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GENERAL

1. Comment on appointment of Soviet ambassador to Viet Minh:

The appointment of a Soviet ambassador, Alexander Lavrishchev, to the Viet Minh is a move to enhance the prestige and international status of the Ho Chi Minh regime.

Lavrisschev's appointment, before a diplomat from Peiping is accredited to the Viet Minh, would also indicate that with a truce achieved Moscow is now moving to assert openly its primacy with the Viet Minh. In 1950, the USSR followed Communist China in recognizing the Ho Chi Minh government. The Viet Minh has had diplomatic representation in Peiping since 1951 and in Moscow since 1952.

Lavrishchev, a specialist in Balkan affairs, has been ambassador to Turkey since 1948.

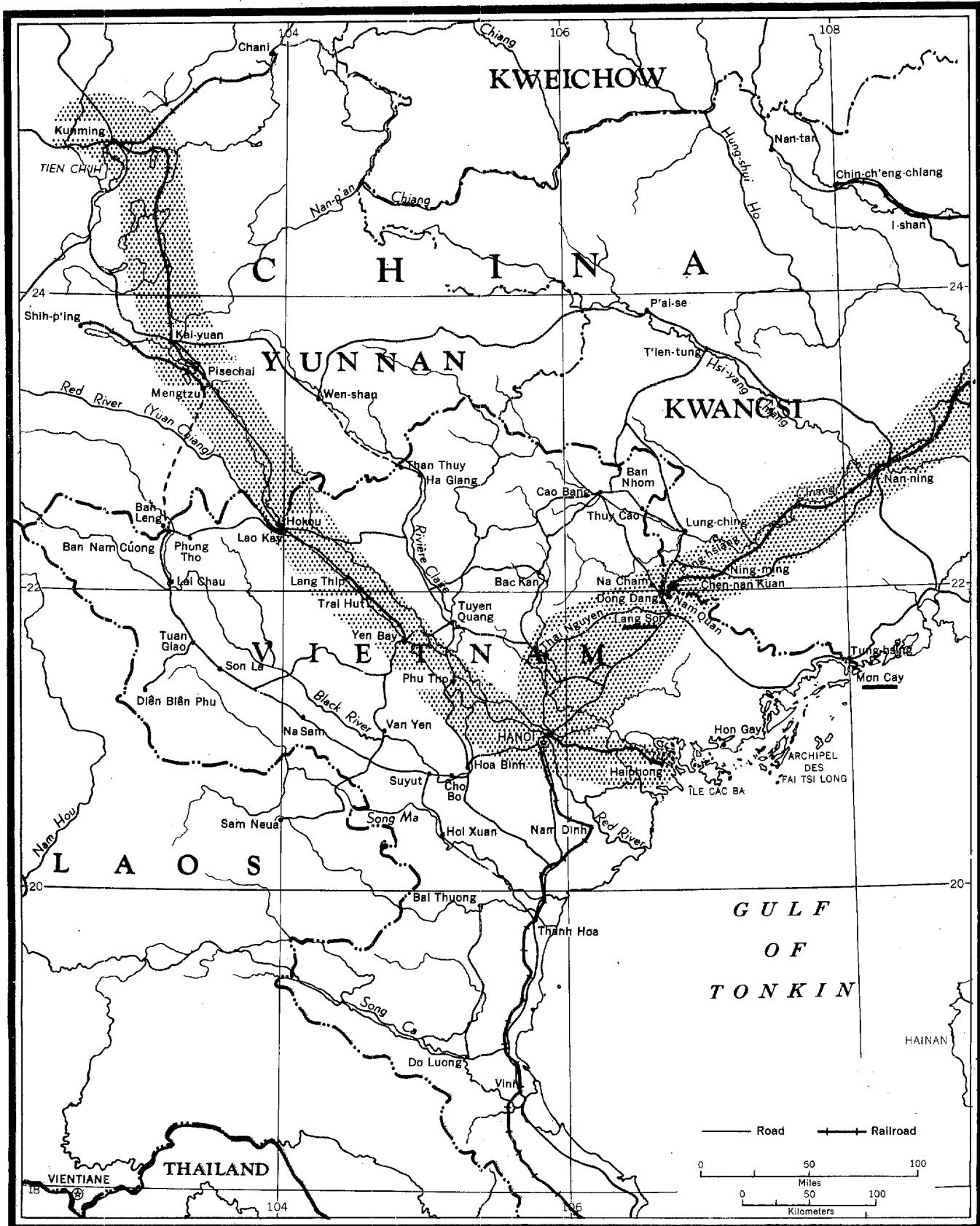
FAR EAST

2. Communists speed restoration of Kunming-Haiphong railway:

materials are being moved from Yunnan Province through Lao Kay, on the China-Vietnam border, for restoration of the Tonkin sector of the Kunming-Haiphong railway (see map. p. 4).

work on restoration of the Yunnan sector from the present railhead, some 75 miles from the Indochina border, has been in progress for some months, and that the Communists intend to complete the entire line as soon as possible. The speed with which they have begun work in Tonkin is noteworthy.

CHINESE - VIETMINH TRANSPORTATION SYSTEMS



