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DIA and DOS review(s) completed.

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GENERAL

1. Possible Yugoslav demands for Trieste settlement:

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[redacted] that Yugoslavia believes it should receive a corridor to the sea at Servola-Zaule in return for an Italian corridor along the coast through the "Yugoslav territory of Duino-Aurisina" (see map, p. 4). [redacted] Yugoslavia could not be satisfied with free port facilities in the city of Trieste, since Italy might revoke such an arrangement at some future date.

In order to facilitate the movement of Italians through any Yugoslav corridor and to encourage the commerce of those coastal cities which may come under Italian control, Yugoslavia would be willing to permit Italian nationals carrying only identity cards to travel into nearby Yugoslav territory.

Comment: Members of the Yugoslav delegation in Trieste have been used in the past to present official Belgrade thinking on the Trieste question. This proposal may be the position Yugoslavia will uphold in any conference, in contrast to its public claims to all of Zone A except the city of Trieste.

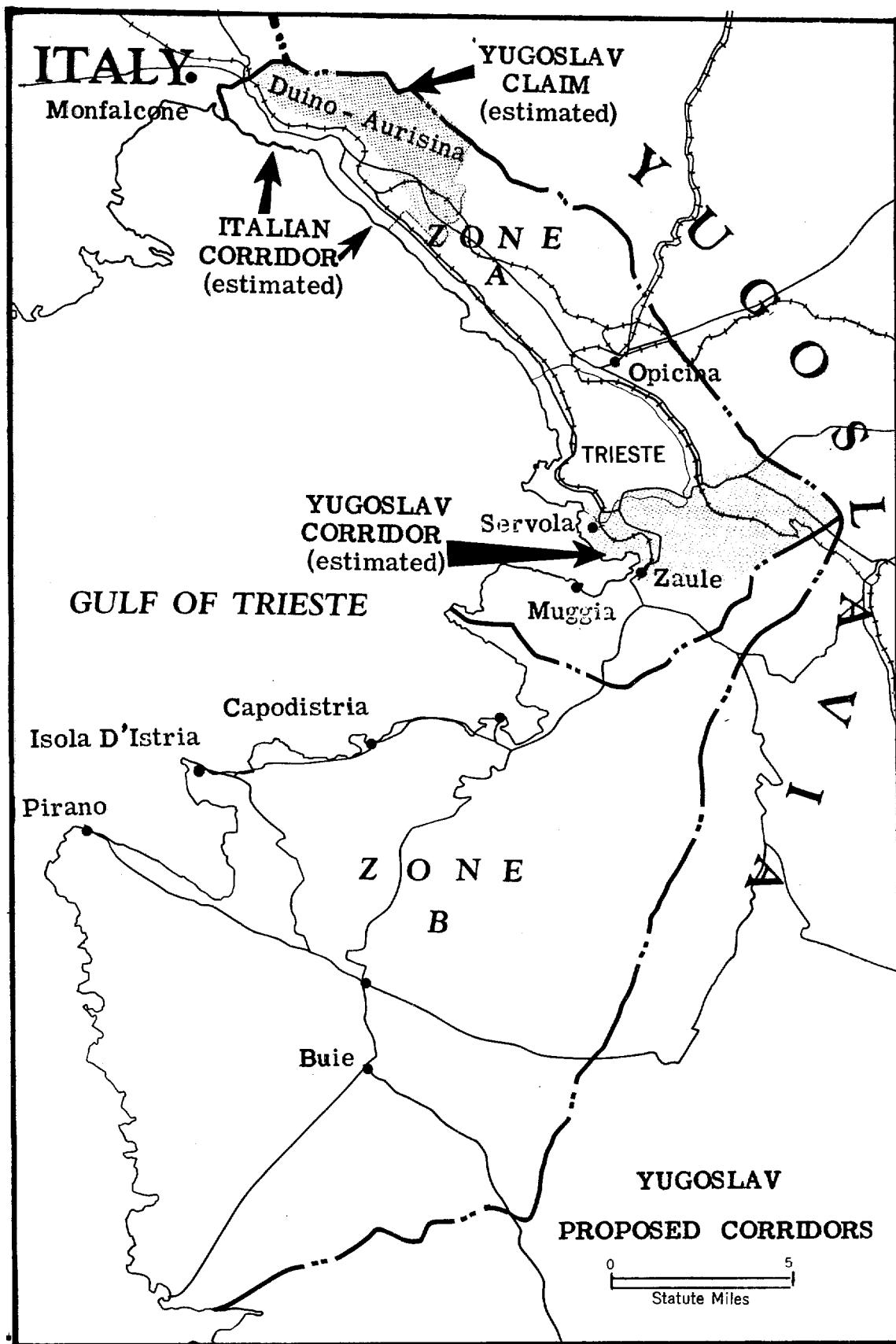
Italy has consistently opposed giving up the economically valuable port and industrial facilities in the Servola-Zaule area, which has been mentioned several times by Yugoslavia as a desirable corridor site. Italy has demanded port towns on the north coast of Zone B in return for cession of a fringe of Zone A bordering Yugoslavia and free port facilities in Trieste.

