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State Department review completed

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FAR EAST

1. Japanese-Chinese Nationalist treaty talks hit snag:

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The main obstacle in the current Japanese peace treaty negotiations with Nationalist China is a Chinese demand that the treaty must apply to all of China, according to the

Japanese Vice Minister of Foreign Affairs. He advised the US Political Adviser in Tokyo that Japan could not accept this proposal even if the territorial scope of the treaty were modified in a separate document as suggested by the Chinese.

Comment: Prime Minister Yoshida, in his 24 December letter to Ambassador Dulles, committed Japan to negotiating a limited treaty which should be applicable to "all territories which are now or which may hereafter be under control of the Nationalist government." The Taipei government, both for reasons of prestige and for protection of its position in the UN and other international bodies, wishes to avoid any admission that it lacks actual control over the mainland.

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2.

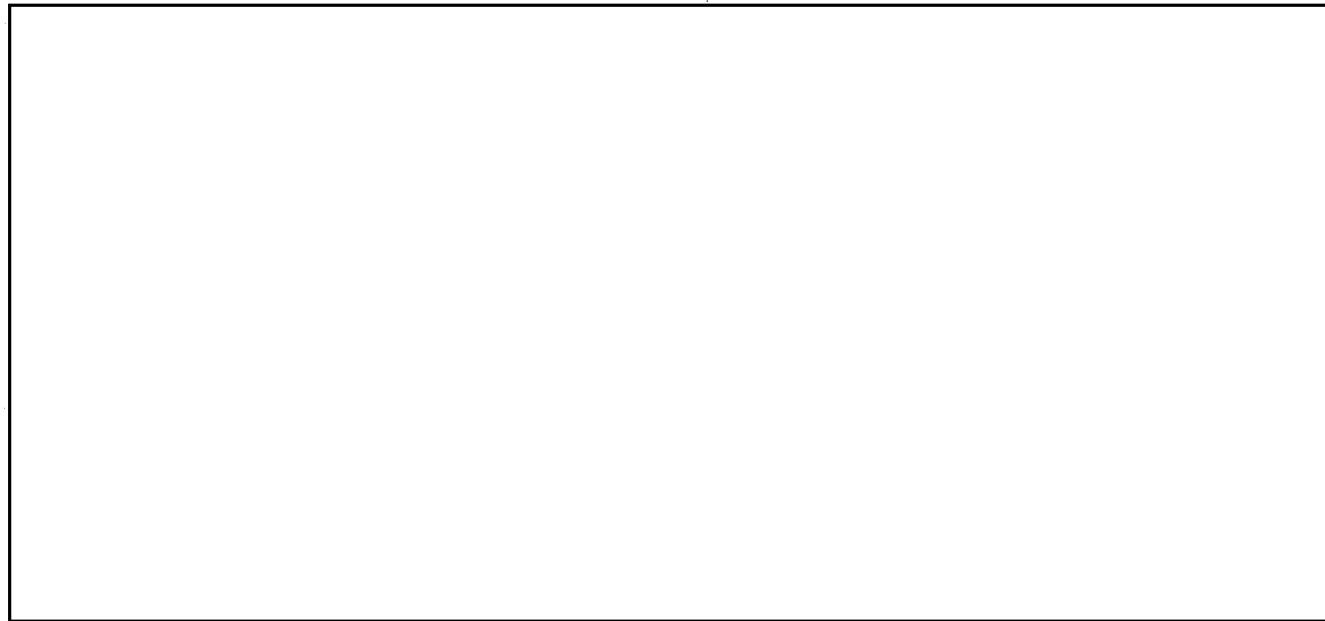
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3. Chinese Nationalist official urges repatriation of Indochina internees:

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The Chinese Nationalist Consul General in Saigon told French Minister for Associated States Letourneau on 25 February that the morale of the interned Chinese Nationalist troops in Indochina has sunk to "a new and dangerous ebb." He urged their immediate repatriation to Formosa as the only solution.

The Chinese official said that Letourneau, while not yet prepared to advocate outright repatriation, stated that it might be possible for some such organization as the International Red Cross or a specially constituted UN committee to solve the internee issue.

The Consul General also told Minister Heath that both Acting Commander in Chief Salan and Inspector of Overseas Troops Valluy have expressed the view that repatriation is desirable.

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Comment: The late Marshal de Lattre consistently opposed repatriation of these Nationalist troops, which originally numbered about 30,000 men. However, an official of the French Foreign Office stated in January that his successor, General Salan, favored their release but has advanced no proposal to effect it.

