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GENERAL

- Chou En-lai shows further interest in direct talks with Chinese Nationalists:**

Chou En-lai

agreed with the recent proposal of the ex-Nationalist leader, Li Tsung-jen, for direct talks between Communist China and Nationalist China "to settle the future of Formosa," but he rejected the idea of a plebiscite on Formosa, if such talks were to break down.

Chou also agreed with Ho Chi Minh's statement [redacted] that Asian nations could solve their mutual problems "peaceably, like relatives," if the United States would refrain from intervening.

Comment: The Ho-Chou theme illuminates the long-standing Communist aim--which would be evident in any international conference on Far Eastern issues--of securing a withdrawal of American power and influence from the Far East. Peiping has indicated it hopes, after negotiating the withdrawal of American forces, to arrange with the Nationalists for a peaceful turnover of Formosa.

Chou's rejection of a plebiscite is based on his contention that Formosa belongs to Peiping and on his fear that the Communists would lose such a vote.

Li Tsung-jen, elected vice president of Nationalist China in 1948, served briefly as acting president before Chiang Kai-shek resumed control in 1949. He has lived in the United States for the past six years and was expelled from Chiang's Nationalist party, Kuomintang, last year.

SOUTHEAST ASIA

2. Continuing Indonesian crisis causes Sukarno to delay trip abroad:

President Sukarno's decision to cancel his planned state visits to five Asian countries and postpone his departure for Mecca from 12 to 18 July reflects his growing concern over the continuing army-cabinet crisis. Presumably he fears that developments in his absence might bring about the cabinet's fall and cause a further decline in personal prestige.

Sukarno may hope to effect a compromise by 18 July with Indonesia's seven territorial commanders, who have been in conference in Djakarta since 9 July. He is also reported to be in intensive consultation with Prime Minister Ali and Vice Prime Minister Arifin.

The chairman of the Masjumi, the chief opposition party, has stated that the government's failure to solve the chief-of-staff problem and its increasing loss of authority place the country in acute danger. He believes a cabinet appointed by and responsible to the president might be an acceptable solution. Vice President Hatta, who is frequently discussed as the leader of a "presidential cabinet," is reported unwilling to head such a government because it would have no constitutional basis. He undoubtedly would accept the responsibility, however, if requested to do so by parliament.

SOUTH ASIA

3. Afghan finance minister comments on Afghan-Soviet transit agreement:

Afghan finance minister Malik told an American embassy officer in Kabul on 6 July that the Afghan-Soviet transit agreement announced on 28 June would not give the USSR a monopoly of Afghanistan's foreign transit trade.

He said, however, that if the Pakistani blockade continues, "nearly all" Afghan goods would be shipped through the USSR.

The finance minister warned that he knew Pakistani pressure was being exerted in the hope of removing Prime Minister Daud but stated that the pressure was actually strengthening Daud's position by causing certain normally dissident elements to rally around him.

Comment: Malik's remarks seem designed to convince the United States that Afghanistan will be lost to the Western world unless Pakistan is forced to abandon its economic blockade.

The Pakistani blockade does not vitally affect the primitive Afghan economy, however, and there is no need as yet for the Afghan government to resort to extreme measures. It appears, therefore, that the threat to turn to the USSR is still being used more as a bargaining point than as a serious declaration of intent and that its aim is to help Afghanistan extricate itself from the dispute with Pakistan with as little damage as possible.

Kabul's contract with a Swedish firm to drill for oil near the Soviet border, announced on 28 June, and Daud's recent personal request for an American construction firm to begin work on an international airport at Kandahar indicate that Afghanistan still hopes for Western aid on basic economic projects.