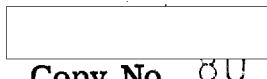


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GENERAL

1. USSR and Iran soon may settle financial and border disputes:

[Redacted] It appears that the USSR will release Iranian gold and credits now held in Moscow, according to Ambassador Henderson. On border problems, the

USSR will probably retain a salient north of Firezeh east of the Caspian in return for minor concessions to Iran on the Azerbaijan frontier. Henderson does not consider, however, that Soviet policy toward Iran has necessarily "entered a soft period."

The Iranian Foreign Ministry is pleased with the Soviet attitude in the negotiations thus far, but is aware that the Kremlin may attempt to introduce unacceptable political conditions before any agreement is signed.

Comment: The unconditional release of the \$21,000,000 in gold and credits held by the USSR since the end of World War II would probably reflect a serious reappraisal in Moscow of Western influence in the area. It might foreshadow offers of economic and technical assistance, such as Moscow recently offered to Afghanistan, in an effort to woo Iran away from the West.

2. Compromise apparently reached in Balkan military alliance negotiations:

[Redacted] Greece, Turkey and Yugoslavia have agreed in principle that the Balkan military alliance should provide for immediate discussion of any threat to the

security of any of the three arising from prior international commitments. Only action to be taken in the area covered by the military alliance would be considered in such discussions.

Director General Kyrhou of the Greek Foreign Ministry, in reporting this to Ambassador Cannon, expressed his belief that Yugoslav reluctance to agree to a strong reciprocal commitment with NATO stems from disinclination at present to risk disclosure of military information to the Italians or to subject Yugoslav troops to possible service under an Italian commander.

Comment: The compromise would evidently limit Yugoslav measures to the Balkan pact area, whereas the draft text presented by Greece apparently did not limit the area. A compromise on this issue would remove a major stumbling block to the formation of an alliance.

3. Soviet ambassador ostensibly seeks improved Soviet-Yugoslav relations:

In the 30 June interview with Marshal Tito, Soviet ambassador Valkov discussed only the slow pace of "normalization" of Yugoslav-Soviet relations and expressed hope that they might be improved, according to Yugoslav foreign secretary Popovic. Popovic says that Valkov's insistence on the urgent nature of his visit has been the cause of considerable amusement in top circles.

Tito took the opportunity to complain about the treatment of Yugoslav diplomats in Moscow and anti-Yugoslav propaganda in the Satellites.

Popovic believes the timing of the visit was related to Balkan alliance developments, which were not, however, mentioned. Another Yugoslav official has termed the interview purely another Soviet attempt to arouse speculation at the possibility of a Soviet-Yugoslav rapprochement.

Comment: The Yugoslav attitude toward Valkov may have arisen from a desire to show the Soviets that Belgrade was interested only in concrete and meaningful actions in the "normalization" efforts, but Popovic may have colored his report somewhat in order to impress upon the American embassy Yugoslavia's present orientation.

FAR EAST

4. Rhee demands renewal of war or increased aid before coming to Washington:

[redacted]

President Rhee wrote Secretary Dulles on 1 July that he would be unable to visit Washington without definite prior assurance of American agreement to resume the Korean war or immediately increase South Korean armed strength, according to the American embassy in Seoul.

Comment: The requested increase in military strength would not substantially alter South Korea's security against an attack from Communist China. It would, however, further Rhee's objective of increasing the United States' stake in Korea.

South Korean officials [redacted] are showing an increased interest in American logistics policies. Rhee's demands suggest that an increased level of supply may be his major objective, thus overcoming the major block to unilateral military action.

SOUTHEAST ASIA

5. France willing to concede Tonkin to the Viet Minh:

[redacted]

The chief of the French delegation at Geneva told an American representative he had informed the Viet Minh representative on 2 July that France has accepted the proposal that the Viet Minh receive the "Tonkin area, including the capital." He told the American official that France would, however, have to hold the Haiphong area for a considerable period.

