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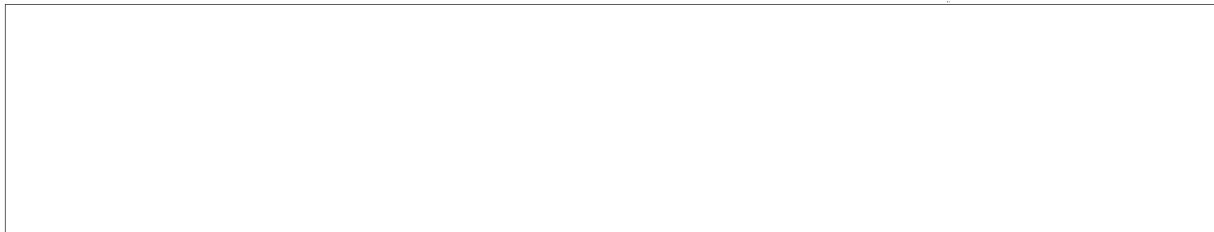
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FAR EAST

1. South Korean chief of staff reports on purpose of Formosa visit:

[redacted] South Korean army chief of staff Chong Il-kwon has specifically denied to American embassy officials that he was under instructions to negotiate any agreements with the Chinese Nationalists during his recent visit to Taipei. He asserted that his visit was for the purpose of obtaining information on the current situation and to observe the training of Nationalist troops.

Chong, who apparently was unimpressed by the Nationalist army, said he had suggested to the Chinese that it would be good strategy for them to withdraw from the offshore islands. If the Communists then attacked Formosa and the Pesquadores, the security of which is guaranteed by the United States, general hostilities would develop and these would spread to Korea.

Comment: Both Seoul and Taipei are aware of their military dependence on the United States and neither has shown enthusiasm for an alliance which did not include Washington. Rhee reportedly sees little advantage in a bilateral alliance with Nationalist China, which he considers to be a waning power.

SOUTHEAST ASIA

2. Security conditions in North Sumatra continue to deteriorate:

[redacted] The Indonesian government does not have sufficient armed strength in North Sumatra to engage in more than holding operations against the Atjehnese rebels, and security conditions have steadily deteriorated during the past three months,

[redacted] Rebel bands are well equipped, their morale is high, and the sentiment of the population throughout the area is against the government. Officials remain in their areas only as long as troops are present and withdraw when the troops leave.

Some contact and co-operation have been noted between the rebels and Communists, particularly members of Communist-controlled labor and veterans' organizations. Communist infiltration is at present insignificant, but is likely to increase as the Communists accelerate their labor activity on estates in the area.

Comment: The Atjeh rebellion commenced in September 1953. Since then there has been chronic insecurity in the area, with the government holding the towns and cities and the rebels largely controlling the countryside.

[redacted] some increase in rebel activity during late 1954.

[redacted] there has been co-operation between the Atjehnese, a devout Moslem group, and the Communists. The Atjehnese heretofore have been strongly anti-Communist.

NEAR EAST - AFRICA

3. Shah now reported willing to continue support of Zahedi:

[redacted] The Shah has decided to continue his support of Prime Minister Zahedi but intends to make several cabinet changes,

The Shah [redacted] ordered Minister of Court Ala on 21 February to see that "political sharp-shooting" at Zahedi was halted. This has stopped whispering campaigns against the prime minister and greatly strengthened his position.

Comment: These reported actions of the Shah may have been designed to stop the intensive Iranian political maneuvering until his return later this week. In view of the long-standing disagreements between the Shah and Zahedi, any new collaboration between them will probably be short-lived.

WESTERN EUROPE

4. Adenauer seen retaining coalition dissidents in government:

Chancellor Adenauer will probably not take "retaliatory action" against the coalition Free Democrats for voting against the Saar accord on 26 February.

Adenauer will still need the Free Democrats' support to secure Bundesrat approval of the Paris accords and Bundestag approval of subsequent rearmament legislation.

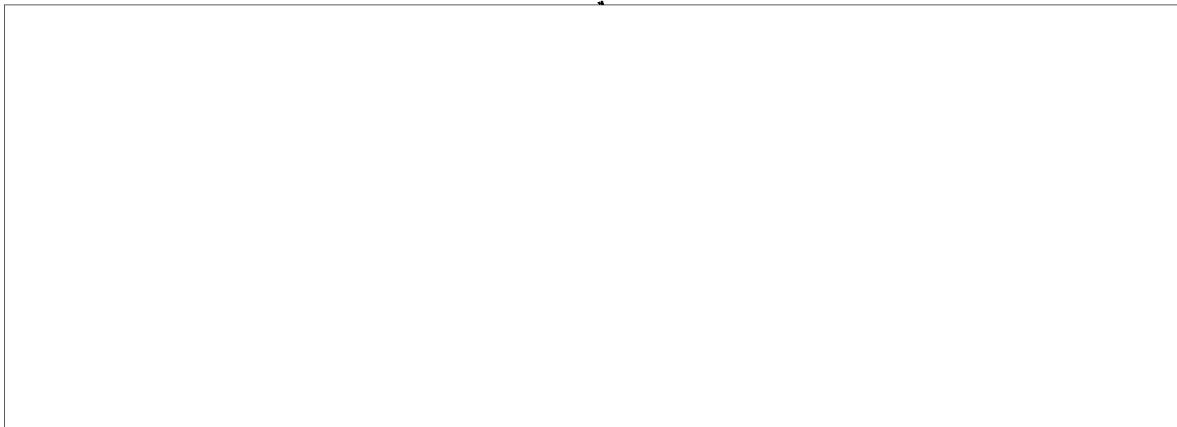
Most political observers in Bonn believe that the Free Democrats will not be ejected from the coalition. American officials note, however, that the chancellor has not yet made a decision on the matter.

Comment: Adenauer could probably get rearmament under way without Free Democratic support, but he would have great difficulty in obtaining passage of certain constitutional amendments which may be required next year. Without the Free Democrats, his coalition would also become increasingly dependent on the nationalist-tinged Refugee and German Parties.

Free Democratic chairman Thomas Dehler apparently believes his party would benefit by going into the opposition. Many Free Democrats are becoming dissatisfied with his leadership, however, and a move may develop to unseat him at the party's national convention later this month.

LATE ITEM

5. Chou En-lai [redacted] protests [redacted] alleged violations of Geneva agreements:



Comment: [redacted] members of the International Control Commission in Vietnam anticipate a formal protest by the Viet Minh along similar lines and believe the Indian chairman would insist on a full airing of the charges.

Chinese Communist propaganda has been emphasizing the points [redacted] Peiping's aims appear to be to intimidate Southeast Asian governments into reducing their co-operation with the United States, and to exploit differences in interpretation of the Geneva agreements between the United States and its allies and the Asian "neutrals."