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Comment: Most of the rail line south from the Tonkin border to the delta has been inoperable for years, although isolated segments have been used by the Viet Minh; its complete restoration presents no great difficulties. Restoration of the long-destroyed Yunnan section of the line, however, will involve major engineering work through mountains.

The Yunnan-Indochina railway was originally built by the French to carry minerals from Yunnan Province to the sea, and Peiping has the same long-range interest in restoring this line, because China's largest tin and copper deposits are in Yunnan.

The major rail line between China and the Vietnam border area is through Kwangsi Province and lies considerably to the east of the one from Kunming. This line, which ends just north of the border, has been the major military transport link during the Indochina war.

SOUTHEAST ASIA

3. Skirmishes between Chinese Communist and Viet Minh units reported:

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[redacted] an engagement has taken place between Chinese Communist troops and two Viet Minh battalions near Lang Son, just south of the China border.

[redacted] refugees from the

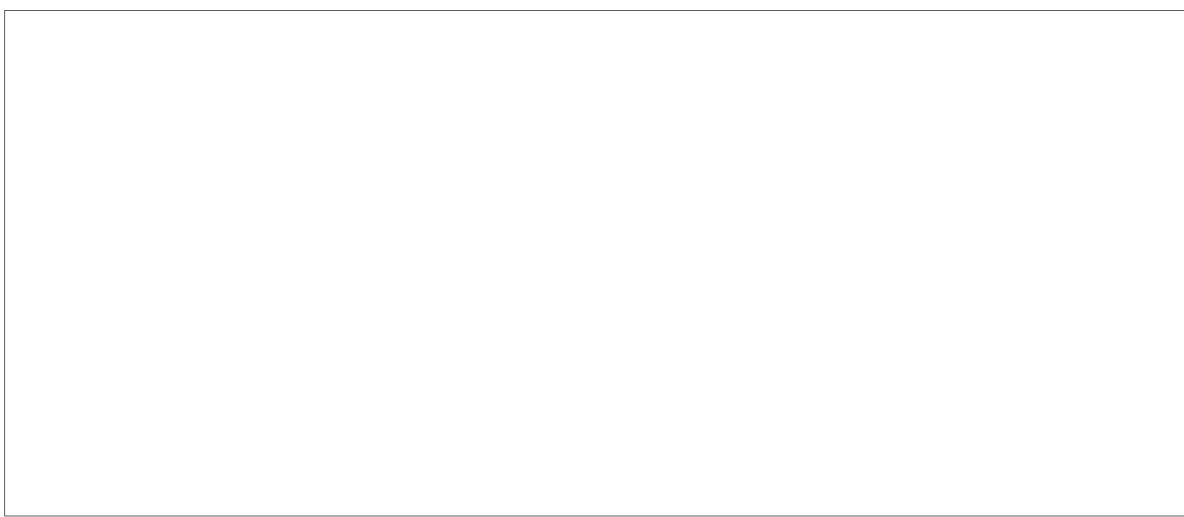
Moncay area, in extreme northeastern Tonkin, report Chinese Communist troops have occupied that area and "incidents" have occurred between them and Viet Minh units [redacted]

a two-hour skirmish between a Chinese and a Viet Minh company in the southern part of the delta on 5 August was settled by local Viet Minh authorities.