The French spokesman added that he made it clear the Viet Minh demand for the 13th parallel as a line of partition was unacceptable and France would insist on a line north of Dong Hoi, at about the 18th parallel.

6. Viet Minh force in south Annam plans drive to Cochinchina border:

[redacted] [redacted]
 [redacted] the French commander in south Annam, has information that Viet Minh forces in the area, totaling some 13 battalions, have received orders to drive to the Cochinchina border by 15 July (see map, p. 7). French forces are outnumbered and Beaufort is greatly concerned since the Viet Minh units are armed with Soviet or Czech automatic weapons and flares for night fighting.

The American chargé in Saigon comments that it is fairly obvious the Viet Minh intends "to gain the 13th parallel either by force or by negotiation."

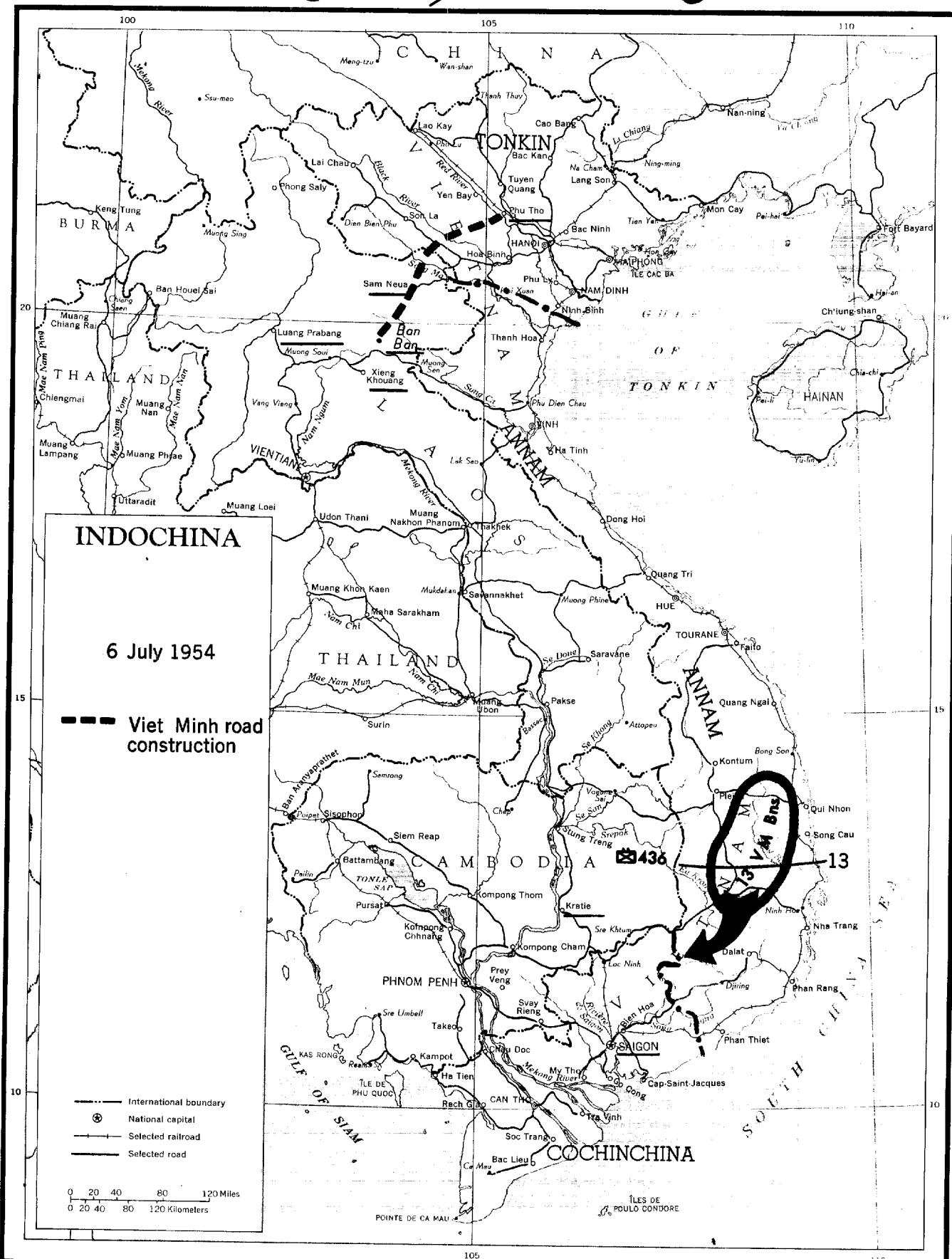
Comment: A division at the 13th parallel would give the Communists almost all of Annam. The Viet Minh may also be attempting to place large forces in or near South Vietnam in order to increase French difficulties in retaining control after any "cease-fire" is reached. Similar attempts apparently are under way in Laos and Cambodia.

