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FAR EAST

1. Indian Ambassador fears Peiping is considering extension of Korean war:

[redacted]

3.3(h)(2)

that Indian Ambassador Panikkar is deeply concerned over Premier Chou En-lai's statement of 8 March accusing the United States of extending bacteriological warfare to China and threatening to treat captured American airmen as war criminals.

Panikkar intends to warn Chou of the serious consequences of action against US pilots and to urge him to accept the American proposal for international investigation of Chou's charges. He fears that the Chinese Communists may be considering extension of the war, provided that they can "carry the Soviet Union with them."

[redacted]

the Chinese Communists, unable to admit their responsibility for the "disaster" of epidemics in Korea and China and their inability to cope with the situation, are attempting to find a scapegoat.

3.3(h)(2)

Comment: Chinese and Soviet propaganda in the past four weeks has devoted considerable attention to the possibility of expanded hostilities. This propaganda has not provided any reliable indication as to whether Moscow and Peiping have decided to enlarge the Korean war.

There is no evidence of an unusual epidemic among the Communist troops in Korea. Chinese Communist news dispatches have reported that seasonal illnesses are prevalent in North China.

2. Inflation in South Korea threatens government:

[redacted]

Ambassador Muccio believes that the 34 per cent increase in rice prices in South Korea from 1 to 8 March brings runaway inflation closer and may lead to the fall of the government.

3.3(h)(2)

Rice has risen 114 per cent in the past two months, and other food prices have also increased.

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The Ambassador observes that inflationary pressure, characterized by a rise of a thousand per cent in note issue since the beginning of the Korean war, is principally due to South Korea's inability to finance war costs. Hoarding, political uncertainty, poor publicity about the recent rice harvest and lack of transportation are contributing factors to the inordinate price advances.

Comment: The sharp rise in South Korean food prices during 1952 has resulted in the resignation of the Minister of Agriculture, and the press has warned that rice riots are probable if prices continue to skyrocket.

NEAR EAST - AFRICA

3. Saudi Arabian King fears British Middle East activities:

3.3(h)(2)

[Redacted] British activity in Arabian peninsula affairs has so alarmed King Ibn Saud of Saudi Arabia that he has asked the United States to intervene with London. According to Ibn Saud, the British have been evidencing their irritation over increasingly close Saudi Arabian-American relations by indulging in political maneuvers on the Iraqi border and in the Persian Gulf area. The King believes that Iraqi political intrigue in Kuwait and tribal difficulties along the Saudi Arabian border are British-instigated. He is also alarmed by what he believes to be British bad faith in the Persian Gulf border negotiations.

Comment: Ibn Saud has long suspected British intentions in Arabian peninsula affairs. The recent failure of negotiations with the British over the Persian Gulf boundaries will increase the King's apprehensions, making negotiations with him more difficult.

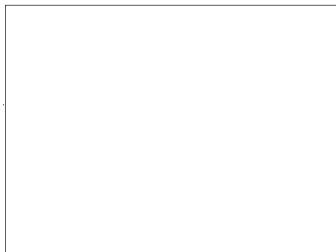
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4. Egyptian Government to press for settlement of dispute with Britain:



The new Egyptian Foreign Minister has indicated to the French Ambassador in Cairo that the Hilali government will not permit its domestic program to divert it from pressing for negotiations on the Anglo-Egyptian treaty dispute.

3.3(h)(2)

The Foreign Minister emphasized that Egypt would immediately start discussions with the British where former Prime Minister Ali Maher had left off. He added that the present government would like to achieve success before new elections are held.

Comment:

3.3(h)(2)

that, in spite of the need for internal reforms and the government's interest in pursuing them, success in dealing with domestic problems depends largely on a settlement of the Canal zone and Sudan issues.

5. Greek King considers dissolving Parliament:



As a result of Prime Minister Plastiras' illness, the King of Greece reportedly is considering dissolution of Parliament and the establishment of an interim government.

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Such a measure would require elections within 45 days.

