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GENERAL

1. Status of Egyptian-Soviet barter agreement uncertain:

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Egypt has concluded a barter deal with the Soviet Union providing for an exchange of cotton valued at 3,000,000 pounds sterling in return for industrial materials, chiefly machinery. [redacted] trade negotiations were in progress with Poland, Czechoslovakia, and Communist China.

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The Egyptian Government, however, has denied that the barter deal with the Soviet Union has gone "beyond the exploratory stages." It has also stated that it is not negotiating a cotton agreement with Poland, Czechoslovakia, or China.

Comment: The Nagib regime is under increasing pressure to seek cotton markets because Britain, Egypt's major customer, is curtailing purchases. The Soviet Union and Egypt have had barter arrangements in the past.

Aside from possible propaganda opportunities, the USSR and Orbit nations may be particularly interested in cotton purchases, since the Soviet crop in 1952 was poor and the Orbit has had an inadequate supply for several years.

2. Egypt softens attitude toward West German-Israeli restitution agreement:

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[redacted] have stated that Egypt would no longer attack the German-Israeli restitution agreement if Bonn agreed to buy appreciable quantities of cotton, to send an industrial mission to Cairo, and to have a "neutral" observer supervise goods going to Israel.

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this information to anyone in the Egyptian Government or in the Arab League. He added that he would probably have trouble in the forthcoming meeting of the League's Political Committee over this problem.

Comment: This is the first time that any Arab state has made a conciliatory gesture on the Israeli restitution agreement. Any such arrangement between Cairo and Bonn is likely to be strongly criticized by the other Arab countries as well as by Israel.

3. Turkish Foreign Minister favors Yugoslav membership in NATO:

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[redacted]

Turkish Foreign Minister Koprulu believes the time will shortly be ripe to attach Yugoslavia to NATO. He believes the Yugoslavs would accept membership in two or three months, and that other countries would have no objection if Italy could be persuaded to approve.

If direct admission is impossible, he believes a Greek-Turkish-Yugoslav alliance with reciprocal guarantees with NATO would be an alternative.

Comment: No other member has suggested that Yugoslavia be admitted to NATO and Italy would be strongly opposed. While the Yugoslav attitude toward firm military planning with Western powers has changed markedly in the last two months, there have been no indications that the Yugoslavs would yet go so far as to become an actual NATO member.

Koprulu's statement is in line with his desire to subordinate any agreement with Greece and Yugoslavia to Turkey's NATO commitments. The British Foreign Office has expressed a view that guarantees of assistance to Yugoslavia in case of attack can not be given by NATO, or by any member or groups of members of NATO.

FAR EAST

4. Chinese Nationalists admittedly not ready for mainland invasion:

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Chinese Nationalist leaders realize that an invasion of Communist China by their forces would require "years" of preparation,

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25X1 [redacted] The American Embassy comments that many Nationalist leaders have recently expressed this thought.

Comment: Nationalist opinion on this question changed sharply during 1952. As late as last July, Chiang Kai-shek told an American official that he believed an early invasion of the mainland, with American support, to be feasible. In his 1953 New Year's statement, however, Chiang described the coming year as one of preparation for action.

SOUTHEAST ASIA

25X1 5. Burmese [redacted] seriously disturbed over Chinese Nationalists:

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Burmese [redacted] stated on 7 January that the problem resulting from the presence of Chinese Nationalist troops in Burma has "reached serious proportions." He said that additional Nationalist units have entered from Thailand and that he was undecided whether to concentrate Burmese forces against the Communist insurgents or the Nationalists.