Comment: Despite occasional rumors of the entrance of Chinese troops into the Viet Minh area, it has not been established that Chinese military other than advisers and technicians have crossed the border. Accounts of any incidents involving Chinese attached to Viet Minh units could be expected to be considerably exaggerated as word of them was passed on.

The Vietnamese population has a basic and longstanding distrust of the Chinese that was reinforced by the Chinese Nationalist occupation of Tonkin immediately after the war.

4. Chou En-lai said to favor mutual security pact with South Asian countries:



Comment: This is the first report that Chou favors an Asian security pact of the kind discussed by Indonesia. Although Chou spoke at Geneva of the need for Asian consultations to seek "common measures" on regional security, he has since talked in terms of bilateral pacts between Asian governments based on his "five principles" of mutual respect, nonaggression, noninterference, equality and peaceful coexistence. Chou has proved to be expert in leading diplomats to a false belief that he favors courses of action which they themselves favor.

A Communist proposal for a regional pact doubtless would have greater dramatic impact than would overtures for vague bilateral agreements, and some such proposal may be forthcoming. India, however, is also apparently working on a proposal of its own.

SOUTH ASIA

5. Portuguese see tension in India easing:



Comment: The representations made by several nations, especially by Britain, seem to have given India pause. It now appears less likely that the "volunteer" march on Portuguese territories scheduled for 15 August will produce violence and bloodshed.

NEAR EAST - AFRICA

6. Comment on European offers of substantial credits to Iran:

Recent offers of substantial credits to Iran from Western European countries foreshadow a gradual easing of Tehran's foreign exchange difficulties in the next year. German, French and British concerns are already seeking to re-establish their Iranian markets, and an increase in international commercial competition may result as assured oil revenues improve Iran's credit.

West German firms recently offered Iran a total of \$100,000,000 in credits for industrial expansion; French companies have extended sizable credits for the same purpose; and Britain is considering a \$14,000,000-loan for the purchase of British products. In addition, French and British firms have recently granted generous credit terms for railroad equipment. American firms have been reluctant to invest in Iran and to trade on the same credit terms as their European competitors.

Commercial credits, however, cannot solve Iran's budgetary problems. According to Ambassador Henderson, Iran needs an additional \$22,000,000 in American grant aid in 1954 for its domestic requirements. Without additional dollar grants or loans for the purchase of American merchandise, American trade is unlikely to maintain its present high position in Iran. [redacted]

7. Cyprus Nationalist leader accepts Communist support:

[redacted] b
Archbishop Makarios, leader of the Cypriot movement for union with Greece, has accepted an offer of Communist support and has recently conferred with local Communist leaders in Cyprus, according to the American consul.

Makarios says that recent British actions--presumably London's statement barring any change in the colony's sovereignty and the announcement of rigid enforcement of the anti-sedition law--made rejection of the Communist offer impossible.

Reports from Athens and Nicosia indicate that the 12 August strike called by Cypriot Nationalist and Communist leaders has virtually paralyzed the island.

Comment: Communists control most of the labor force in Cyprus and can cripple most economic activity. The formation of a united front of Nationalists and Communists increases the British problem of preventing disorders.

EASTERN EUROPE

8. Hungarians demonstrate contempt for Soviet sportsmen:

The American legation in Budapest reports that the International University Summer Games last week not only failed to fulfill their intended propaganda function, but even produced some embarrassing political repercussions for the regime.

Hungarian spectators showed their contempt of Soviet sportsmen by receiving their entrance with silence, and loudly applauding their errors and the teams competing against them.

The current defiant mood of the Hungarian public has also been evident from a high rate of labor absenteeism and a slackening in work discipline in factories.

Comment: This openly anti-Russian activity may reflect the Hungarian population's response to the emphasis the regime has recently placed on nationalism. Following the defeat of the Hungarian soccer team by the West German team on 4 July, an estimated 15,000 Budapest residents stormed the sports authorities' headquarters, attacked intervening police, and voiced their economic grievances.

The willingness of the population to demonstrate open hostility to the regime and its sponsors has probably been encouraged by the "new course" relaxation of police controls.