Comment: Earlier press reports announced that the King had appointed Deputy Prime Minister Venizelos as Acting Prime Minister for the three months Plastiras was expected to be incapacitated.

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New elections would favor opposition leader Papagos, who has been pressing steadily for elections on the majority system. An outgoing government has the right, however, of designating the system to be used in the following election, and the current one will possibly choose the proportional system, favored by Venizelos. Such a system would reduce Papagos' chances of victory and might result in the re-emergence of various small, ineffectual political parties.

WESTERN EUROPE

6. Italy's attitude stiffens in trade negotiations with Czechoslovakia and the USSR:

3.3(h)(2)

[the Italian Ministries of Foreign Trade and Foreign Affairs have ordered "a stricter attitude" toward Czechoslovakia in trade negotiations. He indicated that the USSR is experiencing similar difficulties with Italy.]

The Czech representative attributes Italy's change of attitude mainly to the Lisbon conference and to Czechoslovakia's reply to the request for a revision of the Italian peace treaty.

Comment: The stronger stand taken by Italy concerning trade with most of the Orbit stems primarily from efforts to carry out the increasing restrictions of the Coordinating Committee on East-West Trade.

7. Soviet peace treaty proposal will not affect Adenauer's policies:

3.3(h)(2)

[Chancellor Adenauer has informed the Allied High Commissioners that the new Soviet note on a German peace treaty will have no effect on the Federal Republic's policies. Adenauer, who had already discussed the note with his cabinet expressed the hope that there would be no four-power conference on the issue.]

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The French High Commissioner said that the Soviet Union was employing "merely another delaying tactic" designed to tie up discussion just as it has done in the Austrian treaty and Korean truce negotiations.

Comment: A member of the Bonn cabinet has meanwhile suggested that the opposition Social Democrats might try to use the Soviet note in their own campaign to block rearmament and the contractual agreements. A leading Social Democrat has stated that his party might publicly urge Allied acceptance of the offer to negotiate, but it is apparently delaying any official stand until after consultations with ailing party chief Schumacher.

8. Eden urges careful consideration of Soviet note on German peace treaty:

3.3(h)(2)

Foreign Secretary Eden has told US Ambassador Gifford that he considers it of utmost importance to give careful consideration to the Soviet note calling for a four-power conference on a German peace treaty.

The American Embassy in London believes that Eden is anxious to retain opposition support for his policies in view of increasing British misgivings about rearming Germany. There is a widespread belief in Britain that the United States tends to reject Soviet proposals out of hand.

Meanwhile, the Foreign Office emphasizes that the Soviet note should not be allowed to delay negotiations on contractual relations and the European Defense Community.

Comment: Although Britain recognizes the need for rearming West Germany, it has consistently maintained that channels of negotiation with the USSR should be kept open. The foreign Ministers Deputies' talks at Paris last spring were prolonged partly because the British Government tried to convince the public that no possible approach to agreement with the USSR was being left unexplored.

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~~TOP SECRET~~9. Pleven fears French crisis may disrupt NATO:

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Defense Minister Pleven is very doubtful that France can avoid abandoning a large portion of its military production program.

Pleven agreed to replace the ailing Bidault as Defense Minister only because he felt that someone familiar with the situation might be able to prevent a "blowup affecting the whole NATO program." He insists that even with a four-billion dollar budget for calendar year 1952, France will need a total of one-billion dollars of American aid to meet 1952 defense commitments.

Comment: France's prospective four-billion dollar budget actually exceeds by 15 per cent NATO's estimate of the country's financial and economic capabilities.

Bidault had warned US officials in early February, however, that five billion dollars would have to be budgeted in order to meet NATO military requirements. The new French Government is making no attempt to secure a tax increase, which its predecessor considered indispensable for even the four-billion-dollar budget.

In order to meet French commitments to NATO, Pleven is in effect asking that 500 million dollars of additional US aid be promised and applied against this year's budget, whereas US officials have hitherto considered that any further aid should be applied against the 1953 budget.

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