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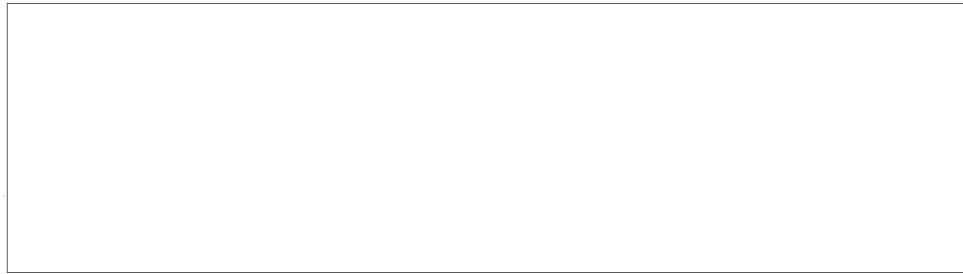
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**OFFICE OF CURRENT INTELLIGENCE
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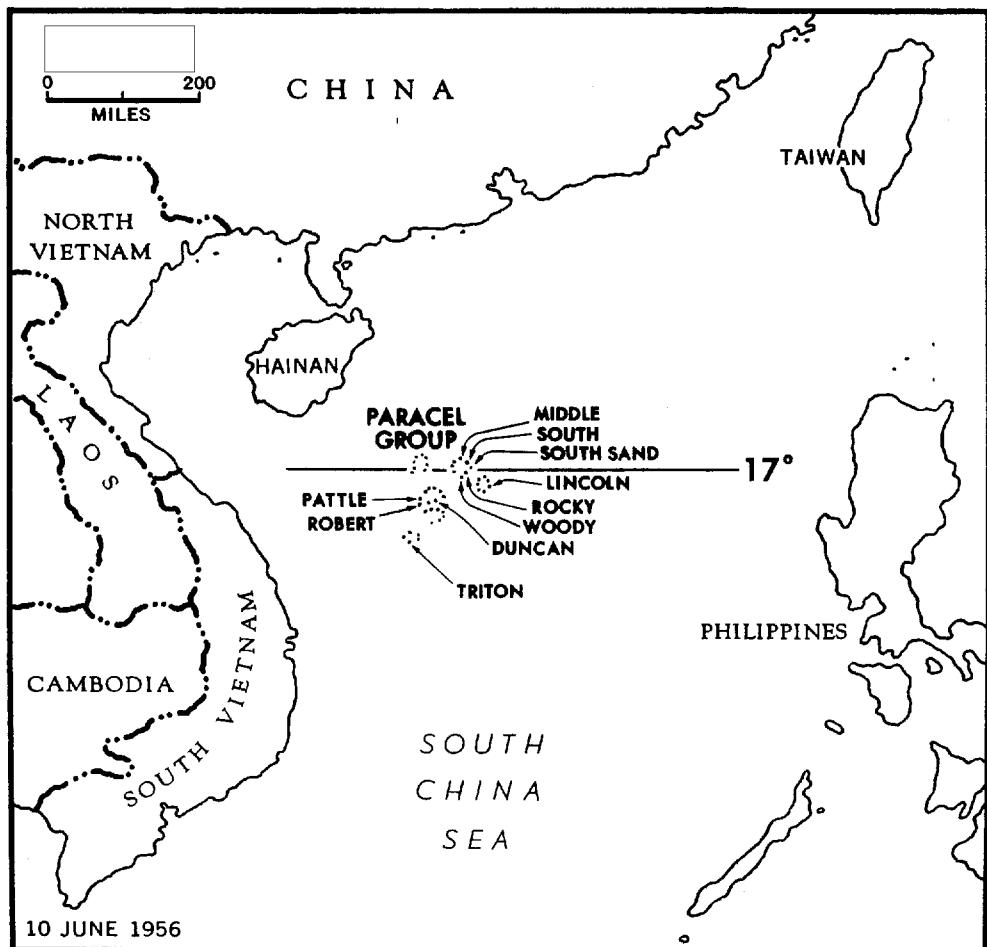
**1. CHINESE COMMUNIST LANDING PARTY THREATENS
VIETNAMESE HELD ISLAND IN PARACEL GROUP**

[Redacted]

According to reports from a small Vietnamese weather unit on Pattle Island in the Paracel Group, just below the 17th Parallel in the South China Sea, Chinese Communist troops on 10 June landed

on Robert Island, three miles away. The weather unit, fearing for the safety of the 20-man garrison, asked Saigon for permission to evacuate.

