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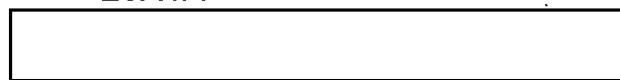
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**1. RESIGNATION OF HUNGARIAN PARTY LEADER RAKOSI**

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The removal of Matyas Rakosi from his post as Hungarian party first secretary and from his position on the politburo on 18 July, coupled with the election of new members to the politburo, represents a clear-cut gain for the moderate faction of the party. The selection, however, of economic czar Erno Gero as the new first secretary probably reflects Moscow's desire to restrain and control the rightist movement, while simultaneously granting some of its demands. First Deputy Premier Gero is a "hard-line" Rakosi follower and reliable Moscow-oriented Communist.

In his acceptance speech, Gero announced plans for an immediate improvement in the standard of living and stated that an open letter of apology would be sent to the Yugoslavs for past "slanders."

Although apparently supporting Rakosi at least until June, Moscow may have reluctantly decided that a combination of Rakosi's inability to handle the factionalism problem and Rakosi's traditional antipathy toward President Tito of Yugoslavia rendered him a liability. In exchange for Soviet withdrawal of support for Rakosi, permission for additional concessionary "relaxation" policies, and the granting of increased moderate representation at top party levels, moderate leaders Janos Kadar and Imre Nagy may have agreed to support efforts to restore party unity.

Kadar is one of the four new members of the politburo, only one of whom apparently represents the "hard-line" group. Two new alternate politburo members also apparently support the moderate wing.

The removal of Rakosi and the increase in the power of the "soft-line" forces are compromise measures which presumably have been adopted as a calculated risk, one that is to be minimized by the selection of Gero as party first secretary. The risk stems from the probable creation of confusion among Rakosi followers and the possible stimulation of new and outspoken demands from the intellectuals and from the party moderates, especially at lower levels.

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**5. SOUTH VIETNAM MAY SEND EXPEDITION  
TO SPRATLYS**

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[Redacted]

President Diem seems determined to mount a "symbolic occupation" of one or more of the disputed Spratly Islands in the South China Sea to reinforce

South Vietnam's claim to this group, according to the American embassy in Saigon. Diem's position is that South Vietnam cannot "stand idly by" while Nationalist China, the Philippines, and France actively advance their claims to the islands.

South Vietnam's interest in this connection has been intensified by publicity over the recent establishment of a Chinese Nationalist garrison on one of the Spratly Islands. An unofficial Filipino group has been active in the Spratlys and a French naval vessel is also present in the area.

Although the expedition apparently is not imminent, as naval orders to implement Diem's directive have not yet been issued, Diem's wish to take some face-saving action adds a further complication to an already delicate situation.

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