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FAR EAST**1. Rhee government threatens force to halt Indian screening of Korean prisoners:**

[Redacted]

On 4 January South Korean foreign minister Pyun asked Ambassador Briggs to inform General Hull that the South Korean government will move armed police into the demilitarized zone by noon on 6 January to halt the "illegal screening" of anti-Communist prisoners by Indian custodial troops.

Comment: In a meeting with American officials on 1 January, Rhee had not supported a similar demand by Pyun. Therefore, Ambassador Briggs does not anticipate that Pyun's threat will be implemented.

While it is probable that this move is a continuation of Rhee's psychological warfare campaign against the Indians, possibly designed to ensure prompt release of the prisoners after 22 January, his emotionalism on the prisoner issue could impel him to act irrationally.

2. Japanese trade deficit sets record in 1953:

[Redacted]

Preliminary customs data indicate that Japan will have a record trade deficit for 1953 of about 1.1 billion dollars, according to the American embassy. Imports increased \$351,000,000 over 1952 levels, while exports decreased \$26,000,000.

The embassy comments that this gap is partly closed by special American expenditures in Japan, estimated at about \$777,000,000, but a loss of approximately 20 percent of Japan's accumulated foreign exchange reserves is indicated.

Comment: The Japanese believe that any reduction of imports would add to the present inflationary situation which has already hampered efforts to promote exports.

The recent shift in the balance of political power favoring Prime Minister Yoshida may enable him to achieve a sounder economic program to improve Japan's foreign trade position. Flood damage to the rice crop, however, necessitating greatly increased food imports and domestic agricultural rehabilitation, is adding to Japan's difficulties.

SOUTHEAST ASIA

3. French apprehensive over defense of Dien Bien Phu:

The American army attaché in Saigon reports that the French command's optimism regarding the defense of Dien Bien Phu is giving way to apprehension. The Viet Minh probably can take this strongpoint in northwest Tonkin if it is willing to pay the cost in casualties.

The French acknowledge that the loss of Dien Bien Phu would be a major blow to their prestige and would reduce their strength by more than the nine battalions recently shipped from Europe and Africa.

The attaché notes that French Union reserves are dispersed throughout Indochina at a time which is very favorable for offensive operations into Viet Minh rear areas north of the Tonkin delta.

Comment: A move against the reported 12 French battalions at Dien Bien Phu by the Viet Minh units in the area would constitute the largest coordinated attack of the war. Two Viet Minh divisions and elements of a third are nearby, while another division is reportedly en route there.

4. Philippines believed ready to recognize Associated States of Indochina:

[redacted] told an officer of the American embassy in Manila on 2 January that Magsaysay had asked him to go to Indochina as soon as possible to investigate the military position and status of independence of the three Associated States. [redacted] asked the advice and assistance of the embassy.

The embassy officer was left with the distinct impression that Magsaysay had made up his mind to recognize the Associated States in the near future and was seeking a respectable pretext for doing so.

Comment: Thailand is the only neighboring country which has recognized the Associated States.