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**GENERAL****1. Soviet official comments on proposed economic conference:**

[redacted] the USSR was very much interested in a world economic conference to take place no later than the first half of 1956.

[redacted] the purpose of the meeting would be to put an end to all discrimination in matters of trade and that the initial question would be not so much of reducing Western trade controls as of "reviving commercial relations proper" and rendering the political principle of coexistence tangible on the economic plane.

Comment: This is the first elaboration of Molotov's suggestion for a world economic conference. The Soviet bloc, in the face of considerable evidence to the contrary, has long maintained that Western trade controls were the main deterrent to an expansion of East-West trade. This statement of [redacted] is the first official indication that the Soviet Union recognizes the negligible effect of present controls on the level of trade. (Prepared by ORR)

**2.**

**FAR EAST**

3. South Korea instructs mission to break off Washington aid talks:

**Comment:** This is South Korea's response to the American proposal that aid goods be priced into the Korean economy at an exchange rate of 700 hwan to the dollar, and that the UN Command obtain hwan at the same rate. A change in the rate would also be required whenever the Seoul price index changed by more than 25 percent.

South Korea has failed to prevent severe inflation and economic dislocation, which has dissipated the effect of American aid. The exchange rates required to stimulate imports and exports range from 700 to 850 to one.

If the South Korean mission returns home, President Rhee will continue his efforts to block co-operation and discredit American motives in an effort to obtain a windfall through an artificially low exchange rate.

**4. Comment on Peiping's views on de facto cease-fire in Formosa Straits:**

The Chinese Communist Party People's Daily on 15 July hinted that a continuation of the military quiet in the Formosa Straits--which has persisted since Chou En-lai's offer in April to negotiate with the United States--will depend on whether Peiping believes that progress is being made toward such negotiations.

Citing recent American remarks to the effect that a de facto cease-fire exists in the Formosa Straits, the Chinese commentary asserts that the US secretary of state believes "it is best to leave the Formosa question alone, . . . without going into negotiations." The secretary is said to have implied "something utterly impossible, namely that China has practically accepted a 'two Chinas' setup and that negotiations are therefore no longer necessary!"

In both public and private statements, the Chinese Communists have made clear their desire to effect a negotiated withdrawal of American forces from the Formosa area, and then to arrange a peaceable turnover of Formosa in direct talks with the Chinese Nationalists. Peiping has frequently denounced all suggestions for coexistence with Nationalist China, asserting as long ago as March that "the 'two Chinas' fraud--the American and British versions alike--will get nowhere."

The 15 July commentary raises the possibility that Peiping may resume its harassing action in the Formosa Straits in order to speed negotiations, and that a critical period in the area will begin whenever Peiping decides that it has nothing further to gain either from exploring the prospects for negotiations or from continuing any talks which may develop.

**SOUTHEAST ASIA****5. Comment on Premier Diem's statement regarding Vietnam elections:**

[Redacted]

Premier Diem, in his 16 July declaration regarding Vietnamese elections, did not reject the idea of unifying Vietnam by means of elections, but insisted that such elections be genuinely free and expressed skepticism as to whether this was possible in North Vietnam.

He reiterated that South Vietnam, as a nonsignatory of the Geneva accords, was not bound by them. His statement that his regime would not entertain any proposals by the Viet Minh until satisfied that the latter places national interests above those of Communism, clearly indicates that pre-election consultations are out of the question for the time being.

Although Diem's position is far from satisfactory to the French and British, their representatives in Saigon are agreed that his statement is the best that could be expected under the present circumstances.

Diem's stand on elections will undoubtedly provoke a vehement Communist propaganda campaign denouncing the premier and the United States. [Redacted]

**6. India likely to decide favorably on US-Cambodian military aid agreement:**

[Redacted]

The International Control Commission is in the final phase of making its decision whether or not the US-Cambodian military aid agreement violates the Geneva agreement, according to the American embassy in Phnom Penh. Ambassador McClintock reports that the Polish delegate has stated that he has been given carte blanche to vote "as Nehru directs."

The Indian chairman has express satisfaction with the Cambodian reply to ICC inquiries and has taken the

position that although there are "legal" reasons to regard the aid agreement a violation of the truce, these are overridden by "practical" considerations.

Comment: Nehru's view is the decisive factor in the final decision of the commission. An official of the Indian Ministry of External Affairs stated on 15 July that the Cambodian government's explanation of the agreement is acceptable to New Delhi and that an adverse decision by the ICC was unlikely.

7. Sukarno insists that Prime Minister Ali not resign:

[Redacted]

President Sukarno broke into a "frenzy" when Prime Minister Ali told him on 14 July he would like to resign, according to information passed to the American embassy by Vice President Hatta. Sukarno reportedly accused Ali of desertion and told him that under no circumstances would he be allowed to quit.

Meanwhile, Vice President Hatta continues to maintain that he is a "constitutionalist," although the source of this report has concluded that Hatta would not oppose strong action by the army to settle the crisis.

