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GENERAL

1. Comment on Soviet invitation to Adenauer:

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West German chancellor Adenauer will probably visit Moscow in response to the Soviet invitation of 7 June. Some preliminary exchanges may be necessary to arrange details.

Adenauer realizes the political necessity of appearing to do everything possible for German unification, and considers it equally essential for Bonn to avoid losing the confidence of the Western powers. German leaders agree that diplomatic and trade relations with the Soviet Union should be established, as proposed in Moscow's note. The Western Allies have already expressed confidence in Adenauer's ability to handle the matter.

Moscow may hope to fan West German interest in neutrality by presenting prior to the planned four-power conference a new unification plan more attractive than past ones. Adenauer would face heavy criticism from the opposition Social Democrats if he turned down a neutrality plan which also provided for free all-German elections.

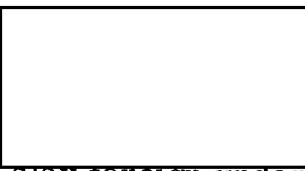
Even if the USSR made no new unification offer now, it would hope the West Germans would view a normalization of relations as an indication that fruitful negotiations on the unity subject are possible.

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SOVIET UNION

2. Yugoslav government believes USSR would compromise with West:

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Yugoslav leaders believe that with any encouragement from the West, the USSR would soon compromise in order to reach an understanding, according to the Yugoslav foreign under secretary. The Yugoslav government believes that more contact with the West will eventually lead to greater realism on the part of the Soviet leaders and hence that negotiations are more necessary than ever.

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The Yugoslav government thinks that great changes have occurred in the USSR and that more are coming, even though not overnight. It feels that the Soviet trip represented efforts to inaugurate a new policy, and that the Soviet leaders recognize that the Stalin policy was often "stupid." During the Belgrade meetings, the Russians freely criticized Stalinist policies, including the proposal for one-third all-around reduction of armaments.

Comment: Yugoslav officials, when talking with Western representatives, have continued to back up the oft-repeated Belgrade thesis that real changes for the better are going on inside the USSR. There has been one report, however, from good sources of the American embassy in Belgrade that Tito is in fact disillusioned about the real Soviet attitude and not nearly so convinced as formerly of the USSR's peaceful intentions.

SOUTHEAST ASIA

3. Comment on Vietnamese army's campaign against Hoa Hao rebels:

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The Vietnamese army's campaign against Hoa Hao leader General Soai appears to be thus far mainly a show of force. No major fighting has yet developed. Soai's forces, estimated at not more than 7,500, are said by Premier Diem to be encircled southwest of Saigon. Some 24,000 national army troops are deployed in the general area. American observers estimate the combat effectiveness of the national army troops at more than twice that of the rebels.

The premier, still hopeful that an all-out campaign can be averted, states he has instructed his army commander in the area to explore any possibility that Soai may yet be brought to terms by peaceful means. Meanwhile, government troops are moving cautiously against Soai's forces, and Soai himself is said to be in hiding and out of contact with his troops. Thus far he has received no aid from the 3,300 troops of Ba Cut, the only other Hoa Hao commander still opposing the government.

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The campaign might end quickly as the result of large-scale rebel defections or a decision by their commanders to come to terms. On the other hand, it could drag on for weeks as a mopping-up operation, but the army's superiority is such as to leave little doubt of the eventual outcome.

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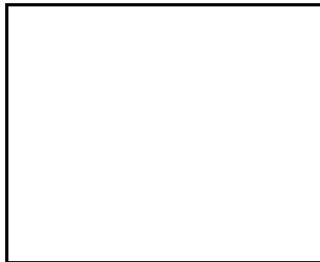
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EASTERN EUROPE

5. Comment on Yugoslav attitude toward the Balkan pact:

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Yugoslav foreign under secretary Prica, in his 6 June briefing of the American, British and French ambassadors, claimed that the Yugoslav leaders went out of their way to stress to the Soviet chiefs the significance of the Balkan alliance as an instrument for long-term collaboration with

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Balkan states. When the Soviet delegation raised the question of Bulgaria's admission to the alliance, the Yugoslavs rejected the proposal as highly unrealistic.

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some Yugoslav Communist Party members do not take the Balkan pact seriously, especially in view of the current improvement in Soviet-Yugoslav relations. The regime as a whole, however, can hardly consider the pact insignificant. The current value of the alliance to Yugoslavia arises from the prestige and international support it furnishes as well as its proof of Belgrade's contention that nations of differing social systems can co-operate in all fields. While the Yugoslavs have been subordinating the military to the economic and cultural aspects of the pact, they continue detailed military planning with the Greeks.

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