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~~SECURITY INFORMATION~~

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CENTRAL INTELLIGENCE AGENCY

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~~TOP SECRET~~**SUMMARY****FAR EAST**

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2. China now accepting low grade rubber from Ceylon (page 3).

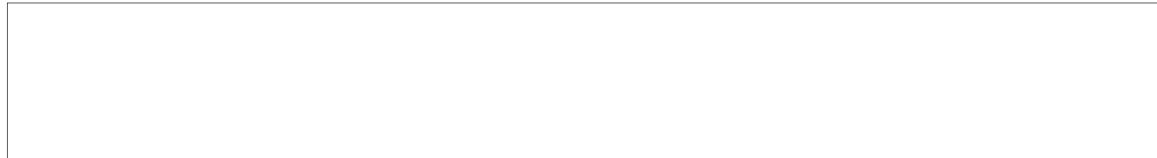
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3. American Ambassador comments on weak position of new Egyptian cabinet (page 4).

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FAR EAST

1. Comment on the South Korean political "compromise":

The action of the South Korean National Assembly on 4 July in passing the "compromise" amendments to the constitution will probably bring to an end the month and a half-old political crisis between President Rhee and his opposition in the National Assembly. Earlier in the week, the president had presented the Assembly with a virtual ultimatum that they must agree to popular election of the president or face dissolution. The compromise, embodying also amendments diminishing the power of the executive, represents a major shift in Rhee's position.

Although the immediate pressure is now off both Rhee and his opposition, it is apparent that Rhee has lost little ground. As a result of superior political organization on the local level, he will continue as chief executive despite his protestations of non-availability for the popular presidential election reportedly set for 15 July. The president's political machine will in future National Assembly elections enable his supporters to nullify concessions made to the Assembly by electing a pro-Rhee majority. Martial law and other pressures on opposition Assemblymen continue.

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2. China now accepting low grade rubber from Ceylon:

[redacted] the Polish vessel Jednosc, which sailed from Colombo on 3 July with 4,787 long tons of Ceylonese rubber for Communist China, [redacted]

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[redacted] the cargo includes 250 tons of inferior grade rubber, previously unacceptable to the Chinese Communists. The agent also verified another report that the Chinese no longer required shippers to deliver the full amounts specified in letters of credit, but were willing to accept partial cargoes.

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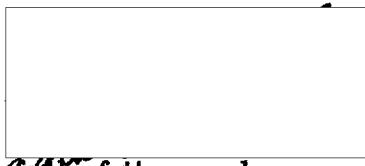
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Comment: The relaxation of specifications by the Chinese buyers reflects Peiping's concern over the reduction in China's rubber stockpile. Rubber imports from Ceylon, virtually the only source of supply for China since late 1951, have so far this year averaged less than 3,000 tons a month or about half the estimated capacity of Chinese rubber products factories.

The Chinese Communists are also negotiating for supplies from Indonesia. [redacted] 3.3(h)(2)
 [redacted] negotiations for the purchase of 20,000 tons of 3.3(h)(2)
 Indonesian rubber were well advanced.

NEAR EAST - AFRICA

3. American Ambassador comments on weak position of new Egyptian cabinet:



American Ambassador Caffery in Cairo states that the new Egyptian Government of Prime Minister Sirry Pasha will be undermined by the same factors that caused the fall of its predecessor and will probably not last long.

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Caffery reiterates his conviction that because of Britain's inaction on the Sudan, each government in Cairo finds itself weaker than its predecessor. He warns that unless the Sudan title is recognized, sooner or later the Wafd Party will be back in power. King Farouk still hates the Wafd, Caffery says, but he would rather have a Wafdist government than lose his throne.

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WESTERN EUROPE

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4. Yugoslavia seen outmaneuvering Italy in Mediterranean:

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[redacted] [redacted]

a growing feeling among informed Italians that Yugoslavia is seizing the diplomatic initiative from Italy in the Mediterranean area. This view is based on the recent visits to Tito of Austrian Foreign Minister Gruber and British Mediterranean Fleet Commander Lord Mountbatten, and the contacts between the Greek, Turkish, and Yugoslav general staffs.

The Italians believe that Belgrade's apparent efforts to create a Balkan entente are aimed at gaining Yugoslav entry into the Mediterranean defense system while simultaneously minimizing Italy's role in the Atlantic alliance. [redacted] reports that these considerations have led to the conclusion that it is time for Italy to negotiate with Yugoslavia over Trieste.

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Comment: Belgrade's interest in the problems of regional defense has grown perceptibly during the past year. The Gruber visit to Tito and the development of closer relations with both Greece and Turkey have been interpreted as part of Tito's answer to increased Italian pressure for Trieste. There has as yet been no formal contact among the Greek, Turkish, and Yugoslav general staffs.

5. Key West German Senate group supports Bonn-Paris treaties:

[redacted]

A leading Free Democrat in the West German state of Baden-Wuerttemberg says that his state's Federal Senate delegation will vote for the ratification of the contractual agreement and the EDC treaty. He believes that the Free Democrats in the state cabinet will either compel the Senate delegation to support the treaties or will force the dissolution of the cabinet, in order to replace the present state delegation in the Senate.

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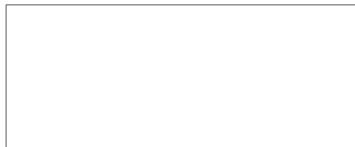
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Comment: Up to now, ratification of the treaties, scheduled for September, has been endangered by Chancellor Adenauer's minority position in the Senate. With the support of the Baden-Wuerttemberg delegation, final ratification of the treaties is practically assured.

If the Baden-Wuerttemberg cabinet should be dissolved over the issue, any successor cabinet would be certain to send a delegation which would support the treaties.

6. French Government handicapped in anti-Communist campaign:



The French Government intends to proceed 3.3(h)(2) with its legal campaign against Communist Party leaders, although a Justice Ministry official admits that Duclos' release has

dealt the prosecution a severe blow. The most serious consequence of the grand jury's verdict is that Duclos is now entitled to demand return of the evidence seized when he was arrested, and at any future trial his incriminating notebook would probably be barred as evidence.

At the same time, according to another official source, the government was secretly relieved over Duclos' release because he was seriously ill and his death would have provided the party with a real martyr.

Comment: The blow to the government's case has been softened by the revelation that the chairman of the grand jury which released Duclos was restored to his judicial functions in 1944 by one of Duclos' present lawyers and was a signer of the Stockholm Peace Petition.

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~~TOP SECRET~~**7. Spain insists on defense aid in return for granting US bases:**

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[Redacted]

The Chief of the Spanish General Staff has informed the United States Military Group that before Spain grants the bases desired by the United States, it will require a "statement of principle" from the American Joint Chiefs of Staff that the United States will provide "sufficient" defense material to offset Spain's consequent increased vulnerability. Once this prerequisite were obtained, a base agreement could be concluded "very quickly." The American Ambassador in Madrid believes that Spain is firm in its position.

Comment: In his July 1951 conversation with the late Admiral Sherman, Generalissimo Franco stated that the granting of bases would automatically place Spain in a belligerent status in the event of a war involving the United States, and, as a consequence, it must be given defense assistance. Madrid's insistence on such aid may also be based on fear that the formation of a European defense force, including Germany, reduces the importance of Spain to American security interests.

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