The reference to coastal cities coming under Italian control may be a hint that Yugoslavia might be willing to give up certain towns in Zone B.

2. Britain recommends drastic change in East-West trade controls:

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[redacted] A British statement calling for replacement of International List I and II by a very short embargo list from which virtually no exceptions



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will be authorized indicates the United Kingdom's desire for a fundamental change in strategic trade controls, according to the United States delegation attending bilateral talks in London on East-West trade.

Britain argues that such a change would facilitate maintenance of a control system for an extended cold war, and would satisfy the need for expanded export markets arising from the growth of a buyers' market, the competition of German and Japanese trade, and further reductions in American aid.

There is a basic difference between the American and British views on decontrolling items not of a "near military" nature, and the British have agreed that a COCOM meeting on this subject should not be held until the divergencies are resolved.

Comment: Britain appears to be recommending an embargo list similar to the one passed by the UN on 18 May 1951. This prohibited shipments of arms, ammunition, and implements of war to Communist China and North Korea.

FAR EAST

3. Comment on Chinese Communist-North Korean pact:

The ten-year economic and cultural pact between Communist China and North Korea signed on 23 November is in line with previous Sino-Soviet professions of military and economic support for North Korea and ensures the continuation of a major Chinese role in North Korea.

The Soviet-North Korean negotiations of September 1953 resulted in a Soviet grant of about \$250,000,000 for Korean reconstruction and the "deferred payment" of previous Soviet credits. Pyongyang's newest pact calls for Peiping to provide reconstruction materials worth \$350,000,000 over a four-year period and for cancellation of all Korean war debts to China. Peiping's propaganda has indicated an intention to guarantee North Korea's military security by retaining some part of its forces in Korea indefinitely.

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This pact runs counter to the apparent trend in North Korean internal affairs in recent months, which had suggested a possible return to the prewar status with the USSR indisputedly dominant. Communist China's own military and economic dependence on Moscow makes it unlikely, however, that Peiping is challenging Soviet leadership.

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SOUTHEAST ASIA

5. French paratroop drop connected with defense of Lai Chau:

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General Navarre told Ambassador Heath on 20 November that the three-battalion paratroop drop on Dien Bien Phu in northwest Tonkin is part of a plan to defend Lai Chau, a French outpost 50 miles to the north which is important for the expansion of guerrilla operations. Navarre believes that defense of Lai Chau itself would require 12 battalions, but

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that he can thwart an expected Viet Minh attempt to take it with the help of friendly guerrillas and by holding Dien Bien Phu.

According to the American army attache in Saigon, the French dropped two more battalions on 21 November. The objectives of the operation, according to French briefing officers, were to destroy large enemy rice stocks reportedly in the area and to harass Viet Minh units preparing for offensive operations.

Comment: Prior to 20 November Lai Chau was defended by three battalions plus 19 companies of Thai auxiliaries. It is not clear how long the French intend to remain in Dien Bien Phu. Temporary retention of this communications point might well disrupt reported Viet Minh preparations for an offensive against pro-French guerrillas and against Lai Chau. Indefinite retention, however, would probably require additional reinforcements and would constitute a departure from the general policy of withdrawal from isolated outposts.

NEAR EAST - AFRICA

6. Nasr criticizes lack of US assistance to Egypt:

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Ambassador Caffery comments that Colonel Nasr's criticism of American aid as empty promises in his speech of 20 November reflects the latter's "brooding" on the failure of the United States to grant the Egyptian military regime any positive support.

Nasr told Caffery that his regime had made important concessions in its negotiations with Britain on the Suez base under pressure from the United States in the expectation of receiving military and economic assistance, which has not materialized. Were it not for the United States, Nasr claimed, Egypt would have broken off negotiations long ago.

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