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FAR EAST

1. Guerrillas in West China located near Kantzu:

[Redacted]

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Comment: Since Kantzu is on the principal route to Tibet from Chengtu, a "bandit" uprising there would alarm the Communists more than at most places in the border area.

2. Indian mission in Tibet to become Consulate General:

[Redacted] An agreement has been reached with Peiping whereby the Indian mission at Lhasa will be established as a Consulate General, [Redacted]

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[Redacted] Indian trade agent [Redacted] will remain in the Tibetan towns of Yatung and Gyantse, on the trade route between India and Tibet, and that Indian troops are still posted along the route.

Comment: This agreement reflects both India's recognition of Chinese Communist authority in Tibet and China's interest in retaining Indian cooperation in supplying that country.

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NEAR EAST - AFRICA

3. Comment on Mossadeq's new cabinet:

Mossadeq's new cabinet list, presented to the Shah for approval on 26 July, gives every indication of being merely a rubber stamp for the Prime Minister. Since Iranian cabinet ministers must resign their parliamentary seats, the absence of National Front deputies from the cabinet list suggests that Mossadeq expects some opposition from Parliament and wishes to maintain as many supporters as possible.

Prime Minister Mossadeq's previous insistence on being appointed Minister of War precipitated his resignation on 16 July. He has now appropriated that post. The other key Ministries of Finance, Justice, Foreign Affairs, and Interior are also held by the National Front, the most significant appointments being that of former Foreign Minister Bagher Kazemi as Minister of Finance and that of Hossein Navab, former Minister to The Hague and ardent supporter of oil nationalization, as the new Foreign Minister.

The distribution of posts suggests that there will be no compromise on the oil issue and that Mossadeq may now attempt to carry out his governmental and economic "reforms." As Minister of War, he is in a favorable position to further his well-known desire to limit the influence of the Shah and the army. A lessening of American influence in Iran may also be expected, for Mossadeq, who is in principle opposed to foreign military aid, favors the withdrawal of the American military and gendarmerie missions.

4. Comment on King Farouk's abdication:

The enforced abdication of King Farouk in favor of his seven-month old son and a Regency Council, considerably strengthens the position of the dissident army group which successfully revolted against the military high command on 23 July. General Nagib has thus destroyed the influence of the Crown, the real threat to the new army leadership.

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The insurgent opposition to the King was based on Farouk's long-term support of corrupt army leaders and his repeated efforts to promote Palace interests at the expense of those of the younger officers. Drastic action against the King may have been dictated by the evident insurgent suspicion that Farouk was angling for British military intervention in order to save his throne.

Farouk's enforced departure from Egypt removes a man who, despite a much-criticized personal history, has exerted considerable moderating influence on Egypt's internal and external affairs. For the moment, Western diplomatic representatives have lost substantial influence with Egypt's top leadership.

While the military regime has shown no initial hostility toward foreign interests, there are indications that the insurgents may form an alliance with the Moslem Brotherhood and the Wafd Party. Further repercussions are possible not only within Egypt but also in the neighboring Arab countries.

5. French opinion tending not to oppose inclusion of Tunisian question on UN agenda:

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French government and public opinion tend not to oppose inclusion of the Tunisian question on the agenda of the forthcoming regular session of the UN General Assembly.

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Comment: The United States delegation in New York has reported that similar opinions have been voiced by a high official in the French delegation.

According to the American Ambassador in Paris, however, at least five ministers in the Pinay cabinet support Marshal Juin's position that France should withdraw from the United Nations if the North African issue is forced.

WESTERN EUROPE

6. France insists only additional financial aid can stave off disaster:

[redacted] French Premier Pinay has informed Ambassador Dunn that American refusal to finance military production on the scale requested by France is a disastrous blow

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to the entire French economy, and that France will now have to make drastic revisions in its military expenditures.

Comment: Without considerable external assistance, Pinay's stop-gap economic measures will be unable to prevent large-scale retrenchment in the French standard of living, in investments, in social services, in rearmament, or in the Indochina war.

7. Denmark fears increasing Soviet pressure on NATO policy:

[redacted] A Foreign Office official reports that the USSR is bringing pressure to bear on Denmark because of its NATO policy, particularly with regard to airfields. He cited

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among other things the recent Pravda article which attacked the Danish plans for NATO naval bases. The official expects Soviet pressure to increase.

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Comment: Since early May, Danish cabinet members have been preparing the public for the ultimate admission of Allied troops to man NATO airfields. Many Danish officials fear, however, that Soviet protests might force the government to state categorically that foreign troops will not be stationed in Denmark.

8. Portugal threatens to abandon NATO unless basic defense needs are met:

[redacted] The US Ambassador reports that Portugal 3.3(h)(2) informed MAAG officials on 3 July that it would be left defenseless unless it had five jet fighter squadrons, and that it would prefer

- to abandon NATO rather than submit to a reduction of this figure to three, as now planned by the United States.

The Ambassador adds that in order to satisfy minimum Portuguese demands the five-squadron program may have to be restored and two additional squadrons provided for the Azores, since Lisbon does not wish to assign the defense of these islands to a foreign country.

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Comment: This is the first official confirmation of previous reports that the Portuguese have contemplated the possibility of withdrawing from NATO unless the Western powers meet what they feel are the security needs of the Iberian Peninsula.

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