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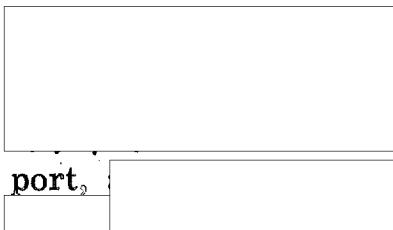
**EASTERN EUROPE**

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## GENERAL

1. USSR lowers freight rates to stimulate Sino-Satellite trade:

Hungarian busses can be shipped to Communist China 20 to 30 percent cheaper by rail across the USSR to Manchuria than by sea from Polish or Rumanian ports to a Chinese port.

Comment: There were earlier indications that the USSR had made major freight rate concessions last spring to encourage Sino-Satellite trade. It was not known, however, that in some cases freight rates had been lowered substantially below ocean rates. Overland transport facilities through the USSR are urgently needed to help move the rapidly expanding volume of Sino-Satellite trade, which was about a third higher in 1953 than in 1952.

2. USSR reportedly assures Egypt of veto on Suez resolution:

Soviet UN delegate Vyshinsky reportedly has assured the Egyptian UN delegation that the USSR would veto any Suez resolution which "failed to uphold Egypt's dignity."

Comment: A Soviet veto of the proposed resolution concerning Egyptian shipping restrictions would be consistent with Moscow's contention that Suez should come under Egyptian sovereignty, and would be the second "pro-Arab" veto this year.

In 1951, the USSR abstained on the Security Council resolution calling on Egypt to terminate restrictions on shipping.

## FAR EAST

3. Japanese acceptance of Magsaysay hindered by Rhee-Chiang support:

Ambassador Allison believes that attempts by Presidents Rhee and Chiang to promote Magsaysay as the leader of the proposed

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Far Eastern anti-Communist conference may hinder the latter's being accepted by the Japanese as a potential leader in Asia. The ambassador notes that Magsaysay's prestige in Japan will be determined by his success in achieving a reparations settlement and a peace treaty and, in the long run, by the degree of influence he exercises in Southeast Asia.

Allison believes the Japanese would attend an Asian conference on economic and cultural matters, but Tokyo's enthusiasm and commitments would be tempered by the extent Rhee and Chiang appeared to be the organizers.

Comment: An economic conference probably would be attractive to the Yoshida government. The sensitive nature of the rearmament issue in Japan, however, would preclude Tokyo's participation in discussions of an anti-Communist Pacific pact at this time.

## SOUTHEAST ASIA

### 4. Navarre comments on Indochina military situation:

[Redacted]

General Navarre told Ambassador Heath on 8 February that militarily the dispersal of forces to defend Luang Prabang was "idiocy," but that if the city were abandoned the political consequences in Laos and Thailand would be disastrous. He said that if the enemy added another division to its attacking force, defense of the city would be very difficult but not impossible.

Navarre's main concern appeared to be the effect any losses he might incur would have in Paris. The visiting French air force chief of staff said that France could take its officer losses in Indochina for only one year more, to which Navarre replied that if that was the spirit in France, it had better pull out now.

Navarre said that he saw no reason why he could not achieve a decisive military victory in 1955.

Comment: French headquarters in Saigon believes that the Viet Minh 312th Division, with which no contact has been made for several days, may be on its way to join the 308th Division moving toward Luang Prabang.

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5. Huks reportedly considering Philippine government peace terms:

[Redacted] A high military adviser of President Magsaysay on 19 January discussed peace terms with a top Huk leader who claimed that the Huks were prepared to surrender all but 200 men. Those remaining at liberty would maintain a number of arms caches against possible government bad faith, [Redacted]

The Huk leader indicated that the Communist "directorate" might agree to the government's terms, which provided for gradual surrender with arms over a six-month period and amnesty for all Huks except those charged with specific crimes.

Comment: [Redacted]

[Redacted] On 21 January, however, the government resumed all-out military operations against the Huks, who still number about 4,000, following the expiration of a cease-fire during which unconditional surrender was demanded. A later report stated that on 26 January Huk leader Luis Taruc had asked for negotiations, and that Magsaysay believes the government should follow up this request.

## SOUTH ASIA

6. India allegedly decides to build up defenses:

[Redacted] The Indian cabinet has persuaded Prime Minister Nehru tentatively to earmark the equivalent of \$280,000,000 from sterling balances to build up India's defenses, [Redacted]

The cabinet allegedly believes \$1,120,000,000 should be earmarked ultimately for the build-up. Every effort will be made to obtain needed materiel within the sterling area, and there is no thought at present of purchases from either the USSR or the United States.

