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GENERAL**1. Comment on Soviet Foreign Ministry statement on Formosa:**

[REDACTED] The harsh tone of the Soviet communiqué of 15 December on Formosa and its linking of American "aggressive aims" in Asia with the rearmament of West Germany indicate that the purpose of the communiqué is to generate fear in the Western camp that such actions are leading directly to war. There is an increasing emphasis on this point in Soviet and Chinese Communist propaganda and in official statements as the French debate on ratification of the Paris agreements draws closer.

The statement is another step in Moscow's documentation of Communist China's claims to Formosa. The Soviet Union and China are building up a case against the American position on Formosa on the grounds that it violates Chinese territorial integrity and sovereignty, and that it constitutes unwarranted interference in China's internal affairs.

Like Khrushchev's speech in Peiping on 30 September and the joint Sino-Soviet communiqué of 11 October, this statement contains no pledge of Soviet military commitment to a Chinese campaign against Formosa. All of these pronouncements have made a distinction between the Chinese claims against Formosa, which are endorsed by the "Soviet government," and the stated Chinese intention to "liberate" the island, with which the "Soviet people" sympathize. [REDACTED]

2. Comment on Soviet note threatening annulment of pact with France:

[REDACTED] The statement in the Soviet note to France on 16 December that "ratification of the Paris agreements will annul the French-Soviet treaty" is far more specific and unequivocal than Soviet hints to this effect in the last few days. This indicates that Moscow still believes there is a substantial possibility of preventing ratification by the French assembly. The Kremlin can be expected to take other measures toward that end--

probably more by use of threats than by offers of concessions-- before or during the assembly debates which begin 20 December.

Neutralist elements in the French National Assembly will probably use the Soviet demarche in a last minute effort to delay the ratification debate due to open on 20 December. In addition, Gaullist deputies can be expected to give more attention to General de Gaulle's reiterated warnings that Western persistence in arming Germany without negotiations with the East might lead to "impulsive" Soviet countermoves imperiling peace.

Nevertheless, the chances for ratification on 23 December are still considered good despite the threat to implementation suggested by the current French-German difficulties over the Saar.

FAR EAST

3. Delay in Swedish-Swiss response on problem of Korean Neutral Commission indicated:

Swedish foreign minister Uden has declared that the Swedish-Swiss reply to the allied request for disposing of the Neutral Nations Supervisory Commission in South Korea could not be expected until January, according to the American embassy in Stockholm.

Comment: The delay in the Swedish-Swiss response and the lack of any action to remove the neutral inspection teams from South Korea raise the possibility of new South Korean threats and steps against Polish and Czech representatives. Following General Hull's warning that he would protect the teams, South Korea withdrew its threat to act against the Communists if the teams did not leave the country by 29 November.

Action at this time by "unofficial" armed patriotic groups would provide Rhee with a dramatic issue to divert attention from any steps he contemplates against his recently emboldened political opposition.

4. South Korean government fears popular opposition to peaceful unification weakening:

Comment:

Informed Koreans still oppose unification on Communist terms, but Pyongyang's recent proposals for travel and postal exchanges appear to have had a great appeal among many South Koreans who prefer at least limited contacts with the north to the bleak prospect of living indefinitely in a divided country.

5. Chinese Communist junks may be engaged in amphibious training:

Approximately 900 junks operating in areas near Macao on the South China coast have been commandeered by Communist authorities since 1 September and refitted and painted black, according to reports from American military liaison officers at Hong Kong.

Half of these junks were reportedly observed in mid-October as they sailed

past Macao to Shangchuan Island, off the Kwangtung coast, about 40 miles southwest of Macao. The other half left the Macao area, apparently en route to Shangchuan, in early November. The junks were laden with supplies and manned by crews wearing army uniforms.

Comment: The Chinese Communists could use these junks, which are capable of transporting a total of about 45,000 troops, to train crews for future amphibious operations. Amphibious training could be held at Shangchuan with little risk of detection [redacted]. The weather there is suitable for amphibious training in winter.

SOUTHEAST ASIA

6. Recent campaign illustrates Vietnamese army's negligible effectiveness:

[redacted] The Vietnamese army's recent indecisive campaign against a dissident faction of the Hoa Hao in South Vietnam is a further illustration of inability to plan, execute and support even a minor operation against negligible opposition, according to the American army attaché in Saigon. One notable feature of the five-day operation, which was discontinued on 13 December, was the complete lack of any artillery support.

