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GENERAL**1. West Germans considering sizeable Soviet orders for ships:**

Officials of the West German Foreign Ministry have informed the US High Commissioner of recent discussions in London between representatives of the Soviet Union and German shipbuilding interests. Two deals are evidently under consideration, one involving the delivery to the USSR of 10 to 15 ships of about 5,800 tons each, and the other an equal number of ships with a slightly greater tonnage.

The German officials said that the shipyard representatives had been cautioned against Soviet orders on the grounds of strategic considerations, the absence of a foreseeable quid pro quo, and the possibility that the orders might be merely "window shopping for propaganda purposes." They stated, however, that the Bonn government is actively interested in a normalization and expansion of East-West trade.

Comment: In view of other Soviet orders for ships placed with Western countries, these offers are not likely to be "window shopping."

FAR EAST**2. Russian advisers hold controlling positions in North Korea:**

While the presence of both Russian advisers and Chinese technicians in North Korea is increasingly reported, the Russians are normally placed in controlling positions, according to the embassy in Seoul. The only exception is the railroads, where the Chinese appear to have full supervision.

the USSR may be making control by Russian advisers a condition of its aid program.

Comment: While China's position in North Korea has been strengthened as a result of the war, there is no evidence that Peiping is challenging Moscow's control, or that North Korea has been integrated into the Chinese sphere.

Soviet-oriented Koreans occupy most of the important government and party posts and there is no indication of the presence of Chinese advisers at important industrial installations or at high government levels.

3. Third Chinese Nationalist pilot in two months defects to Communists:



On 21 February the pilot of a Chinese Nationalist air force B-25 on a local training flight tried to induce his radio operator to fire on the city of Taipei and his co-pilot to join him in flying to Communist China, according to the co-pilot concerned. The pilot shot and killed the radio operator and forced the co-pilot to bail out, then flew on toward the mainland.

[redacted] the crew had been together for several months and that the pilot, who was American-trained, left his wife and family on Formosa.

Comment: Two other Nationalist pilots are reliably reported to have defected with their trainer aircraft in late December.

Although the Nationalist armed forces on review before foreign visitors give an impression of high morale, American military observers on Formosa have recently reported that service morale has been deteriorating.

SOUTHEAST ASIA

4. Vietnamese premier discusses problems of coming independence negotiations:



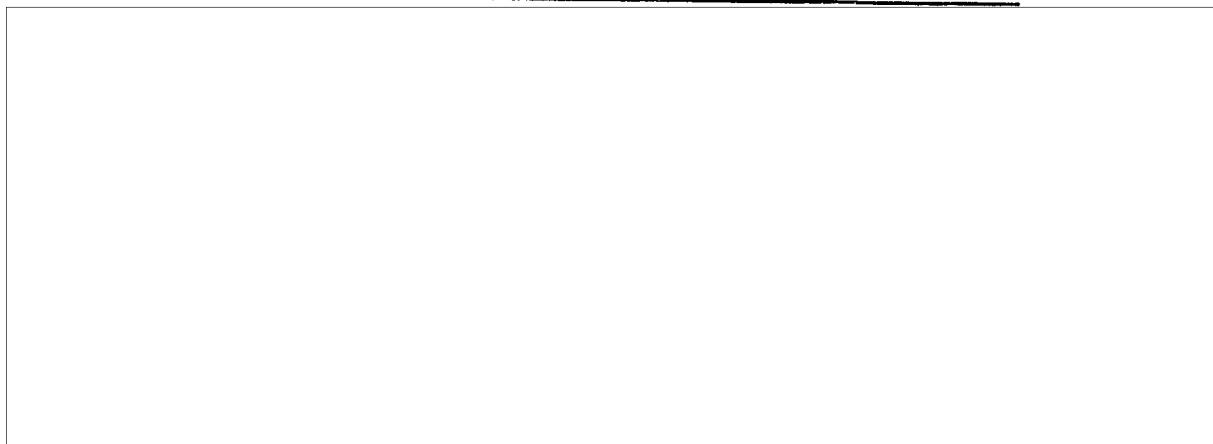
Premier Buu Loc has told Ambassador Heath in Saigon that his government has not yet decided on its course in

negotiations for Vietnamese independence which begin in Paris on 8 March. He stated that he was fully aware that if complete Vietnamese independence were agreed on before the opening of the Geneva conference on 26 April, French sentiment for quitting Indochina might become crystalized and Vietnam be left to fight alone.

