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24 August 1956

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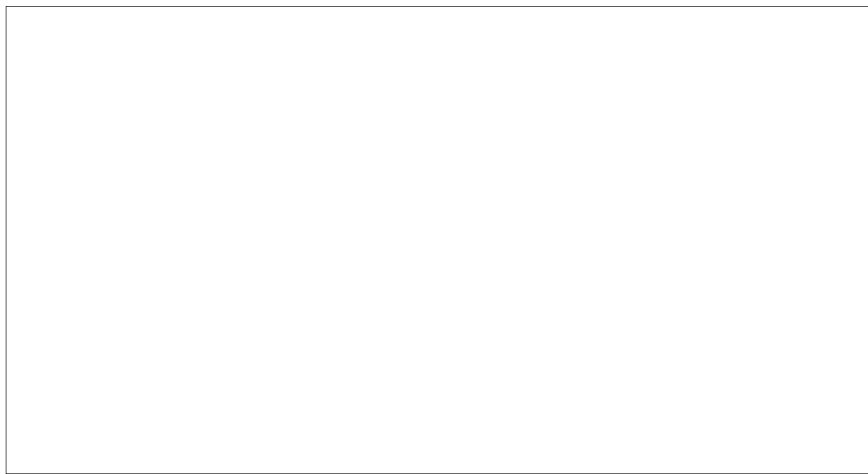
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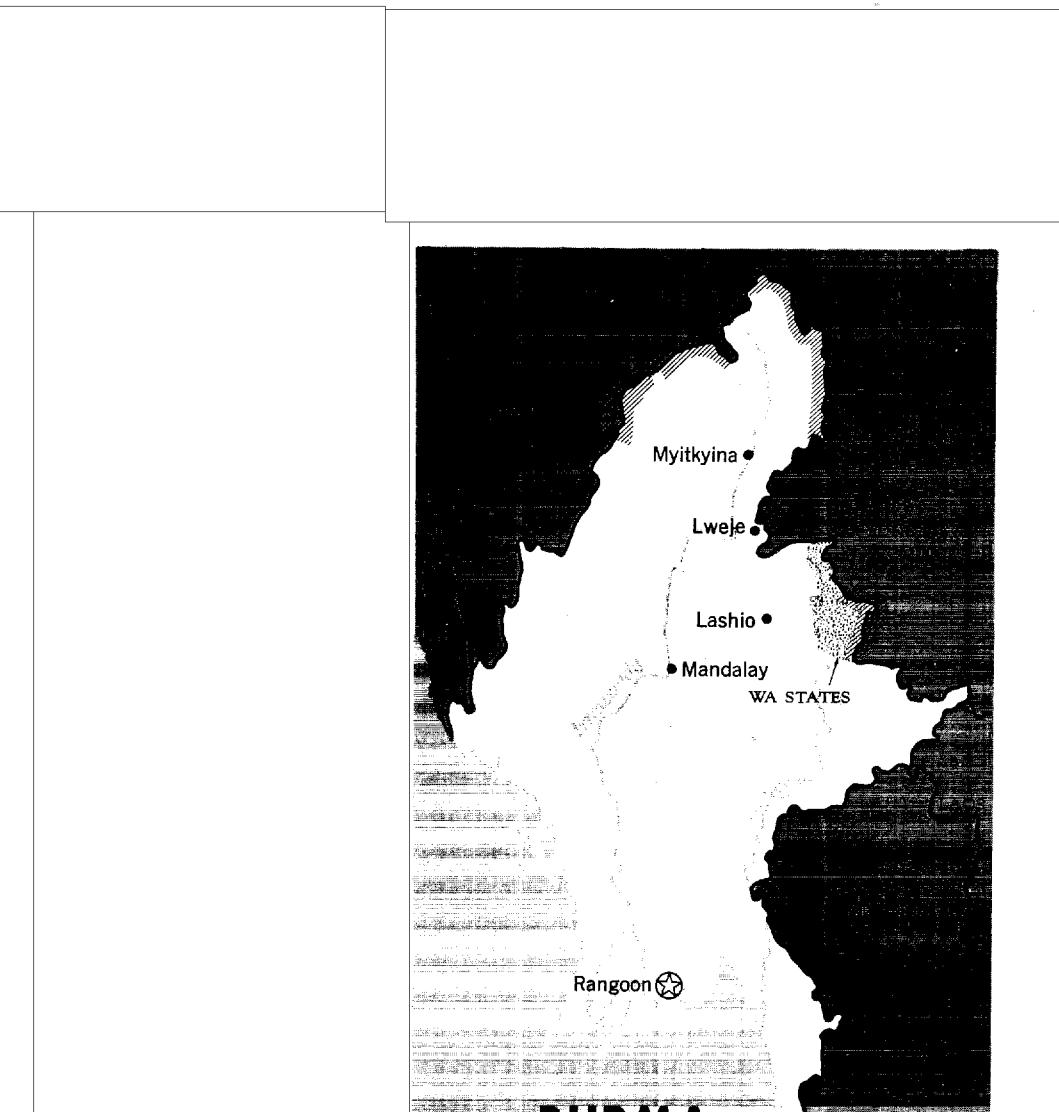
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**1. BURMA SENDS STRONG NOTE TO CHOU EN-LAI ON
BOUNDARY DISPUTE**



Ba Swe declared that Burma could not accept Chou's characterization of this portion of the frontier as "the southern undetermined section." He insisted that the boundary drawn

BURMA

24 AUGUST 1956

undemarcated boundary
indefinite boundary

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miles

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in 1941 by Nationalist China and Britain should be accepted by both parties and requested that a joint commission be established to set up boundary markers.

