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GENERAL

1. British Admiralty officers favor China blockade:

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[Redacted]

British Admiralty officers are openly discussing the possibility of a naval blockade of the China coast and the seizure by the UK Government of all British-registered vessels under Communist charter. According to CINCNELM, all British Admiralty officers favor positive action to check the movement of strategic cargo in British vessels to China, and are probably recommending effective courses of action to higher UK authorities. CINCNELM considers that one of the first results of this stiffening attitude will probably be the interception of the British vessels Stanrealm and Grey-stoke Castle, now in the Indian Ocean and reportedly carrying strategic cargo including ammunition to Communist China.

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NEAR EAST

4. Syrian officials concerned by Israel's "non-compliance" with UN resolution:

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According to US Minister Cannon in Damascus, top Syrian Government officials have complained that Israel is not complying in full with the terms of the UN Security Council

resolution pertaining to the Syrian-Israeli border dispute. The Syrians are particularly troubled by (a) Israel's announcement that its suspension of the drainage project in the Lake Hule demilitarized area is only a

"token compliance," and by (b) Israel's failure to allow the return of those Arab residents who were forcibly removed from the demilitarized region. Cannon expresses his fear that the psychological gain obtained by the West in Syria as a result of the passage of the UN resolution has been lost.

WESTERN EUROPE

5. Serious East German economic difficulties reported:

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[REDACTED] US authorities in Berlin report substantial evidence of serious economic difficulties in East Germany resulting in failure to achieve production targets in key industries. There is

a shortage of materials caused by: (a) delayed shipments from the East; (b) internal disorganization and bad planning; and (c) reduced shipments from the West, partly reflecting improved Western controls, and partly the general tightening of the supply of critical materials. The shortages are creating a notable increase in unemployment, which gives concern to the East German Government, especially in regard to areas close to the interzonal border. The morale and political attitude of the workers are said to be affected.

Comment: This is the first report for more than a year of appreciable unemployment in East Germany. It is doubtful whether the reported deterioration of the East German economy could be ascribable in any large measure to Western controls on shipments to the East.

6. High Commission plans retaliation against Soviet interference with West Berlin trade:

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[REDACTED] At a special session on 8 June the Council of Allied High Commission agreed: (a) to order the West Berlin City Council to stop issuing certificates of origin of raw materials used

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in West Berlin exports as demanded by Soviet Zone officials; (b) to send a letter of protest to the head of the Soviet Control Commission; and (c) to instruct the West Berlin commandants that if the situation is not improved by 12 June, all shipments from western Berlin to the Soviet Zone are to be stopped. Francois-Poncet, the French High Commissioner, expressed fear of provoking the USSR into imposing a new blockade of Berlin and stated that he would have to consult his government before agreeing to all-out countermeasures against Soviet interference with West Berlin trade. The UK High Commissioner felt that vigorous countermeasures now were all the more necessary "if a blockade were developing."

Comment: Tightening of Allied controls on West German exports to the Soviet Zone, given as one of the reasons for East German failure to achieve production targets in key industries in connection with the Five Year Plan, may be the reason for Soviet pressure on West Berlin trade. This pressure could constitute a Soviet bargaining point in the current attempt to negotiate a favorable trade treaty between East Germany and the Federal Republic. Stoppage of shipments from West Berlin to the Soviet Zone may be difficult to effect in view of the attitude of the Berlin City Council, which has already yielded to Soviet pressure in order to prevent further deterioration of the West Berlin economy. The Soviet attitude toward reimposition of a Berlin blockade is not likely to be determined solely by East German economic considerations.

7. MacArthur hearings diminish Portuguese confidence in US leadership:

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US Ambassador MacVeagh reports that, although the Portuguese press has not commented adversely on the current US joint congressional inquiry into General MacArthur's dismissal

and foreign policy, private conversations with Portuguese Government officials and other influential individuals clearly show that the inquiry is having an adverse effect on public confidence in US leadership. A growing belief that US foreign policy is degenerating into a mere appendage of internal politics carries with it misgivings concerning US dependability as the mainstay of the West against Communist aggression. MacVeagh considers that this belief, taken in conjunction with the pessimistic appraisal by informed Portuguese opinion of the resistance capabilities

of the other NATO powers without US aid, is at present diminishing Portugal's will to resist and the readiness of its leaders to make the budgetary defense commitments now requested by the US.

Comment: The continued Portuguese reluctance to increase budgetary defense commitments has stemmed chiefly from Prime Minister Salazar's fear of the effects on the precarious economy of the budgetary deficit which would result from increased defense expenditures. In addition, Salazar appears to feel that Portugal's contribution of the Azores bases to the NATO defense effort should be sufficient at this time.

LATIN AMERICA

8. Comment on adverse Latin American reaction to the Mutual Security Program:

Almost unanimous disappointment is reported from many Latin American governments at the small amount of money allotted under President Truman's Mutual Security Program for use in Latin America in both economic and military fields. (The basic idea of the program, however, is generally well regarded.) Sharp criticism was expressed even in such generally pro-US newspapers as the important O Jornal of Brazil, which stressed the insignificant size of the funds programmed for Latin America relative to those allotted to Africa and the Middle East. O Jornal further asserted that the smallness of the sums for Latin America discredits US statements about the importance of Point IV. Other pro-US newspapers have editorialized along similar lines. As was to be expected, the administration press in Argentina attacked the smallness of the amounts and concluded that Latin American nations will have to rely on their own resources to defend their respective sovereignties.

9. Argentine government paper attacks US:

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[Redacted]

An article by "Descartes" in the administration paper Democracia lists charges of US pressure on Argentina including: (a) economic blockade, boycott, and sabotage, (b) an anti-

Argentine campaign throughout South America financed by US Government funds, and (c) a US organization installed in Montevideo to interfere by radio and publicity in the coming Argentine elections.

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Comment: [Redacted]

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"Descartes" is actually Peron. His article appeared on the same date set for a meeting between US Ambassador Bunker and Foreign Minister Paz, at the latter's request, "to discuss all points covering US-Argentine relations" -- a diplomatic approach which on two previous occasions preceded Argentina's asking for special favors. The employment of double tactics toward the US by Peron is not new, but the contrast in this case is sharper than during the past few months. By the anti-US press attacks, usually explained as solely for internal political consumption, Peron may be hoping to provoke some form of US retaliation that would enable him to repeat in an impending election campaign the charges of US intervention which he made in his 1946 anti-Braden campaign and which he felt contributed substantially to his first electoral victory.

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