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SECURITY INFORMATION

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GENERAL1. Chiang Kai-shek's views of current Sino-Soviet talks:

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Chiang Kai-shek has told an American Embassy official in Taipei that he believes the purpose of the present Sino-Soviet conference in Moscow is to plan a new Communist "peace offensive" in the Far East and the pooling of economic resources with a view to integrating the Chinese economy with the new Soviet five-year plan.

He believes that discussions of military strategy will be the least important aspect of the conference.

Comment: Any announced Sino-Soviet agreements are likely to be exploited in the Communist "peace offensive" in Asia which has been under way for several months and is to culminate in the Pacific "peace" conference in Peiping in September.

The talks are expected to provide both for increased Soviet economic and military aid to Communist China and further integration of the Soviet and Chinese economies.

2. New Sino-Soviet trade procedure brings difficulties:

Chinese import organizations refused to pay about one-fifth of the Soviet bills presented during June 1952, 

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Among the reasons given for nonpayment were that the contract was unknown or that the goods differed from the contract in price and specifications.

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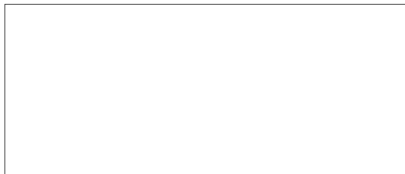
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The Soviet export organizations retaliated with threats to stop shipments and, in one case, to appeal to the Soviet State Arbitration Commission for "compulsory penalty."

Comment: On 1 May 1952 the USSR and China adopted a new trade accounting procedure which replaced the international letters of credit formerly used. This "inkasso" system was already in use between the USSR and its European Satellites and in internal Soviet trade. Apparently most Chinese refusals to pay in June were caused by unfamiliarity with the new system.

FAR EAST

3. French official presses for tripartite declaration on Southeast Asia:



A high French official in Saigon has again approached Ambassador Heath to urge a reply to a French suggestion for an Anglo-American-French declaration of a community of aims in Southeast Asia. He pointed out the likelihood of a new Communist peace offensive after the present Moscow meeting or the September Peace Conference in Peiping and emphasized the need for immediate counterpropaganda.

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Heath approves the French proposal primarily as a vehicle for warning Peiping against aggression in Southeast Asia. He warns, however, that American adherence to any joint pronouncement would commit the United States far more deeply to French and British policies in Southeast Asia than heretofore.

Comment: The French have proposed a tripartite declaration expressing concern for the independence of Southeast Asian countries and a desire to aid them economically. They wish to include only a vague commitment of assistance in case of an attack.

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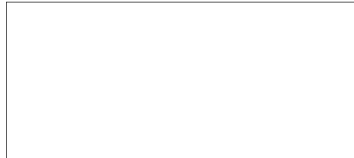
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4. French display lack of aggressiveness in Indochina:

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Ambassador Heath, apparently referring to a report that Paris is reluctant to endorse General Salan's plans for airborne operations in Indochina this fall, has expressed astonishment at the French lack of a sense of urgency, or even of interest, in developing an offensive in Indochina.

He believes that if "vague future claims" on available aircraft are allowed to take precedence over combat needs in Indochina, it will be difficult to justify to the American public the scale and priority of American material aid to Indochina.

Comment: General Salan's plans for carrying the offensive to the Viet Minh by dropping airborne battalions behind enemy lines necessitate the loan, from France or the United States, of a large number of transport aircraft.

Although such an operation would be an important step away from what has seemed a defensive psychology on the part of the French, the project's practicality is open to question, in view of the Viet Minh's usual avoidance of open combat and its ability at dispersal.

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5. Letourneau opposes Philippine attempts to convene a Pacific defense conference:

reports that the Philippines is attempting to convoke a meeting of Pacific countries which have alliances with the United States. He fears that these reports will create the impression in Vietnam that the American defense line in the Far East extends only to Japan, Formosa, and the Philippines. Such an impression, he emphasizes, would provide the Viet Minh with a significant propaganda advantage.

