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GENERAL

1. Comment on Chou En-lai's call for "liberation" of Formosa:

[Redacted] Chinese Communist premier Chou En-lai concluded his review of foreign policy before the Central People's Government Council in Peiping on 11 August with a call for the "liberation" of Formosa as the final step in "complete victory." Chou's speech is the most aggressive in a series of anti-American propaganda blasts about Formosa which began on 9 July.

The speech has since been supported by declarations from government, military and party leaders and from alleged representatives of the people. This is Peiping's normal way of underlining major pronouncements, and was used, for example, immediately prior to China's intervention in Korea in 1950.

Chou charged the United States with a "consistent position of hostility" against Communist China and with encouraging the Chinese Nationalists in an increasing "war of harassment and destruction" against the mainland and coastal areas. He specified for the first time that the Nationalists are conducting a "blockade" of the coast.

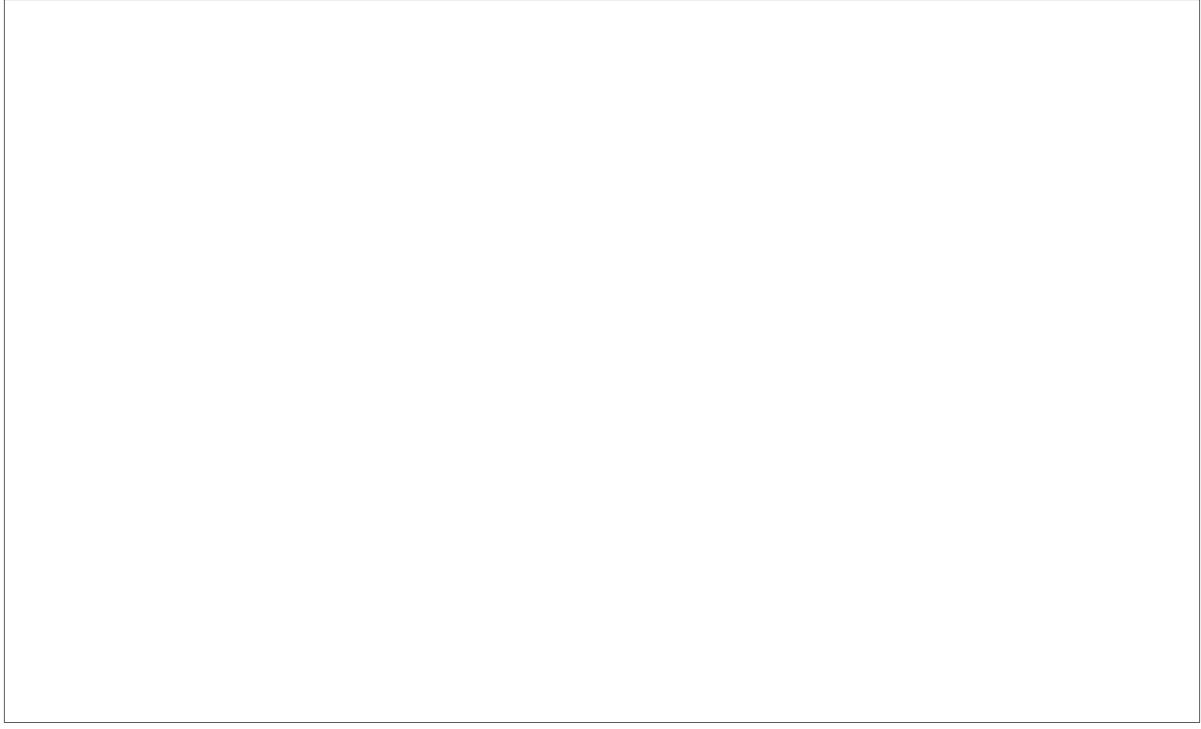
Chou also said that the United States and Nationalist China are negotiating a "so-called bilateral treaty of mutual security." Denouncing any American-Nationalist treaty as illegal, Chou warned that interference in Chinese "internal affairs by foreign aggressors" would have grave consequences. With a truce achieved in Indochina, Formosa is now the ideal issue for stimulating morale in Communist China and for widening differences between the United States and its allies and the Asian neutrals.

