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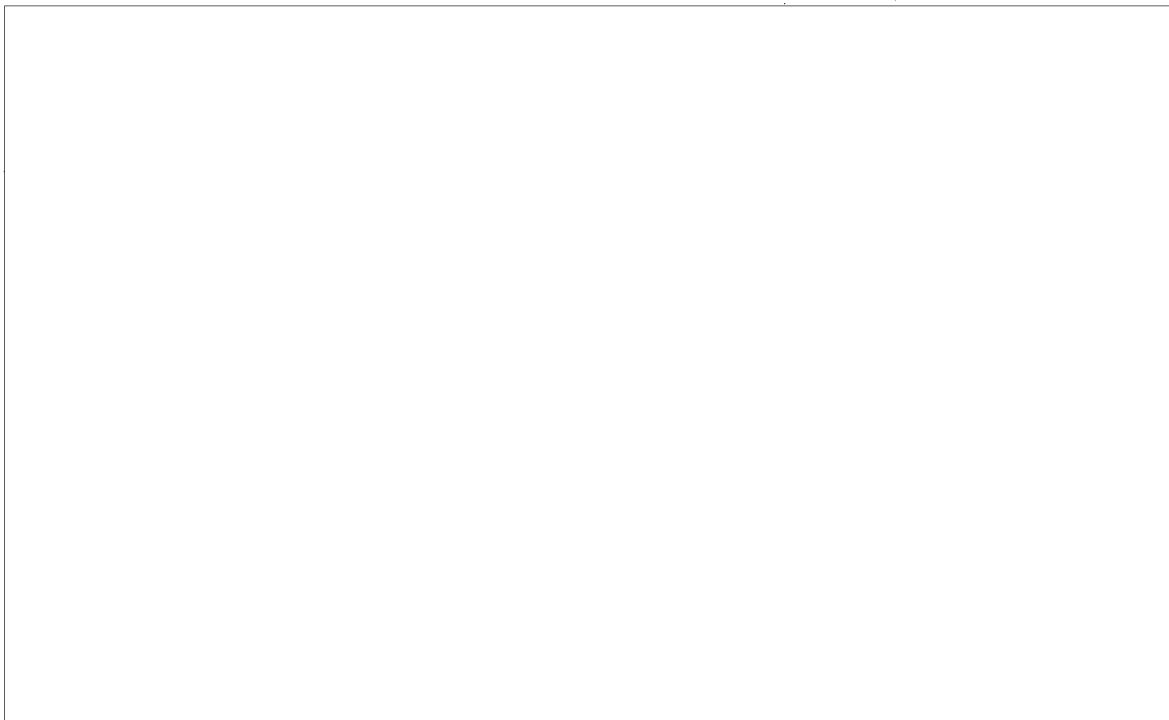
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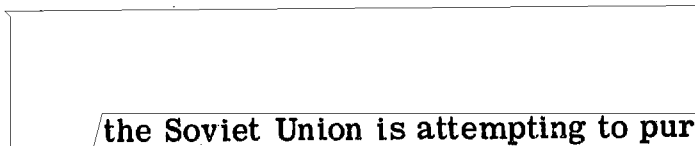
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**GENERAL**

1.



2. Soviet Union attempts large copra purchase from Indonesia:



the Soviet Union is attempting to purchase 50,000 tons of copra from Indonesia for which payment would be made in gold. [redacted] price was no object to the Soviet Union and that immediate delivery was desired.

Comment: Indonesia has blamed the United States for reduced world prices for its principal products and is looking toward the Communist Orbit for an expanded market.

The Soviet Union is attempting to obtain increased amounts of fats and oils in non-Orbit countries. Substantial purchases from Indonesia will tend to increase the prestige of the Communists there.

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~~TOP SECRET~~**FAR EAST****3. Peiping reacts strongly to Indian proposal on Korean prisoners:**

The Chinese Communists have informed India that they could not "stand idly by" while the prisoners in Korea are being returned to the UN Command, according

to a report from the British high commissioner in New Delhi. Secretary General Pillai of the Indian Foreign Ministry told the commissioner on 13 January, however, that he did not think this amounted to a serious threat of intervention and that the Indian government was not too concerned.

Comment: Peiping propaganda also asserted that the Chinese could not "stand idly by" before they intervened in the Korean war in 1950. In that case, however, the propaganda was reinforced by an explicit statement from Premier Chou En-lai to the Indian ambassador that the Chinese would intervene if American forces crossed the 38th Parallel.

In the current case of the prisoners, Peiping's propaganda has warned of "grave consequences," but no Chinese spokesman has yet, either publicly or privately, threatened military action.