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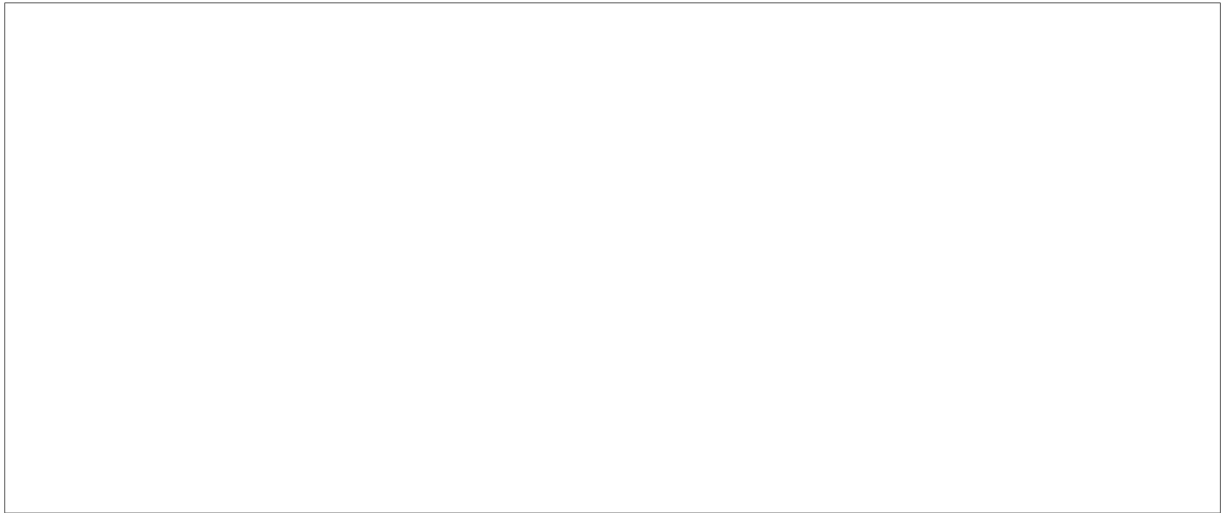
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Comment: President Quirino has recently suggested a conference of Pacific nations allied with the United States in order to undercut charges by opposition leaders that the recent ANZUS meeting in Honolulu proved that the United States intends to defend only white countries in the Pacific.

SOUTH ASIA

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6. USSR protests foreign exploitation of Afghan oil:



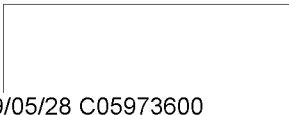
Comment: For some time the Soviet Union has attempted to persuade Afghanistan to abandon its efforts to enlist foreign assistance in exploiting its oil resources. Last spring, however, the Soviet Ambassador assured an Afghan official that the USSR would have no objections to Afghanistan's development of these resources.

It has long been a Soviet aim to prevent the growth of Western influence in northern Afghanistan. The current indecision of the Afghan Government might indefinitely postpone oil negotiations.

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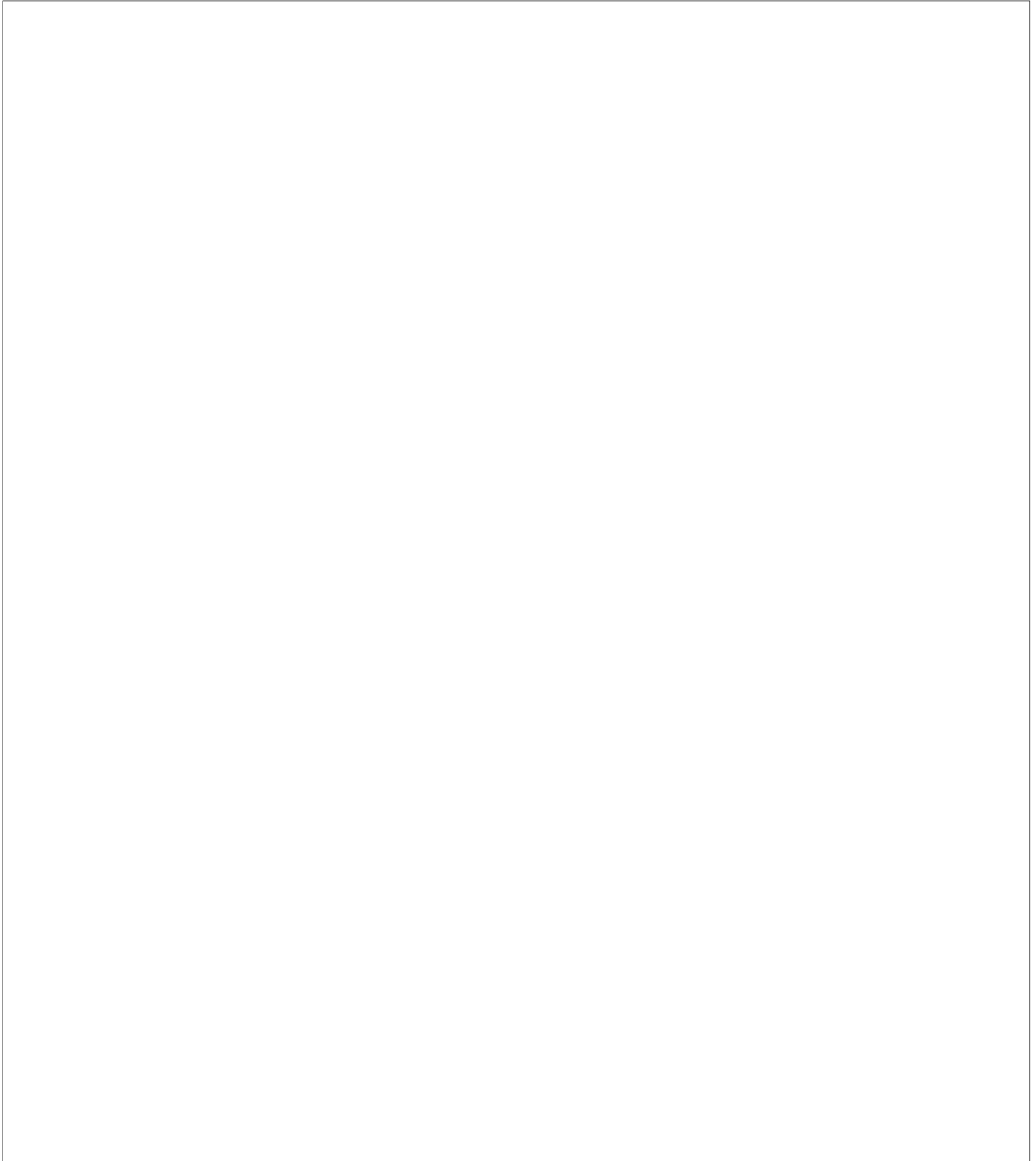


