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SOVIET UNION

1. Kennan comments on Soviet denials of the "hate-America" campaign:

Ambassador Kennan sees a "line of retreat" 3.3(h)(2) from the Soviet "hate-America" campaign revealed in Soviet efforts to deny its existence. He believes that the Soviet Union realizes that the hate campaign conflicts with the basic "peace" thesis and might conceivably alienate fellow travelers and intellectuals on the fringe of the Communist movement. Consequently, to retrieve the situation, the Soviet Union is assuming an attitude of "shocked innocence" and protesting its "friendship to the American people."

Comment: The "hate-America" campaign has not abated in intensity in spite of recent attempts to cross it with the theme of "friendship with the American people." The USSR has in the past proved capable of exploiting two diametrically opposed propaganda themes at one time.

The Soviet Union has shown itself increasingly sensitive to American exposures of its hate propaganda, however, and the present denials are probably designed to maintain the effectiveness of the campaign, which would be seriously impaired by exposure of its motives.

FAR EAST

2. Air warning system in North Korea "seemingly infallible":

A United Nations bomber cannot enter North Korea undetected by night, thanks to a "seemingly infallible" early warning system manned by Russian, Chinese and Korean personnel,

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This system has been steadily improved in the past eight months.

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Comment: The enemy early warning system is one of the strongest aspects of the air defense establishment in Manchuria and North Korea.

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3. Chinese demand settlement from Portuguese for Macao border clashes:

Communist

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China has demanded that the Macao government accept full responsibility and apologize for the recent border incidents; withdraw all Portuguese troops from the immediate vicinity of the border; and indemnify it for the killed and wounded.

Small food shipments into Macao were permitted by the Communists on 4 and 5 August, but transport at the normal volume has not yet been resumed.

Comment: The Communists are also insisting, according to the Hong Kong press, on greater freedom in obtaining strategic imports from Macao. If the Chinese are adamant, the Portuguese will have little choice but to yield to these demands.

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NEAR EAST - AFRICA

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~~TOP SECRET~~5. Qavam reportedly will blame Shah for Tehran rioting:

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Ahmad Qavam, former Iranian Prime Minister,
 is preparing a statement blaming the Shah for
 the 21 July rioting,

Comment: Such a statement by Qavam would seriously damage the Shah's prestige and authority, which is already lowered with the army because of his failure to support Qavam, and with the people because of nationalist and Tudeh attacks.

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6. Pro-Western potentials are noted in Egypt:

The British Foreign Office sees grounds for optimism in such recent developments in Egypt as the solution of the Regency Council problem

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[redacted] and Ali Maher's willingness to stay in office, as in the continued enforcement of law and order.

Ambassador Caffery agrees that the Nagib-Maher regime is potentially pro-Western and feels that eventually the opportunity may arise to persuade Egypt and other Arab states to join a Middle East defense organization.

London believes, however, that it would be a mistake to comply with any Egyptian requests for military equipment until its cooperation in Middle Eastern defense is assured. Britain is reconsidering its defense proposals, which would be discussed with the US before presentation to Egypt "if there is any break in the situation."

Comment: There is no clear indication as to the real attitude of the new rulers of Egypt. Reports that the governing army clique includes Moslem extremist sympathizers cast suspicion on its professed pro-Western sentiment and its eventual orientation if American military aid is secured.

WESTERN EUROPE

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7. French see East German "reforms" as turning point:

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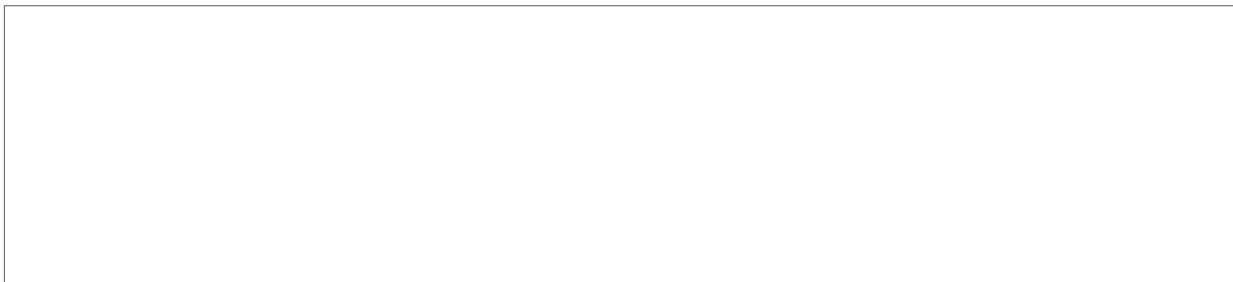
[redacted] [redacted] the reorganization measures approved by the East German Parliament on 23 July marked the end of that "semi-bourgeois phase" during which "the Russians had not wanted to do anything which would exclude the possibility of a reunification of Germany."

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Comment: Communist propaganda emphasis has shifted temporarily from the unity campaign, the immediate objective of which was to block Western defense plans, to the "socialization" of East Germany. The Soviet Union has not abandoned its ultimate objective of reuniting Germany on Soviet terms, however, and East German leaders expressly hope that the Bonn government can be upset from a Communist base in East Germany.

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