Peiping's tough line on Formosa also has certain immediate aims. The Chinese Communists clearly hope to frighten weak Far Eastern governments from joining any regional security arrangement. They also hope to deter the United States from supporting Nationalist harassing actions and from signing a bilateral security pact with Taipei. Peiping seems to be particularly concerned over Nationalist seizures of Orbit shipping, as the disruption of this trade since June has cost Peiping and the rest of the Orbit at least \$2,000,000.

Since 1950, the Chinese Communists have avoided committing themselves to any deadline for a Formosa operation, and even Chou's speech implies that further preparations are necessary. The weather will remain favorable for some weeks for an invasion of Formosa, but it is doubtful Peiping has the capability for an amphibious assault at this time. The Chinese Communists definitely have the capability, however, for air attacks on the island and for amphibious assaults on any of the Nationalist-occupied offshore islands.

SOVIET UNION

2.



WESTERN EUROPE

3. Paris embassy believes changes in EDC necessary for ratification in France:



The American embassy in Paris now believes that EDC will not command a majority in the French National Assembly

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without changes. The changes proposed by Premier Mendes-France, however, will not be accepted by either supporters or opponents of EDC, in the opinion of the embassy, which also considers them "unacceptable beyond our worst expectation."

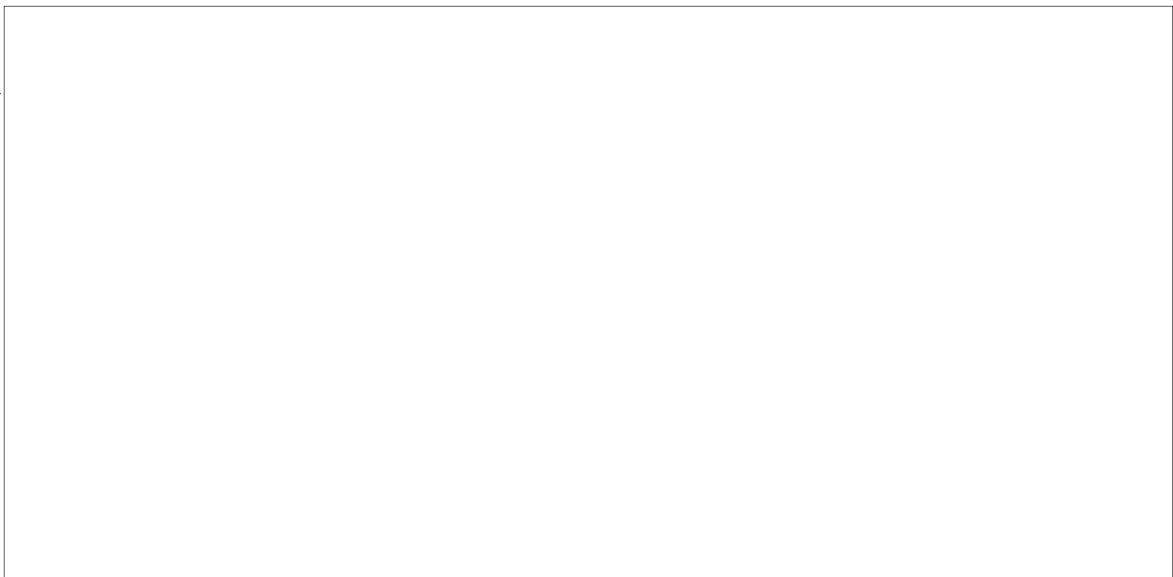
Although the premier is willing to negotiate on his proposals, the Belgian representative on the EDC Interim Commission doubts that enough of the proposals can be salvaged at the Brussels meeting scheduled for 19 August to prevent the appearance of serious defeat for Mendes-France.

Comment: The changes proposed by Mendes-France reveal the hand of EDC opponents in his entourage and can be expected to exasperate France's partners, who have spent two years in delicate negotiations on these and similar issues. While many of the proposals could be handled under the treaty as it stands, several of them, specifically those aimed at giving France special privileges and discriminating against Germany, will require textual alterations in the treaty and in any event will not be acceptable to the other EDC countries.

In view of Mendes-France's conviction that an early French decision on EDC is imperative, he can be expected to modify his proposed changes at Brussels.

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