General Simatupang, a former chief of staff, is said to fear that younger army officers may take forceful action on their own if the crisis drags on and if they believe senior officers are compromising with the government.

Comment: The army is unlikely to be satisfied with the government's removal of defense minister Iwa and its offer to replace Chief of Staff Utoyo in the near future with an officer acceptable to the army. If the army rejects this solution, the government would appear to have no alternative but to resign, and Sukarno--with no military force to support him against the army--would have little choice but to accept Ali's resignation.

**8. Opposition and president differ on composition of Indonesian cabinet if Ali falls:**

[Redacted]

In the event the Ali government should fall, Indonesia's chief opposition party, the Masjumi, would prefer a caretaker cabinet appointed by the president and accountable to parliament to run the government until elections, [Redacted] Members of such a cabinet would participate as individuals and not as party members, thus relieving any party of responsibility for the government.

President Sukarno, however, [Redacted] favors attempting to form a cabinet in the usual parliamentary way. Only as a last resort would he appoint a "presidential cabinet." [Redacted]

**Comment:** Indonesia's provisional constitution does not provide for a presidential cabinet, which, however, could presumably be authorized by parliament. Vice President Hatta is most frequently mentioned as the most likely candidate to head such a cabinet.

In the past, formation of an Indonesian cabinet has required from five weeks to two and a half months. Lengthy cabinet negotiations might necessitate postponement of Indonesia's first national elections, now scheduled for 29 September,

#### NEAR EAST - AFRICA

**9. Arabs exerting pressure to prevent Iran's adherence to northern tier:**

[Redacted]

Comment: [Redacted]

Such tactics to dissuade Iran from joining the Turkish-Iraqi pact are unlikely to have any decisive influence on the Shah, whose principal interest is in obtaining large-scale American military aid without jeopardizing the successful implementation of the recent Soviet-Iranian agreement.

**10. Casablanca riots may delay Grandval program:**

[Redacted] Middle-of-the-road elements in Paris who have favored a more liberal policy for North Africa fear that the Casablanca riots, which erupted on 14 July and were continuing early on 17 July, may set back the program Resident General Grandval had begun to put into effect, according to the American embassy in Paris.

Paris still seems to have confidence in Grandval. One official stated, however, that Grandval may be instructed to refrain from such public actions as pardoning nationalists until order is fully restored in Casablanca and progress is made in investigating the disturbances.

Comment: While troop reinforcements and the application of martial law on 16 July should soon restore order in Casablanca, the possibility exists that serious clashes may break out elsewhere in Morocco.

The French settlers can be expected to exert the strongest possible pressure on Paris to replace Grandval.

He has angered them by actively continuing Paris' investigation of their counterterrorist activities and by ousting from office key figures in their organization. The Moroccans on their part will continue to agitate for the return of the former sultan, Mohamed ben Youssef, and for political reforms leading toward Moroccan independence.

**11. Spanish Moroccan nationalist predicts worsening situation in French Morocco:**

[Redacted]

Abdelkhalek Torres, leader of the Spanish Moroccan nationalist party, Islah, told the American diplomatic agent in Tangier on 14 July it was certain that

terrorism in French Morocco would increase in August. He said the only thing which would halt terrorism would be a formal guarantee by France to return former sultan Ben Youssef or an arrangement freely consented to by the ex-sultan. Torres believes the Moroccans have finally concluded that the French will yield only when their enormous economic interests are threatened. He admitted that France could not leave Morocco immediately, but suggested a transition period of ten years.

He recommended that Paris return French Morocco to the status quo existing before the deposition of the sultan in August 1953, permit the reorganization of political parties, set up a national assembly, and restore civil liberties. He doubted, however, that the powerful French settlers would permit the French government to undertake such steps.

Torres stated that the inactive phase for the Moroccan Communists is now past. He realized that if the Communists gained influence among the resistance groups, moderate leaders like himself would be eclipsed.

Comment: Other sources have predicted the likelihood of widespread disorders prior to 20 August, second anniversary of the deposition of the former sultan.

In his conversation with the American diplomatic agent, Torres implied that during August the nationalists will concentrate on economic sabotage.

**12. Greece unable to accept British date for talks on Cyprus problem:**

[Redacted]

The Greek ministers of defense and commerce, who are in effect running the Greek government because of Prime Minister Papagos' ill health, are greatly distressed because Britain has set August 29 for the Cyprus conference. They find it virtually impossible to accept such a late date, according to the American embassy, because it would prevent UN consideration of the Cyprus problem this fall if the talks are not productive.

The American embassy believes the only hope for a reasonable settlement of the Cyprus dispute lies with the continuance of the present Greek government in office. Any change would mean a weak coalition and would play into the hands of extremists.

Comment: The Greek government probably would be risking its downfall if it agreed to any plan which would prevent immediate UN consideration in the event the Anglo-Greek-Turk talks fail. If an earlier date cannot be agreed on, Greece is likely to reject Britain's offer and appeal directly to the UN.