ambiguous Communist references to a negotiated peace in Indochina, available evidence supports the US Legation's estimate.

- 4 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

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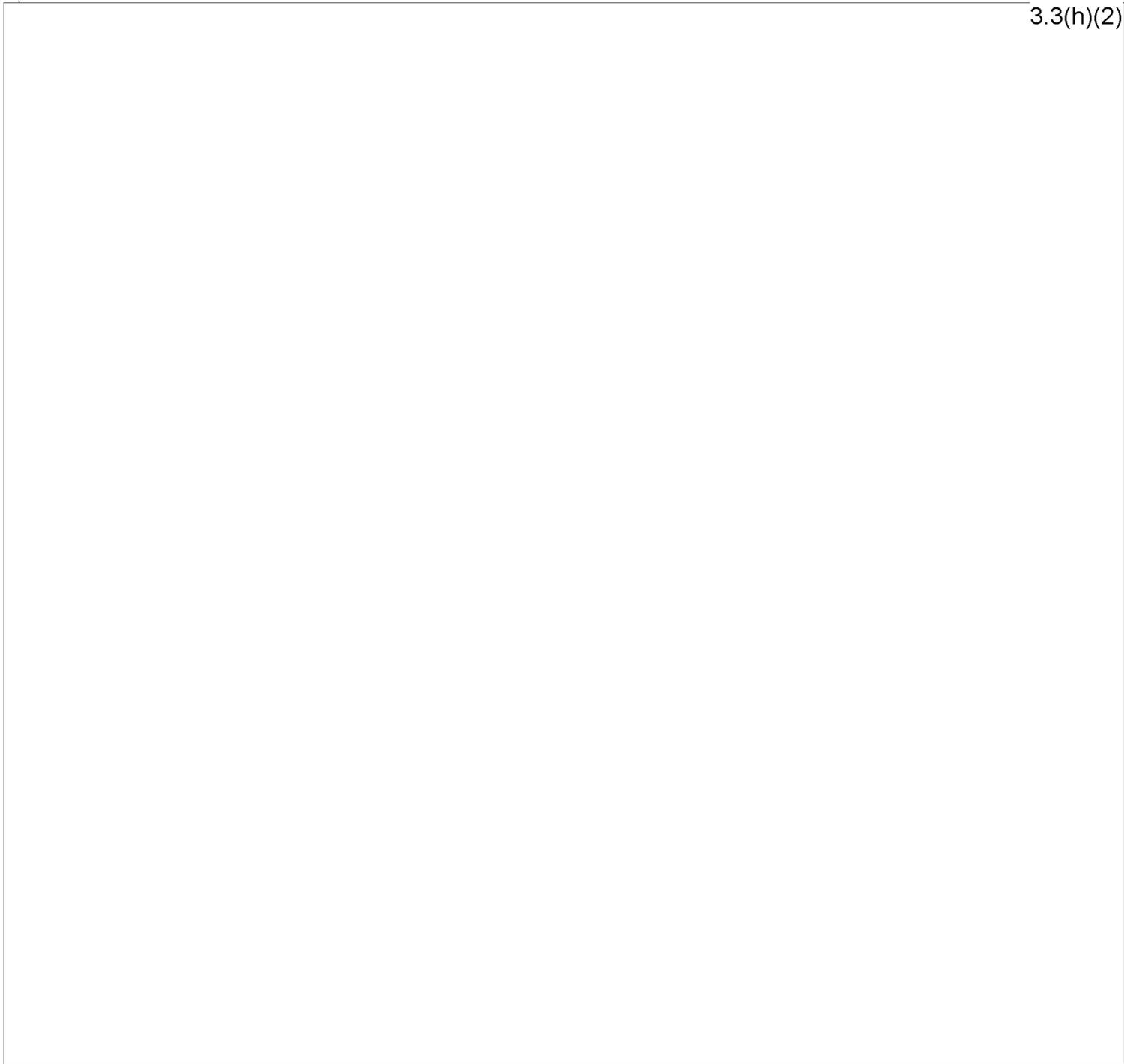
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EASTERN EUROPE**7. Tito presses for US aid:**

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In an interview with US Senator Blair Moody at Brioni on 12 August, Marshal Tito emphasized the following points to substantiate his request for immediate US aid:

a) Although the USSR is not yet ready for war, it will not wait until the West reaches its peak of preparedness in 1954. The critical period will be 1952. The US should build up armament production centers near danger points rather than in the US and other areas "far removed from the likely scene of conflict."

b) A primary Soviet aim is to bring about the internal collapse of the Yugoslav regime. A secondary aim is to maintain tension between Yugoslavia and the Satellites. Satellite-provoked border incidents to accomplish these objectives have increased greatly during the past two months. These incidents could "get out of control" at any time and develop

- 7 -

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~

3.5(c)

into war. Prompt US military aid to Yugoslavia would reduce this possibility.

c) Titoism will increase in the Satellites in proportion to the deterioration in the Satellite standard of living as compared with that of Yugoslavia. Any weakening of Yugoslavia's standard of living will adversely affect the progress of Titoism in the Satellites.

Comment: The interview was apparently designed to stress the points that would be effective in securing speedy aid for Yugoslavia without committing Tito to any definite action.

WESTERN EUROPE

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8. French doubtful of ability to contain inflation and maintain rearmament program:

Because of their rapidly deteriorating dollar reserve, the French have become concerned about proceeding with the expanded import policy on which former Finance Minister Petsche based his anti-inflation program. Although Cabinet views differ on the subject, the government will probably use available reserves to continue an expanded level of imports and to maintain the present level of military effort, until new US-French talks can be held to reassess US aid for French rearmament.

Comment: The French dollar trade balance, although better than a year ago, is still quite unfavorable to France. Moreover, the French position will probably be aggravated in 1952 due to an expected drop in current abnormally high steel and sugar exports. The French expectation of financing an expanded import program was based on a misunderstanding of the extent of US commitments undertaken in the October 1950 talks on US aid. Both ECA and Paris Embassy officials have frequently stressed the urgency of additional support if France is to carry out its military commitments.

- 8 -

~~TOP SECRET~~

3.5(c)