In Laos, the Viet Minh is actively conducting reconnaissance of all main trails leading to Xieng Khouang, Vientiane, and Luang Prabang, and is building a new road from Phu Tho and Sam Neua to Ban Ban.

In Cambodia, the Viet Minh 436th Battalion, which was recently defeated by Royal Army troops near Kratie, apparently will remain in Cambodia and not withdraw into Laos as the French had expected.

7. Comment on Chou En-lai meeting with Ho Chi Minh:

[redacted]
 Peiping radio announced on 6 July that Premier Chou En-lai had held talks with Viet Minh president Ho Chi Minh on the China-Vietnam border. The meeting may have taken place in Nanning;



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Chou probably made this detour, on his return from India and Burma, to brief Ho on his conversations with Mendes-France and other French Union representatives and to discuss terms for an Indochina settlement. Peiping's purpose in publicizing the talks was presumably to confer international prestige on Ho.

In recent months the USSR and Communist China have increasingly committed their own prestige to the fortunes of the Viet Minh, and on several occasions the Chinese have implied willingness to intervene in Indochina if necessary to support Ho. In the past few weeks Communist comment has suggested a belief that no such intervention will be necessary.

8. Indonesian prime minister implies approval of rubber shipment to China:

[redacted]
Prime Minister Ali told the American ambassador on 5 July that he had to balance his desire to improve US-Indonesian relations against his duty to small rubber producers, who are having difficulty finding markets for their low-grade rubber.

Ali did not directly admit that Indonesia planned to send rubber to China, but said he hoped it would be possible to find an area for the exercise of executive discretion in application of the Battle Act should some shipment take place. He added that the volume of American assistance is so small that its withdrawal under the Battle Act would not be missed.

Comment: A Polish ship at Djakarta is currently loading low-grade rubber marked for New York and Boston, but [redacted] this shipment is actually destined for Communist China.

LATIN AMERICA

9. Costa Rica fears invasion from Nicaragua:

Costa Rican foreign minister Esquivel informed Ambassador Hill and three Latin American ambassadors on 3 July that a "large armed group" is preparing to invade Costa Rica from Nicaragua. He said the group, which includes Costa Ricans who fought with the Guatemalan rebel forces of Castillo Armas, has aircraft and is being aided by the Nicaraguan and Venezuelan governments.

Ambassador Hill believes that Costa Ricans would "resist with their lives" such an attempt against their government.

Comment: It has been apparent for some months that the Venezuelan and Nicaraguan governments have been giving serious consideration to ousting the Figueres administration in Costa Rica. They may now be attempting to organize and equip a force of mercenaries and supporters of the discredited former Costa Rican president Calderon Guardia for an invasion of the country.

Costa Rica enjoys considerable prestige among democratic elements throughout Latin America. Neighboring governments feel threatened by the Figueres administration's sympathetic reception of political refugees from their countries.