WESTERN EUROPE

9. Churchill increasingly obsessed with desire to meet Soviet leaders:

Ambassador Aldrich reports that members of the British cabinet, most of whom oppose further conferences with the USSR at this time, are greatly disturbed by Churchill's continued obsession with the idea of a meeting with the Soviet leaders.

On the basis of conversations with various cabinet members, Aldrich states that apparently Churchill has even threatened to form a coalition government with the Labor Party should his present colleagues fail to support him.

Minister of State Selwyn Lloyd states that the latest Soviet notes have played into the hands of those who oppose Churchill's desire, but that the danger of a "lonely pilgrimage" will recur should the Soviet leaders agree to meet Churchill outside the USSR.

Comment: The strength of Churchill's pre-occupation is shown by his evident abandonment of the view that such a meeting would have to be arranged in closest co-operation with the United States. His almost total isolation on this question is reflected in the suggestion that he might be willing to wreck the Conservative government and precipitate a constitutional crisis.

Although Churchill has frequently proclaimed his desire for a meeting "at the summit," Soviet leaders have shown no willingness to meet him outside the USSR.

LATIN AMERICA

10. Castillo Armas supporters in Guatemala reported growing "disillusioned":

DIA - 600

[redacted]
Leaders of the Committee of Anti-Communist University Students threatened on 10 August to withdraw their group's support from junta president Castillo Armas [redacted]

[redacted] They claim that many known Communists still hold high public office.

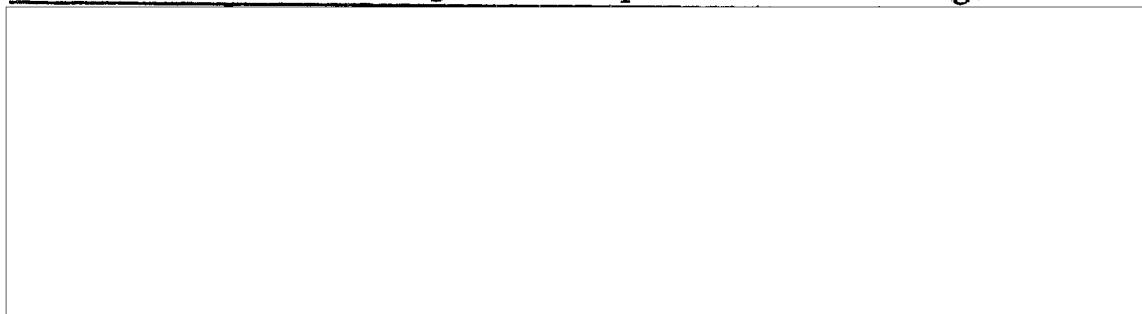
Castillo is still a public hero, but his followers reportedly are "rapidly becoming disillusioned" because of his failure to satisfy them on the Communist question.

Comment: Although government efforts to apprehend top Communist leaders have thus far failed, the overt Communist organization has collapsed and no Communist or pro-Communist is known to be currently holding public office. Many of Castillo's

followers, however, were subject to severe persecution under the Arbenz regime, fought with the Army of Liberation, and now feel entitled to revenge and a place on the public payroll. Repudiation of Castillo by the Committee of Anti-Communist students could have an important effect on public opinion.

Castillo is also running into trouble on the labor front. On 11 August, the junta, in the name of anti-Communism, dissolved four major unions. The result was a storm of protest from anti-Communist labor elements and criticism of the junta for "selling out" to foreign capital.

11. Army pressure for ousting Brazilian president seen easing:



Meanwhile, the War Ministry announced on 12 August that all army generals on duty in the Rio de Janeiro area have reaffirmed their desire to investigate in an orderly fashion the circumstances surrounding the attempted assassination of a prominent antiadministration newspaper publisher. The statement added, however, that they will remain prepared for any eventuality.

Comment: Any indecisiveness in the ranks of the generals would increase Vargas' chances of weathering the current crisis which was set off by the attempted assassination. The final position of the military, however, will probably hinge to a large extent on the validity of current rumors that close relatives of the president were involved in the incident.

Even if Vargas survives this crisis, his party can be expected to suffer heavily in the October congressional elections--involving all seats in the lower house and two-thirds of the Senate. It is also likely that the military will keep a closer eye on his conduct of affairs.