Comment

Chou's plans for a personal visit to Rangoon and a border conference--presumably similar to the inconclusive good-will gathering of tribal leaders held on the Burma side of the border last February--reflect growing concern in Peiping that continued publicity over the boundary controversy may be adverse to China's interests. These actions appear designed to placate the Burmese without granting any concessions along the Sino-Burmese frontier. Chinese Communist troops are still in the disputed territory.

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2. SOVIET ARMY DEMOBILIZATION MEASURES REPORTED

[Redacted]

Since the announcement last May that the Soviet Union would reduce its forces by 1.2 million men by May 1957, Marshal Zhukov has reportedly ordered the release of officers and enlisted men who have completed 25 years of service, those with family problems, and those guilty of misconduct.

Reductions are also to be made in the numbers of political officers and personnel in auxiliary military installations.

These steps are reported as being in preparation for a demobilization of military units this fall.

Comment It is believed that a number of officers were retired--some against their will--after the announcement in August 1955 of a 640,000-man reduction in the armed forces. Also, some undesirables were weeded out of the Group of Soviet Forces in Germany last fall.

There have been several indications that the number of political officers has been reduced over the past two years, although not necessarily in connection with the announced reduction of forces.

3. KRISHNA MENON'S ROLE IN THE SUEZ CONTROVERSY

Krishna Menon's activities as "middleman" at the London conference have probably ensured him an important role in any subsequent attempts to negotiate the Suez controversy. However, his insistence that Egypt, as well as the West, must make some concessions appear to have irritated the Egyptians.

The provision for an international "advisory council" for the Egyptian canal company included in his plan was probably cleared with Nasr.

Menon's proposal originally had an additional provision for representation of foreign maritime companies on the canal company's board of directors. This was eliminated only as a result of the USSR's threat to satisfy Cairo's objections to it by submitting another proposal excluding this item.

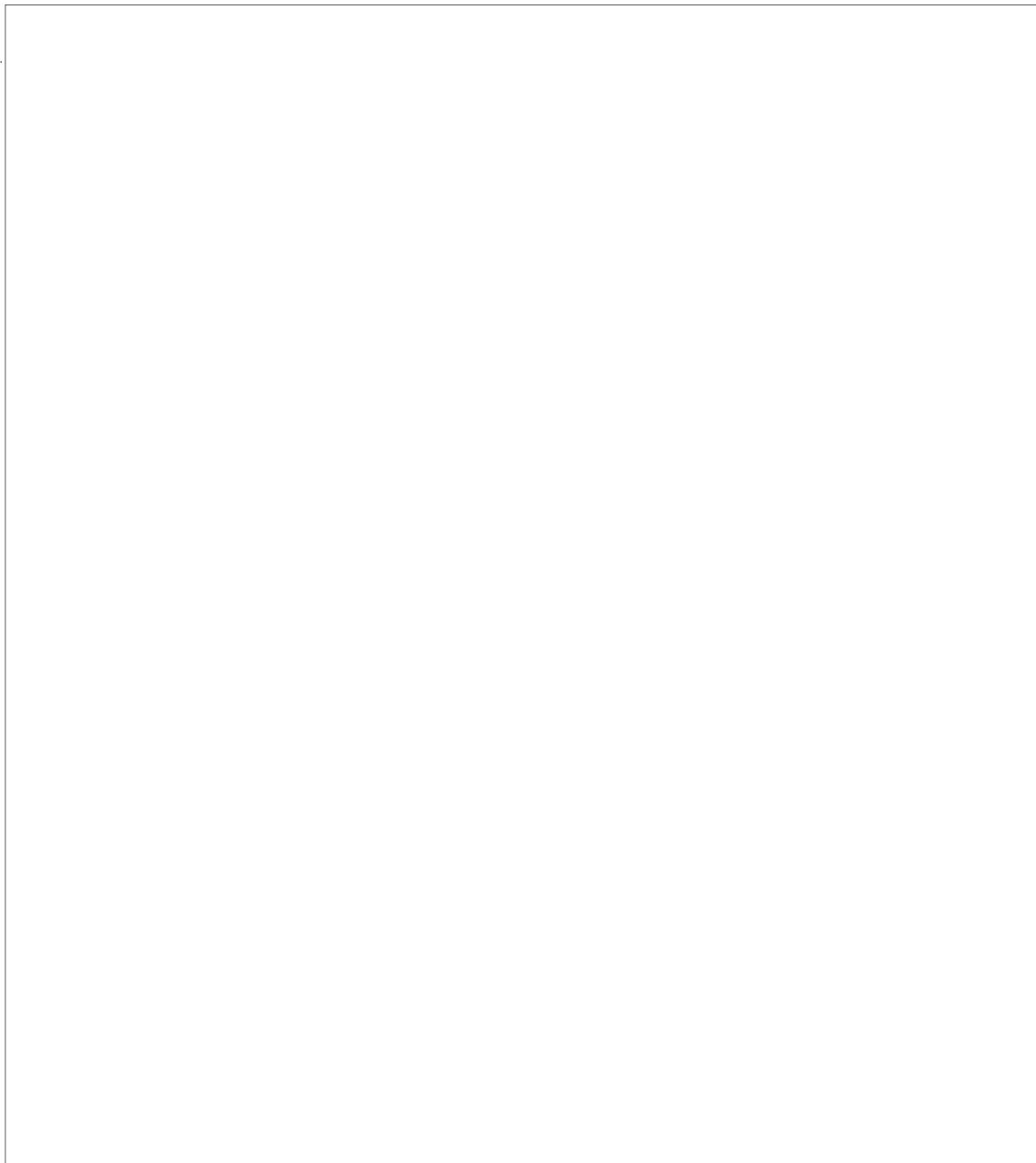
Menon has from the beginning aimed at a second and possibly a third Suez conference in which Egypt