The attaché comments that the combat effectiveness of Vietnamese army units, when compared with the probable strength of future Viet Minh opposition, approaches zero.

Comment: The rebel Hoa Hao leader, Ba Cut, with a force estimated at 2,500 men, has been harassing the countryside west of Saigon for several months. The Vietnamese army force involved against him totaled up to ten battalions, or roughly 7,000 men.

NEAR EAST - AFRICA

7. Iranian officers do not expect to fight in the event of Soviet aggression:

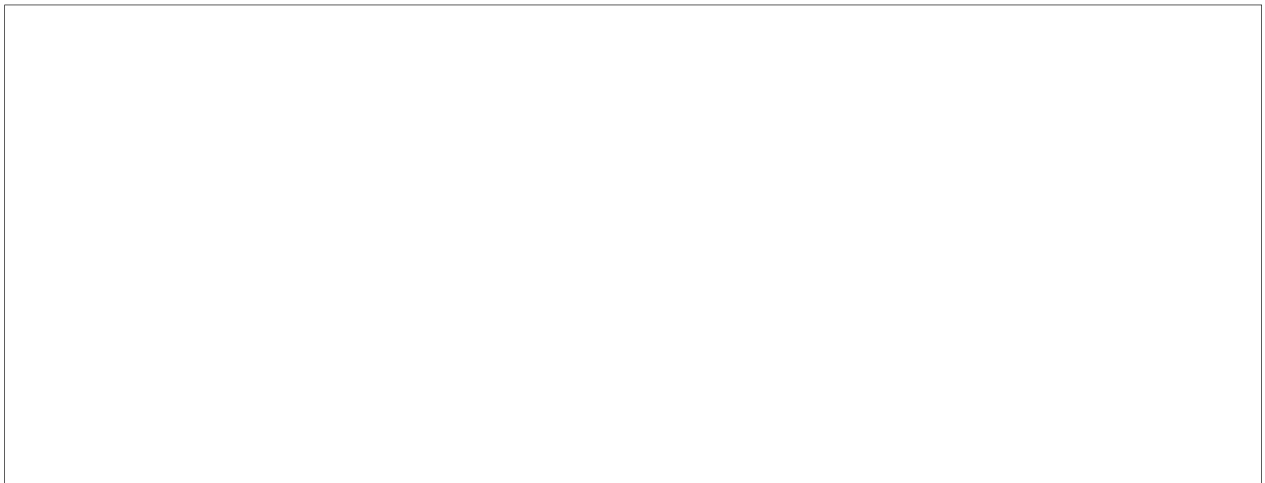


if war came with the USSR, Iran would not fight the Soviet army but would 'just turn over to the Reds all the arms, equipment, ammunition and other things the United States has given us as MDAP and other aid. In return the Russians will not only show mercy on Iran but will also pay us some baksheesh.'

The American army attaché comments that many Iranian officers, including those on the General Staff, believe that in the event of an attack by the USSR, huge American and British forces will immediately appear in Iran and solve the problem for them.

Comment: The Iranian armed forces are incapable of effective defense against a Soviet attack, and realization of this has produced a defeatist attitude among some Iranian officers. Neither the army's capabilities nor the officers' morale is likely to be improved significantly in the near future.

8. Greek cabinet member expects severe political crisis:



[Redacted]

Comment: [Redacted]

[Redacted] young activist group within the Greek Rally which seeks to replace the "old guard" and direct a more aggressive political and economic program which would still be along pro-Western lines.

The storm of public indignation precipitated by news of the UN's adoption, with the Greek delegate's concurrence, of a resolution tabling the Greek motion concerning Cyprus seriously threatens the Papagos regime and may hasten its collapse.

9. Moroccan nationalists decide to adopt anti-American attitude:

[Redacted]

Many Moroccan nationalist leaders have decided to turn definitely against the United States because of its recent pro-French stand in the United Nations,

[Redacted] These leaders may now accept Communist support as preferable to continued colonialism. They are considering a boycott against all American products, and some are counseling attacks against Americans.

The American diplomatic agent in Tangier believes that this is a fairly accurate portrayal of nationalist feelings. He fears for the safety of American bases in Morocco unless the French government takes strong measures to cope with the Moroccan situation.

