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CENTRAL INTELLIGENCE AGENCY

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SOUTHEAST ASIA

1. American and Thai attaches excluded from observing Burmese military operation:

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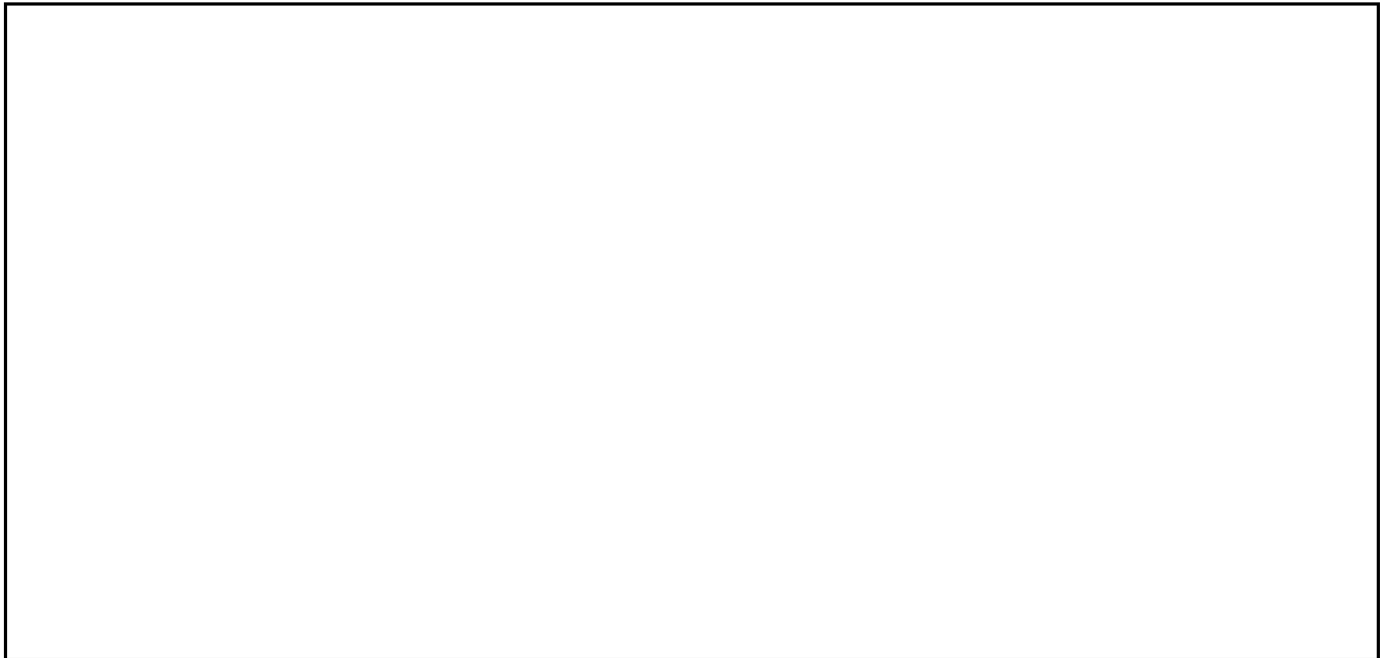


The Burmese War Office has invited the British, French, and Indian attaches in Rangoon to observe a military operation against Chinese Nationalist forces in northeastern Burma which is to begin in a few days. The American Army

Attache believes that his exclusion, along with that of the Thai attache, was an obvious slight intended to convey the Burmese attitude regarding the Nationalist problem.

Comment: The exclusion of the American attache is the first indication that relations between Burma and the United States, which have steadily improved during the last two years, have been affected by the recent activities of the Nationalists.

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NEAR EAST - AFRICA

3. Mossadeq opponent declines Shah's offer of Iranian premiership:

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The Shah, trying in desperation to find a successor to Prime Minister Mossadeq, has asked National Front deputy Hossein Makki to accept the premiership, according to Minister of Court Ala. Makki reportedly has refused, considering it premature to oust Mossadeq now when it could be done a little later with minimum effort.

According to Ala, the Shah does not wish to fight and continues to hope for a compromise.

Comment: Reports from Iran have speculated that Makki, who recently joined other old-line National Front leaders opposing Mossadeq, might be nominated as Prime Minister by a coalition of Kashani and the conservatives. His refusal suggests that he fears Mossadeq's strength.

The Shah's continued inability to decide on a firm course of action indicates that any compromise between

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Mossadeq and the Shah will be at the latter's expense. The Shah's inaction will eliminate his conservative pro-Western supporters as an effective political influence in Iran.

4. Israel reportedly makes compensation of Arab refugees a national policy:

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[REDACTED] The Israeli Government has adopted compensation of Arab refugees as a national policy, the secretary general of the Prime Minister's office advised the Department of State on 27 February. He planned to recommend that Israel officially announce this policy soon in view of the imminence of Bonn ratification of the German-Israeli Restitution Agreement, to which the Arabs are strongly opposed.

Comment: Israel previously agreed in principle to compensation as an integral part of an over-all peace settlement. This is the first indication that it might consider the problem separately.

Early implementation of this policy is unlikely in view of Israel's serious payments difficulties and the differences which will probably arise over the amount of compensation.

5. Indian Ambassador to Cairo actively promoting Egyptian "neutralism":

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[REDACTED] Indian Ambassador Panikkar in Cairo has recently been extremely active in promoting Egyptian "neutralism," according to Ambassador Caffery. He feels that Panikkar is capitalizing on the appeal of Arab-Asian "neutralism" as prospects diminish for an early settlement with Britain.

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Comment: K. M. Panikkar is a former Indian Ambassador to Peiping and a Communist sympathizer. He can be expected to exploit existing Egyptian neutralist sentiment in an effort to prevent the establishment of a regional defense organization which might extend membership to Pakistan.

WESTERN EUROPE

6. Comment on dispute over formation of new Austrian government:

The Austrian People's Party's proposal for a three-party "government of concentration" represents a dangerous maneuver designed to curb the influence of the Socialists. This effort, if persisted in, will further delay the formation of a government, embitter relations between the former coalition partners, and probably open the government to more effective Soviet attacks.

The Socialists, through their party press, have declared that they "absolutely reject" the participation of the Union of Independents in the government. They also warn that a rightist People's Party-Independents coalition would thwart the will of the voters and impair Austrian prestige abroad.

A belief by either major party that the US supports its policies could easily make it impossible to re-form the old two-party coalition, the preservation of which is considered essential for a stable government.