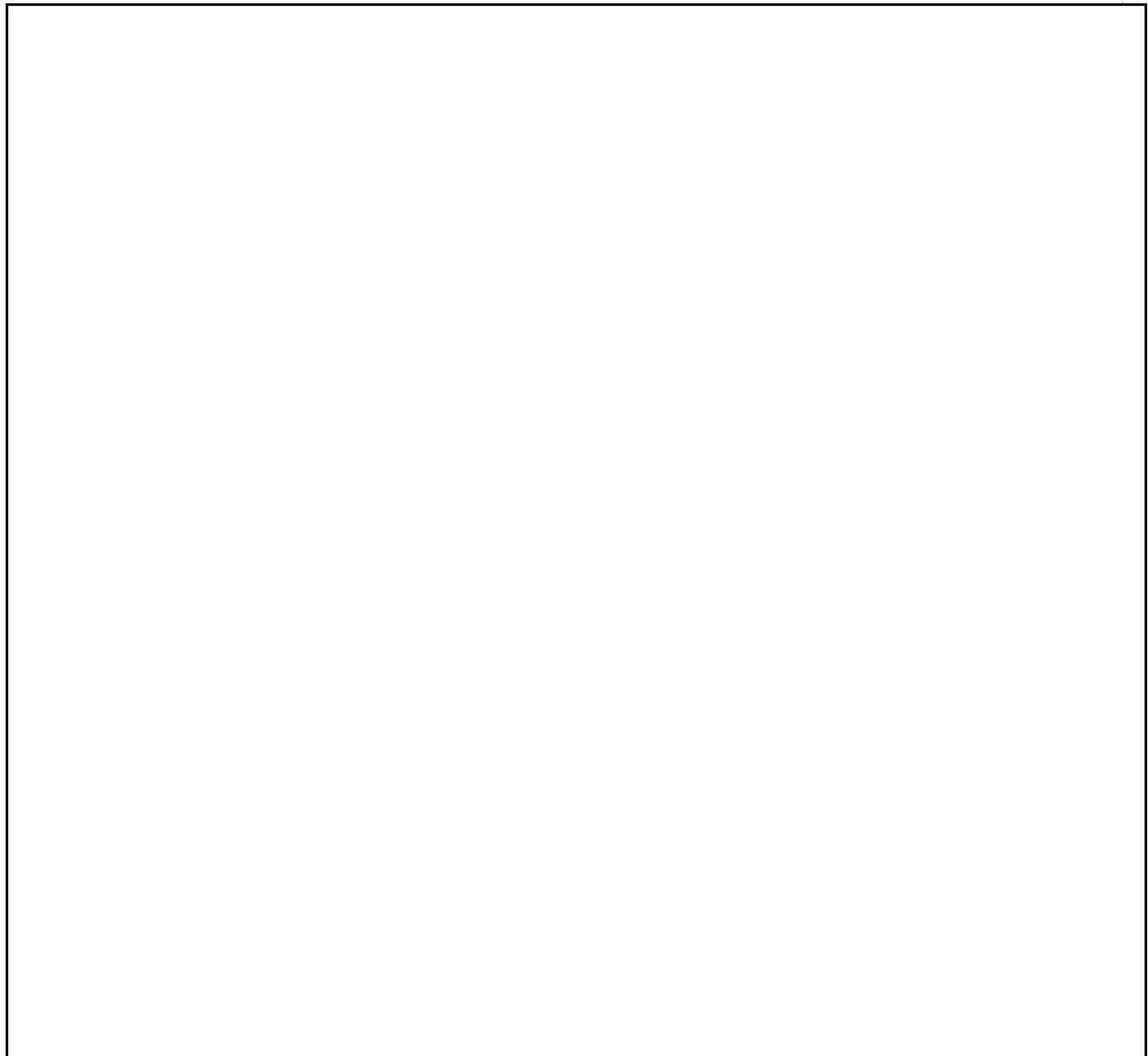
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Comment: In recent weeks, Burmese officials have been increasingly concerned over reports that the Chinese Nationalists are receiving supplies and reinforcements from Thailand. Their concern is aggravated by increasing Nationalist cooperation with the insurgent Karen.

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9. Backing for Mayer in French Parliament uncertain:

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Although Radical Socialist leader Rene Mayer has been authorized to form a cabinet, the American Embassy in Paris doubts that there

has been a real meeting of minds with the Gaullists and the Popular Republicans. The Gaullists apparently believe that Mayer is willing to surrender the supranational character of the EDC; the Popular Republicans, however, are convinced that he intends to defend this aspect of the treaty and they may insist that the new Foreign Minister be from their ranks.

Comment: Lack of Socialist support forced Mayer to effect an apparent reconciliation of Gaullist and Popular Republican views on the EDC in order to obtain a larger vote than Pinay. Disagreement between these two parties over Mayer's candidate for Foreign Minister, however, could still result in the National Assembly's failure to approve his cabinet.

If Mayer is confirmed as premier, he may have the advantage of alternative supporting majorities, one including the Gaullists on domestic issues, and the other without that party but including the Socialists on foreign policy.

LATIN AMERICA

10. Attempted coup strengthens leftists in Bolivia:

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The United States Embassy in La Paz believes that the attempted revolt in Bolivia on 6 January was precipitated by the decision of President Paz to side with Juan Lechin and the left wing of the governing National Revolutionary Movement (MNR) in the army reorganization controversy.

The "premature and abortive" coup attempted by right-wing military and civilian leaders of the MNR was frustrated by prompt government action. The Lechin group may now dominate the government.

Comment: The right wing of the MNR had planned to reopen the military academy and recruit a new army in order to counterbalance the superior might of the armed laborers. Lechin, however, reportedly threatened a revolt if Paz supported this plan.