**4. Thimayya may alter Korean prisoner release date:**

General Thimayya may hold the Korean prisoners until 23 January, instead of turning them back beginning on the 20th, if the Communists reject his "turn-back"

proposal, according to American representative Kenneth Young. Thimayya added that while the whole prisoner issue is subject to his government's continuing review, he is convinced that New Delhi will remain firm on ending the custody of the prisoners by the 23rd. He takes for granted that the only question left is one of method, and that since time is so short, he may have to act on his own.

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Comment: Although Prime Minister Nehru may change his mind at the last minute, the current prospect is for the Indians to end their custody of the prisoners on or before 23 January with only minor disorders.

The Communists may refuse to accept their prisoners in line with their contention that they are observing the 8 June agreement while the United Nations Command is not.

5. Communists seen unwilling to withdraw charge of American "perfidy":



An Indian official informed American representative Young of his impression, after talking with Chinese Communist delegate Huang Hua in Panmunjom on 17 January, that the Communists are "not interested" in the current American proposal that they withdraw their "perfidy" charge. The Indian inferred that they wish to preserve this charge for use in connection with the anticipated release of prisoners this week.

Comment: The Communists can be expected to respond to the prisoner release as they did to South Korea's unilateral release of 27,000 prisoners last June -- that is, to accuse the United States of collusion in an act of perfidy but to refrain from taking any military action on the issue.

Another reason for the Communists' lack of interest in current American proposals at Panmunjom is their apparent decision to avoid serious negotiations for a Korean political conference pending developments in the United Nations and at the Berlin four-power conference.

SOUTH ASIA

6. American ambassador forecasts reaction to reduced US aid to India:



Ambassador Allen believes that a substantial reduction in American aid to India for 1954-55 would be taken as a diminution in American

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interest in India's economic stability, and that, alternatively, cessation of such aid would convince Indian officials and the public that the ruling motive of American policy is purely military. By 1956, however, Allen feels that US aid could begin to be phased out without serious political repercussions.

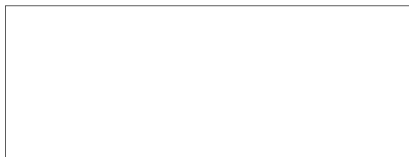
The embassy estimates that India can utilize properly \$100,000,000 to \$110,000,000 financial aid in 1955, but there is little chance that India could absorb large quantities of American surplus agricultural products.

Comment: The possibility of American military assistance to Pakistan has heightened India's sensitivity toward changes in American foreign aid policies. American aid to India has totaled \$186,700,000 since 1951, not including the \$190,000,000 wheat loan that year.

The Indian finance minister has estimated that \$500,000,000 in outside assistance will be needed by 1956 to complete India's current five-year plan.

#### NEAR EAST - AFRICA

#### 7. Greek leaders may reduce air force:



Defense Minister Kanellopoulos has informed Ambassador Cannon that Prime Minister Papagos expects to discuss with General Gruenther the advisability of reducing the size of the Greek air force during his forthcoming visit to Paris. Kanellopoulos indicated that the Greek government now favored cutting defense expenses.

Comment: Greek defense expenses now account for approximately 30 percent of the annual budget and the government's growing conviction that they should be cut has been strengthened recently by opposition exploitation of this issue.

~~TOP SECRET~~**EASTERN EUROPE****8. Comment on Yugoslav party's disciplining of Djilas:**

There is no evidence that foreign alignments were involved in the disciplining of Milovan Djilas. Top leaders, including Tito, emphasize that Yugoslav foreign policy will not be influenced and cooperation on a "foreign political plane" with the Western democracies will continue.

Despite heavy concentration on Djilas' ideological errors, the party's continued emphasis on his attack on the "fancied superior morals" of the inner party circles suggests that personal differences were an important part of the clash.

Strong efforts, probably including attacks on "Western, bourgeois" influences within the country, can be expected in an effort to reassert the solidarity of the Yugoslav Communist Party. The central committee proceedings made it clear that runaway trends toward the liberalization of political activity are to be stopped, but Tito emphasized that a swing to the other extreme must not be made.

Tito's suggestion that the central committee immediately deal with "as many similar cases as there may be" suggests that a purge of other Communists will follow. It is doubtful, however, that a purge would effect other top leaders or seriously weaken their control of the country.

**WESTERN EUROPE****9. Paris embassy comments on French attitude toward Berlin talks:**

Commenting on French attitudes toward the Berlin conference, the American embassy in Paris states that the coalition is fairly united on the need for Western solidarity, but hopes that a real relaxation of East-West tensions can somehow be achieved. There is at the same time some suspicion that the United States does not share this hope and would like to see the conference fail, since failure would favor EDC ratification.

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The embassy, which doubts that the present government would or could go far in bilateral dealings with the USSR on Germany, comments that no French government could refuse to give serious attention to any Soviet proposals on Indochina.

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