Heath believes that Buu Loc will seek definite French assurances on continuation of military aid to Vietnam and on treating the Associated States as equal partners in preparing a position for Geneva. Regarding the Geneva conference itself, Buu Loc said "if they are going to request Communist China to stop aiding the Viet Minh, that is fine; but if they are going to negotiate an armistice with Ho Chi Minh, that is something quite different."

NEAR EAST - AFRICA

5. Kashani tries to foster minority faction in Iranian parliament:

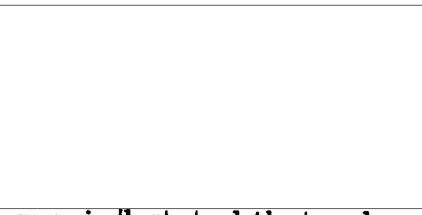


Comment: These are the first indications that Kashani is trying to foster a Majlis opposition faction which he hopes to direct from behind the scenes. Such a faction was originally used by Mossadeq to promote himself into the premiership.

Owing to government alertness to Kashani's machinations, it is unlikely that he will be able to rouse much support in the beginning. His subsequent success would depend largely on the government's failure to achieve an acceptable oil settlement.

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7. Israel strengthening defenses on Syrian and Egyptian borders:

Israel is strengthening its defenses along the Syrian and Egyptian borders and calling up reserves in view of the instability in these countries. An Israeli official when queried stated that only one reserve brigade had been called up to strengthen the northern defenses.

[redacted] terms these actions "logical defense preparations."

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Comment: Israeli Chief of Staff Dayan issued a public statement on 26 February that the army was preparing for the eventuality of war with the Arab states. The independent Maariv, Israel's largest newspaper, urged on the same day that Israeli forces march on the Suez and cut the Sinai desert and the Gaza coastal strip from Egypt.

Israel's bellicose gestures probably stem in part from its fear that the present chaotic situation may be resolved eventually in some type of union including Iraq, Syria and possibly Jordan. Israeli maneuvers, however, add still another inflammatory element to the tense situation.

8. Comment on the Egyptian situation:

The formal reconciliation of General Nagib and Colonel Nasr appears to be a weak compromise which invites further struggle and possibly the complete deterioration of the Revolutionary Command Council itself.

The sudden turn of events, reflecting internal dissension in the Command Council as well as the strength of rebellious elements within the army, makes it unlikely that the government will be able to take a positive stand on major issues. Nagib remains a popular but basically weak leader, and the turn of events has lessened Nasr's status.

The outlook for a settlement of the Suez problem is no brighter, and domestic opponents of the regime such as the Wafd and the Moslem Brotherhood will be encouraged to increase their activity.

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EASTERN EUROPE**9. Hungary reportedly seeking to purchase US wheat:**

[redacted] has informed HICOG officials that Hungary is seeking to purchase 100,000 tons of wheat from the United States with payment to be made partly in gold through a Swiss bank. The same source reported that Hungary has contracted to buy large quantities of grain from Sweden.

Comment: These purchases are in line with the Orbit policy of developing trade with the West in order to increase imports of consumer goods and reduce international tensions. Under this program the Satellites are directed to fulfill trade commitments to Western countries even at the price of purchasing commodities for gold elsewhere.

Hungary, traditionally a grain exporting country, is suffering from serious bread grain and fodder shortages as a result of two successive poor harvests. Moreover, because of a drought, prospects for the 1954 crop are not good.

10. Czech president subordinates military production to raising of living standard:

[redacted] Czech president Zapotocky stated publicly in a speech before the Military Technical Academy in Brno on 25 February that "our special aim is the proper proportioning of military production so as not to impede the rising living standards of our people."

Comment: A public statement of this nature by a high Satellite official is significant in revealing the overriding priority being given to the improvement of living standards under the new economic policy, even at the cost of planned military expansion. It supports intelligence estimates that cutbacks in capital investment have affected military production.

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