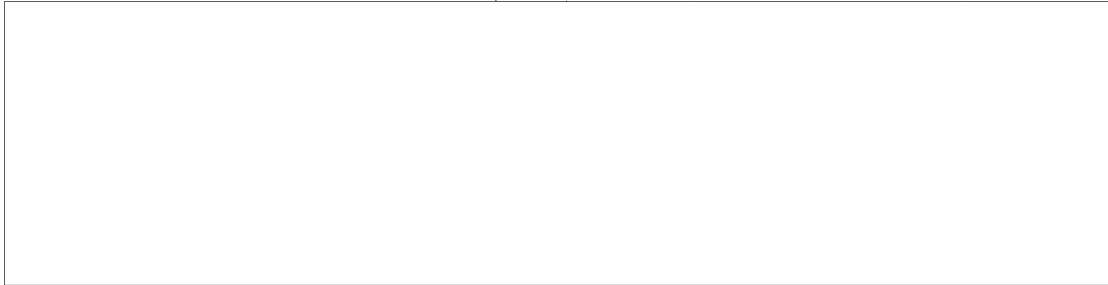
Comment: [Redacted]

[Redacted]

American prestige among the native Moroccans has declined in recent months, and Moroccan leaders may reverse their instructions that no attacks be made on Americans.

EASTERN EUROPE

10. Yugoslavs reported opening diplomatic relations with Peiping:



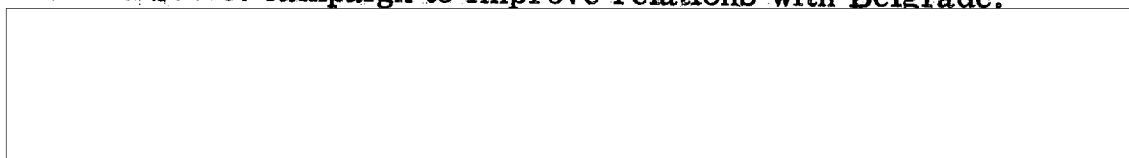
Comment: Since the announcement of Marshal Tito's current trip to Southeast Asia, there have been varying reports that Yugoslav-Chinese Communist negotiations have been arranged.



Yugoslavia has long advocated Western recognition of the Peiping regime to ensure against its domination by the Soviet Union. While Belgrade has said the initiative was up to Peiping, since the latter had never accepted the original Yugoslav offer in 1949 to open relations, Tito may take any opportunity offered on this trip to conduct negotiations.



Peiping is almost certainly willing to establish diplomatic relations with Yugoslavia as a part of the current Soviet campaign to improve relations with Belgrade.



WESTERN EUROPE

11. Rome embassy estimates annual trade profits of Italian Communists of \$7,000,000:



Italian press reports that the Italian Communist Party (PCI) profits \$50,000,000 a year from Orbit trade

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with Italy are greatly exaggerated, according to the American embassy in Rome. The embassy estimates these profits at about \$2,000,000 from legal trading activities, plus not more than \$5,000,000 from illegal trade.

Comment: The Italian under secretary of foreign commerce last July estimated the PCI's annual profit from legal trade at \$2,300,000, and denied that the PCI was able to carry on illicit trade. He stated that the income from trade was a small part of the party's total income of between \$61,000,000 and \$76,000,000.

One of the aims of Scelba's anti-Communist campaign, as reaffirmed on 4 December, is to reduce drastically PCI trade profits. Although one government-sponsored company has been set up to control trade with Communist China, little real progress has been made. The PCI is so deeply entrenched in this trade through hidden transactions, covert firms, and tacit support from non-Communist companies paying blackmail that only a determined government effort could have any real results.

LATIN AMERICA

12. Uruguay prepared to assist in defense of Costa Rican sovereignty:

[REDACTED]

[REDACTED]

[REDACTED] in case of any acts against the sovereignty of Costa Rica," Uruguay "is ready to assume all the responsibility which is hers within the scope of the legal instruments uniting the American republics."

[REDACTED] Uruguay is also prepared to seek Latin American support for a declaration to this effect in the Council of Organization of American States (OAS).

Comment: There are numerous reports that an attempt to overthrow the Figueres regime in Costa Rica is imminent.

Chile has also offered "resolute" support for Costa Rica in the OAS, [REDACTED]

[REDACTED] Effective OAS action to protect the Costa Rican government might be impossible, since the anti-Figuera governments would probably either try to justify their involvement in any attack as a defensive action or claim that any move against Figueres was an internal revolt.