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**2. PARTY MODERATES MAY REPLACE GERO
IN HUNGARY**

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[REDACTED]

The position of Erno Gero as leader of the Hungarian Communist Party is "transitory," [REDACTED]

[REDACTED]

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[REDACTED] Nagy would re-join the party on the basis of a compromise, in which the party will admit that Rakosi, in 1955, was guilty of injustice against Nagy, while Nagy will agree to revise his "extremist" views.

Comment A recent article in the Yugoslav newspaper Borba implied that Nagy already has been readmitted to the party, and added that the process developing in Hungary demands his complete rehabilitation. The return of Nagy to public life would be viewed by the moderates as favorable to their efforts to speed liberalization, and welcomed by the local population who remember Nagy's milder economic policies.

The appointment of the doctrinaire Gero to replace Rakosi in July probably was designed to restrain moderate elements within the party during the initial stages of policy transformation. A more popular leadership, presumably formed from the moderate elements within the party, would be essential for a lasting solution of the problem of party factionalism and in order to gain some popular support for the regime.

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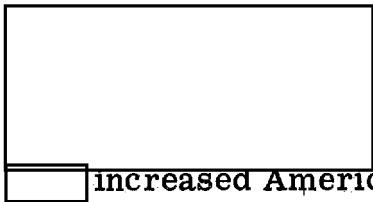
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**3. THAI PREMIER MAKES STRONG PLEA FOR
INCREASED US AID**

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Premier Phibun, on the occasion of a courtesy call of Ambassador Bishop and American aid officials in Bangkok on 20 August, said that Thailand must have increased American economic assistance in the training of skilled labor, in the development of communications facilities, and in the development of electric power.

Bishop points out that Phibun previously had always left to his subordinates the discussion of aid problems. In the ambassador's opinion, Phibun's vigorous and detailed presentation of Thailand's aid requirements on this occasion indicates the Thai government is now determined to test American intentions regarding increased assistance.

Comment

During the past six months, Thai officials and the press have complained that the American aid program has placed too much emphasis on military assistance. Thai officials, moreover, have complained that America gives more aid to neutrals than to Thailand.

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4. JAPAN THREATENS ACTION WHICH WOULD WEAKEN CHINA EMBARGO

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[Redacted]

Japan will soon follow the British lead in liberal use of the exceptions procedure for trade with Communist China unless immediate action is taken to obtain uniform observance of the embargo.

Shigeto Nikai, chief of the COCOM section in the Japanese Foreign Ministry, has told American officials that Japan recognizes this move would probably lead to the elimination of the embargo.

Nikai said that Japanese trade representatives in China had recently informed the Foreign Ministry that British and French commercial agents are offering to sell China a wide range of commodities on the China differential list. Nikai said that his government might not long be able to maintain a firm line on the China embargo.

Comment Peiping is pressuring Japan to disassociate itself from the American position on the China embargo and is trying to draw Tokyo into closer trade relations. Although China's ability to obtain embargoed items from Britain and France may be exaggerated, the argument will have a telling effect on the Japanese business community.

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