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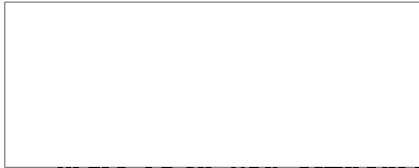
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~~TOP SECRET~~**GENERAL****1. India still considering Soviet steel plant:**

The Indian minister of commerce and industry told the American consul general in Madras on 21 October that the Soviet offer to construct a steel plant in

India is in "an extremely tentative stage" and that, although India recognizes Soviet political motives, it will accept if the terms of the transaction are sufficiently advantageous. The plant would have an annual capacity of 300,000 tons.

The minister stated that New Delhi places its major hopes for steel expansion in persuading the British to build a 1,000,000-ton plant.

Comment: The USSR was reported in early September to have proposed to furnish technicians and capital equipment to build an Indian steel mill to be financed by a long-term Soviet credit on attractive terms. The importance attached by the Soviet Union to increasing its influence in India is evidenced by its apparent willingness to send this equipment to India even though Satellite and Chinese needs for such equipment are not satisfied.

This offer has been given serious consideration by New Delhi, although the size of the projected plant appears to be smaller than originally proposed. Indian industrial experts who recently studied Soviet techniques in the USSR have reportedly returned unimpressed with Soviet steel production methods.

FAR EAST**2. Chinese Communists may be planning to take small island near Tachens:**

The Chinese Communists may be planning action against Pishan, a small island about 40 miles southwest of the

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Tachens, [REDACTED]

[REDACTED] Small numbers of Chinese Communist troops and frogmen have landed on islands adjacent to Pishan on several occasions since 3 October, and Communist artillery now located on other nearby islands can reach Pishan.

Despite increased Communist artillery fire and ground and air reconnaissance activity in the Tachen area during the past month, [REDACTED]

[REDACTED] an attack on the major Tachen bases is not imminent.

Comment: Pishan is presently occupied by approximately 1,500 Chinese Nationalist guerrillas, and the Communists could take it with little effort. Its capture would not be strategically important, but Peiping could make propaganda claims of a "victory."

3. Delivery of life belts to Chinese Communists reported being speeded:

Comment: The 300,000 life jackets would equip most of the troops stationed opposite Formosa and the Nationalist-held offshore islands. This order does not necessarily imply an early large-scale attack against the Nationalists, however, as some of the equipment may be for military units in amphibious training for later operations.

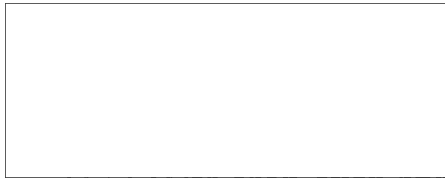
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The apparent disregard for secrecy in placing the order in Hong Kong does not appear significant. The Chinese Communist intention eventually to take all Nationalist-held territory has been publicly and repeatedly stated since July.

SOUTHEAST ASIA

4. French official optimistic after interview with Ho Chi Minh:



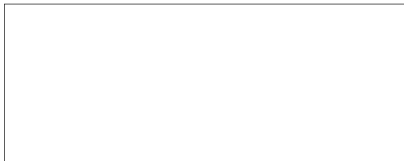
Jean Sainteny, French representative to the Viet Minh who conferred with Ho Chi Minh on 18 October, told the American consul in Hanoi that Ho appeared in bet-

ter health than ever and was "surprisingly" disposed to maintain relations with non-Communist countries. He described the Viet Minh attitude toward maintaining France's cultural "presence" in North Vietnam as encouraging.

Sainteny professed to have no illusions about the genuineness of the Viet Minh brand of Communism--which he termed moderate--but referred to a "strong unwillingness" on the part of the Viet Minh to be completely absorbed into the Sino-Soviet bloc.

Comment: During the 1946 French-Viet Minh negotiations, in which Sainteny was prominent, Ho convinced many Frenchmen that he was, above all, a Vietnamese patriot. Sainteny is apparently of the opinion that the best interests of France and the West lie in the encouragement of a Communist Vietnam of the Titoist variety.

5. French concerned over deterioration throughout free Vietnam:



French officials in Indochina have recently expressed considerable pessimism over deteriorating military and political conditions throughout free Vietnam, the

American ambassador in Saigon reports. In the view of Deputy

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Commissioner General Daridan, there is no possibility of "saving" Annam south of the 17th parallel owing to the inadequacy of the national government's authority outside the principal urban centers. He feels, therefore, that efforts to counteract Viet Minh influence must be concentrated in Cochinchina.

According to a member of General Ely's staff, top French military authorities are becoming increasingly alarmed by the deteriorating morale, discipline and effectiveness of Vietnamese army troops and their leadership. The French high command must use French Union forces for pacification and other purposes, thus forcing them at times into action against Vietnamese nationals and affording the Viet Minh excellent propaganda opportunities.

EASTERN EUROPE

6. Western diplomats in Belgrade foresee no Yugoslav alignment with East:

Diplomats in Belgrade generally agree that the "sprint" in Orbit efforts to improve relations may flatter and perhaps even fluster the Yugoslavs. The overwhelming advantages Yugoslavia receives from its present alignment, however, preclude a basic reorientation from West to East in the foreseeable future. The observers do not believe Moscow can convince Belgrade that the USSR could match the West in providing economic and military aid, favorable trading terms, and what amounts to a guarantee of national security on the basis of respect for Yugoslavia's independence and noninterference in its internal affairs. Yugoslav leaders, however, are not above attempting to better their bargaining position with the West by "judicious flirtation" with the Orbit.

American chargé Wallner sums up Yugoslav foreign policy as continued co-operation with the West in consolidation of collective defense and cautious but willing acceptance of proffers from the Orbit for improved general relations.

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