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would participate and which would almost certainly have to take into account the Indian proposal. Ceylonese prime minister Bandaranaike reportedly announced on 23 August that Ceylon has suggested to Cairo that Colombo be the site for a second Suez conference. Bandaranaike has been in close touch with Nehru on the Suez problem and his proposal may be aimed at providing Menon with a more effective platform to continue his mediation.

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**4. EGYPTIAN TERRORIST ACTIVITIES MAY BE
STEPPED UP**



5. TURKEY'S FINANCE MINISTER RESIGNS

Comment on:

The sudden resignation of Turkey's Minister of Finance Nedim Okmen on 22 August and the assumption of the finance portfolio by Prime Minister Menderes suggest an approaching financial crisis. Okmen's resignation probably springs from the basic conflict over economic policy in the government.

Last January Okmen threatened to resign if Menderes opposed his economic stabilization program; Menderes reluctantly approved the plan, but its implementation has been slow. Menderes' strict price control program and his refusal to devalue the currency according to the International Monetary Fund's recommendations probably convinced Okmen that he should follow the example of former minister of economy Ulas and resign in protest.

Turkey faces a major financial crisis. Its exports are lagging, and despite the temporary benefits of the new price controls, domestic industry is suffering from a severe shortage of raw materials and spare parts, unemployment is increasing, and there is a serious shortage of many consumer goods including food items.

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6. ALGERIAN REBELS REPORTEDLY HAVE ENOUGH SMALL ARMS

[redacted] the rebels now have an adequate supply of all types of small arms currently needed, [redacted]

[redacted] This new situation is reportedly due to an improved supply from foreign sources, an increasing number of desertions among both Foreign Legionnaires and Moslem troops from tropical Africa, and the unexpectedly large quantity of weapons captured from the French army.

The main problem facing the Algerian rebels now, [redacted] is to obtain sufficient ammunition to make use of the weapons and men now available. As a result, the rebel leaders are now urging potential deserters to "come over" without arms but with as much ammunition as they can carry. [redacted]

Comment

[redacted] the Algerian resistance is now well supplied with small arms and lacks only certain types of ammunition and heavy weapons.

THE ARAB-ISRAELI SITUATION
(Information as of 1700, 23 August)

According to an Israeli spokesman, three Egyptian positions opened mortar and machine gun fire on an Israeli army patrol in the Kissufim area near the Gaza strip. The Israeli patrol returned the fire. No casualties were reported. (Press)

A Jewish Agency official who is responsible for agricultural settlements in the Negev district told an American embassy official that his agency has established five settlements in the El Auja demilitarized zone manned by the paramilitary "Nahal" group. He said these settlements are not bona fide farming projects but "uneconomic defense projects." Nahal forces possess the military training to make these villages strong border fortifications. The official said the whole zone has been annexed to settlements

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Syrian minister of defense Raslan announced on 23 August that Syria and Jordan have formed a joint military command to implement their recent military agreement. He gave no further details. The new command, however, is probably on the pattern of the joint Egyptian-Saudi Arabian and Egyptian-Syrian commands. Syria and Jordan had already established a joint military policy committee and a joint operations staff which is believed to have functioned generally under the Egyptian-Syrian-Saudi command system. The formation of this command indicates close military association of Jordan with the Egypt-Saudi-Syrian bloc and suggests that Jordan will receive arms as a quid pro quo.

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