NEAR EAST - AFRICA

4. Egyptian King prepared for test of strength with Wafd Party:

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King Farouk was prepared by 27 February, three days prior to the change of government in Egypt, to force a showdown with the powerful Wafd Party.

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The King's eagerness to eliminate corruption in Egypt and to prosecute those responsible for the January riots in Cairo is so strong that he has even considered suspending the constitution for three years in order to achieve this objective.

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EASTERN EUROPE

5. Yugoslav Foreign Minister admits leftward shift in party policy:

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[REDACTED] Foreign Minister Edvard Kardelj admitted that the

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Communist Party of Yugoslavia has veered to the left in order to quiet the misgivings of party regulars over recent official deviations from classical Communist theory. Kardelj declared that further rural socialization is necessary and predicted the eventual success of "peasant collective associations." He maintained that the present capital investment program is based upon the minimum industrialization required for Yugoslavia's needs.

Comment: A significant leftward shift in party policy has become increasingly apparent during the past month. Increased official anti-religious activities and emphasis on the need for better party discipline highlight this recent trend.

WESTERN EUROPE

6. Bonn wants to ship scrap to Czechoslovakia:

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West Germany is putting increased pressure on the Allied High Commission for authorization to ship 25,000 tons of scrap metal to Czechoslovakia. This scrap was allegedly promised under previous trade agreements. Allied officials are now considering whether all or part of the shipments should be prohibited as a violation of the Battle Act.

The Germans argue that if the shipments are not permitted, the Czechs will carry out a threat to stop deliveries of coal to the Federal Republic, and that current negotiations between the two countries for a 1952 trade agreement will be jeopardized.

Comment: The Czechs shipped over one million tons of brown coal to Bavaria during 1950 for industrial use. High transportation costs make it economically infeasible for Bavaria to obtain brown coal from the Rhine Valley, West Germany's main producer.

The West Germans have argued that retaliatory suspension of coal shipments from Czechoslovakia would further aggravate the coal situation in the Federal Republic, already affected by domestic demands as well as by the stoppage of East German shipments to Berlin.

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7. No important French industrialist plans to attend Moscow Economic Conference:

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reports that

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[redacted] the prospective French delegation to the Moscow Economic Conference now comprises for the most part only fellow travelers and less important businessmen. Although some key industrialists were initially tempted to attend either to promote trade with the Soviet Orbit or to strengthen their position with Communist-dominated unions in France, they have decided not to risk the possible consequences for their personal and business relations with the United States.

Comment: The combination of raw material deficiencies and an acute dollar shortage has made French industrialists susceptible to offers of trade with the USSR, Communist China, and the Satellites. Nevertheless, while France has shown more interest in the conference than any other country in Western Europe, enthusiasm has dwindled as the political aspects of the trade overtures have become increasingly apparent.

8. Italy blocks new attempt to divert aluminum to Orbit:

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[redacted] In the first case of its kind since the tightening of trade controls a few months ago, the Italian Government recently blocked a 600-ton shipment of Italian-produced aluminum to Rumania. The metal was ostensibly licensed for the United States. It was loaded in Genoa on a Norwegian ship, but impounded in Naples the following day.

Comment: Earlier reports indicated that substantial amounts of aluminum have been transshipped through Italy despite the recent temporary suspension of import licences. Some 3,200 metric tons of aluminum are believed to have been shipped from or transshipped through Italy to Orbit countries via Basel and Antwerp between June and December of last year.

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9. British economic situation becoming desperate:

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[Redacted]

Mutual Security Agency officials in London estimate that a continuation of the British dollar drain at the current rate would seriously threaten Britain's entire economy. They believe that the situation "may well be approaching desperation."

Chancellor of the Exchequer Butler "sees hope" if Britain can survive the danger period of the next few months. He believes the scheduled 300 million dollars of American aid, if transmitted quickly, will make a vital contribution. The MSA mission stresses the importance of granting the whole amount as soon as possible to avoid the shock of an announcement of further large losses in British reserves.

Comment: During the last three months of 1951 sterling area gold and dollar reserves fell by nearly a billion dollars. It had been anticipated that the effects of the import cuts made shortly after the Conservative government took office would not be reflected in the sterling area reserves before the second quarter of this year.

Under the conditions now attached to US aid only a fraction of the 300 million dollars agreed on in December can help the British gold and dollar position before July.

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