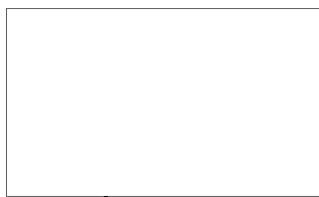
Comment: India's current annual outlay for defense amounts to approximately \$450,000,000. The allegedly contemplated expenditure of \$1,120,000,000 is far greater than the

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sterling balances which might be available for this purpose. Any large-scale arms build-up would be at the expense of the economic development program repeatedly promised by the country's leaders.

#### NEAR EAST - AFRICA

7. Rhodesian official in contact with Bechuanaland leaders on joining Federation:



Sir Roy Welensky, cabinet minister and one of the top leaders of the recently created Federation of Rhodesia and Nyasaland, told the American consul general in Salisbury that he has been corresponding for some time with native and European leaders in Bechuanaland regarding their desire to join the Federation.

Welensky stated that the correspondence was of a "most delicate nature" and that Prime Minister Sir Godfrey Huggins was unaware of his activities.

Comment: For 30 years the Union of South Africa has considered the British protectorates of Bechuanaland, Basutoland, and Swaziland as its own preserve, and has repeatedly sought to have them transferred to its control.

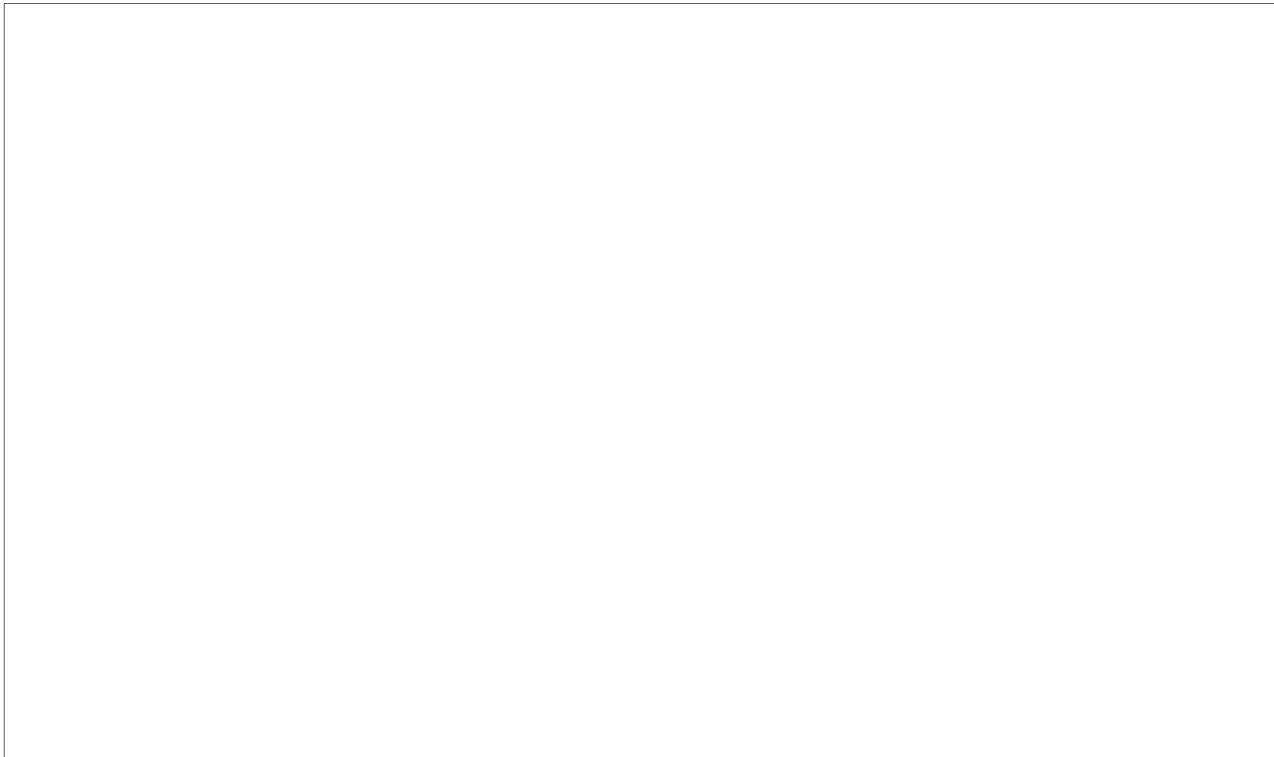
Any disclosure of Welensky's activities in Bechuanaland would probably provoke a demand by the Union for immediate cession of all the protectorates. Such a reaction to the disclosure would seriously strain the Union's relations with Britain and also be a severe blow to the Federation, established last September.

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