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GENERAL

1. Britain favors greatest caution in Western policy toward USSR:

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The British Foreign Office has reaffirmed to the American Embassy in London that Foreign Secretary Eden believes Western policy toward the Soviet Union at the present time should be one of greatest caution. The Foreign Office feels that the Soviet regime's fear of the United States is probably sharper than ever before, and that the Western powers must recognize that Moscow may now regard war as increasingly probable.

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FAR EAST

5. Ambassador Murphy concerned over possible ban on Japanese fishing operations:

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Ambassador Murphy believes that a contemplated order from the UN Command barring all Japanese fishing vessels from the Korean Sea Defense Zone is likely to put the Japanese

Government in a difficult position and arouse anti-American feeling. He points out that it has been assumed in Japan that the UN Command would prevent further seizures of ships by the South Koreans and permit Japanese vessels access to the zone.

Comment: Japan and the United States do not recognize the "Rhee line," arbitrarily established by South Korea to keep Japanese vessels away from their prewar fishing grounds. The Japanese have previously understood that the UN would warn their vessels found within the Sea Defense Zone, which roughly is bounded by the "Rhee line," only when their presence interfered with military operations.

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SOUTHEAST ASIA

7. Taipei denies reports of depredations by Li Mi's troops:

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The Minister of National Defense in Taipei states that reports from General Li Mi's headquarters in Burma indicate that his troops are not responsible for the recent depredations charged to them by the Burmese. He says some attacks were mounted by Chinese Communist units from Yunnan masquerading as Nationalists, and that various others, if they actually occurred, were made by irregular groups over which Li Mi has little or no control.

Comment: Reports have been received of Chinese Communist penetration of Nationalist bands in order to encourage attacks on Burmese forces, but there is no firm evidence that Chinese Communists have operated as units across the Sino-Burmese border. It has been reported that Li Mi exercises effective control over only 2,000 of the 7,000 to 10,000 Nationalist troops in Burma.

SOUTH ASIA

8. Comment on anti-government demonstrations in Karachi:

Demonstrations in Karachi on 27 February by members of an all-Moslem parties convention, which apparently represents reactionary elements opposed to the secular state and to Foreign Minister Zafrullah Khan, suggest that the success of leftist-led student riots last January has encouraged other anti-government groups to resort to "direct action."

Coming at a time when the Pakistani Government is under criticism for its handling of such important issues as Kashmir, the proposed national constitution, and the recent food shortage, these demonstrations will increase restlessness throughout the country.

Though the strong police and military measures taken in Karachi will probably quell active unrest, anti-government agitation may be expected to continue. The Government's failure immediately to suppress future outbreaks would provide further evidence of its weakness and could lead to its fall.

NEAR EAST - AFRICA

9. Anti-Western trend in Iraq endangers acceptance of MEDO:

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The anti-Western trend in Iraq is so strong that pro-Western and politically powerful General Nuri Said will have great difficulty making MEDO acceptable to the public, according to US Ambassador Berry in Baghdad.

This trend may force the Iraqi Government to ask Britain to evacuate its two air bases if it agrees to withdraw from the Suez Canal zone, in the opinion of the Iraqi UN delegate.

Comment: Pro-British General Nuri might be able to pilot MEDO through the present Iraqi Parliament, which is amenable to his control. Nevertheless, the aroused public remains unsatisfied by events since the November Baghdad riots and might repudiate such action, as it did in 1948 a proposed revision of the Anglo-Iraqi treaty.

EASTERN EUROPE

10. Yugoslavia, Greece and Turkey still favor definite defense commitment:

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Ambassador Peurifoy reports that all signatories of the Greek-Turkish-Yugoslav pact of friendship still wish that it had included a firm defense commitment. Greek

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Foreign Minister Stephanopoulos quoted his Yugoslav colleague, Popovic, as critical of "great power" opposition to such a commitment, which he said showed they "do not fully understand the importance of this part of the world or the necessity of organizing its defense on a concrete and firm basis."

WESTERN EUROPE

11. Portugal cancels aircraft commitments to SHAPE:

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[Redacted]

Portugal has informed the NATO Annual Review Committee that it has cancelled its contribution of two air squadrons to SHAPE. This decision was apparently based on the assumption that the MDAP jet deliveries program for Portugal is being reduced from five to three squadrons.

Comment: The Portuguese Government stated last July that it would rather abandon NATO than agree to the proposed cut. In November it informed its NATO representative that curtailment of Portugal's air force program would also necessitate cancellation of its SHAPE commitment of two army divisions.

The Portuguese have intimated, furthermore, that failure to raise the squadron total eventually to seven may jeopardize the Azores defense agreement with the United States.

12. Italian deficits seen threat to European trade liberalization:

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Ambassador Bunker believes that if Italy's heavy deficit in the European Payments Union continues, it will have to withdraw from the effort to liberalize European trade very soon, despite the political problems raised by the approaching

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national elections. This development, following British and French trade restrictions, would seriously impair current United States efforts for European economic integration.

Comment: Italy's trade deficit of nearly one billion dollars in 1952 was the largest in its history and its current deficit in the EPU threatens to exhaust the Italian surplus by May. These factors, plus increased unemployment which is partly caused by trade stagnation, have led to more insistent demands for an abandonment of the trade liberalization program.

French Foreign Minister Bidault is reported to have turned down Prime Minister de Gasperi's request of 26 February that increased Italian imports be permitted.