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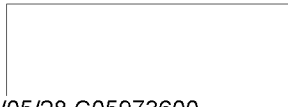
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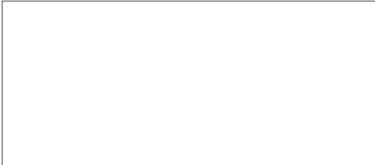


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9. Libya may demand double compensation from US for air base:



The Libyan Government will soon request the United States for an annual payment of \$2,000,000 for use of the Wheelus Air Base instead of the \$1,000,000 previously agreed

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upon. American Minister Villard believes that the Libyan demand will carry with it the suggestion that ratification of the base agreement will be impossible without the increased compensation.

Villard believes that Prime Minister Muntasser has delayed submitting the base agreement to Parliament because of Libyan indecision on how much additional compensation to demand. He suspects that the new demands may be due to British influence rather than to Libyan initiative.

Comment: British influence has long been strong in Libya; there is no evidence, however, that any new Libyan demand would be due to British pressure. Libyan officials have previously indicated their desire to capitalize on the country's strategic position.

WESTERN EUROPE

10. Comment on Soviet note on Germany:

The Soviet note of 24 August reveals no basic change in the Kremlin's policy toward Germany and caters to German nationalism in condemning the "special rights" given to the Western powers by the Bonn agreement. For the first time in the series of notes, the proposal is made that parliamentary groups from both East and West Germany investigate electoral conditions.

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The delivery of the note shortly before the opening of the Bundestag on 4 September suggests that it is timed to delay ratification of the contractual agreement. This aim will be served also by the proposal to hold the four-power meeting no later than October.

The USSR can make no substantial concessions to advance its aims in all of Germany without threatening its control of East Germany and its program of sovietization. It realizes that its proposals will be unacceptable to the West, but hopes to place the onus for refusal to confer upon the West.

The lure of unity may cause some West Germans to press for talks now, but Chancellor Adenauer will probably be able to override any political pressure on this subject.

11. Italian demands for Western pressure on Tito increase:



The Italian Political Adviser in Trieste believes that Premier de Gasperi's Christian Democratic Party will be "in a most difficult situation" if it does not obtain an acceptable solution of the Trieste issue before the 1953 national elections. He said that such a solution can be reached only if the Western powers put strong pressure on Tito by threatening to withhold military and economic aid.

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The Italian official stated that for a solution to be acceptable to the Italian public, Italy must get the entire coast of Zone B, but that four inland villages in that zone might be conceded to Yugoslavia. He added that his country's claims to Dalmatia and that part of Istria outside of Zone B involved "long-term problems" which could be settled only after the defeat of the USSR and Yugoslavia in a third world war.

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Comment: Although the Italian Government recently indicated to the United States its willingness to reach a compromise solution of the Trieste issue, its declining popularity at home and its need for regaining public support is leading it into a course which may seriously prejudice British-American attempts to obtain a solution of the issue.

12. Dutch reassured on NATO defense plans:

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The Dutch Acting Defense Minister has stated that General Ridgway's letter of 14 August to the Netherlands Chief of Staff has convinced the Dutch of the determination of Generals Ridgway and Juin to defend the Netherlands in case of hostilities.

The Dutch Minister admitted that speculation among Dutch officials and in the press that the allies would withdraw from the Netherlands under pressure, had had an "unhelpful" effect on both the Netherlands and NATO.

Comment: The Dutch, who have suspected that the French defense concept was based on withdrawal from large parts of the Low Countries, had begun to believe that NATO air-base concentrations did not protect the Netherlands adequately. The Dutch press had been speculating on discord between France and other NATO countries over defense of the Elbe as against the Rhine.

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