South Vietnamese foreign minister Mau, however, is urging immediate reinforcement of the garrison,

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and President Diem is anxious to determine whether this Chinese Communist "aggression" would result in "action under the SEATO treaty."

Comment

The Paracel Group, which lies about 200 miles southeast of Hainan Island, is claimed by South Vietnam, Communist China and Nationalist China. Though strategically located astride the main shipping lane through the South China Sea, the islands are of little potential military value. None is large enough for airfields, and the islands' waters are not suitable for naval bases.

If Chinese Communist troops are actually involved in the occupation of Robert Island, they may have been sent there in anticipation of a possible Chinese Nationalist move in the Paracels, as well as to establish their "sovereignty" overtly. Two Nationalist destroyer escorts, which are now visiting the Spratly Islands, 500 miles to the south, to give substance to Nationalist claims of sovereignty over the Spratlys, may be ordered to the Paracels to dislodge the Communists there, according to reports from Taipei on 7 June.

The Communist landing party may have involved civilians rather than troops, however. Some 200 Communist workers have been processing guano deposits on one or two islands in the Paracels for the past nine months.

South Vietnam can be expected to offer token resistance to any Communist effort to dislodge the Pat-tle garrison. Saigon would undoubtedly utilize the incident to support its claims that current Communist "reasonableness" and professed desires for a peaceful reunification of Vietnam are essentially a facade hiding aggressive intentions.

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2. RESIGNATION OF KAGANOVICH

[Redacted]

The resignation of Lazar M. Kaganovich as chairman of the State Committee on Labor and Wages continues the pattern of relieving members of the party presidium and first deputy premiers from direct administrative responsibilities. Of the five first deputy premiers--Kaganovich, Mikoyan, Molotov, Pervukhin, and Saburov--only Saburov retains a specific post, that of chairman of the State Commission for Current Planning. This policy is probably intended to permit top members of the party hierarchy to devote themselves to policy formulation and special problems.

Kaganovich was named chairman of the State Committee on Labor and Wages when that body was created in May 1955. As the USSR's foremost economic trouble-shooter, with long experience in transport and heavy industry, Kaganovich apparently was charged with increasing labor productivity by revising labor norms and wage scales to conform with technological advances and a more rational distribution of manpower in industry and agriculture. Although Kaganovich was one of Stalin's most trusted henchmen and, like Molotov, has been rumored to have opposed the recent stepping up of the anti-Stalin campaign, he does not appear to have resigned in disfavor.

Kaganovich's successor, Alexander P. Volkov, appears to be a protege of Khrushchev, since he rose through the party ranks to become a secretary of the Moscow Oblast party committee under Khrushchev in 1950 and was transferred to government work as chairman of the executive committee of the Moscow Oblast soviet in 1952. He was not elected to the party central committee until February 1956 at the 20th Party Congress. [Redacted] (Concurred in by ORR)

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3. CHINA AND EAST EUROPEAN SATELLITES PUT ECONOMIC PRESSURE ON JAPAN

[Redacted]
[Redacted]
the European
Satellites are co-operating with Com-
munist China to exercise economic
pressure on the Japanese.

Japan is currently running an unfavor-
able balance of trade with China exceeding \$50,000,000. [Redacted]

[Redacted] East European Satel-
lites have agreed not to pay for imports from Japan with
foreign exchange which Japan could use to reduce its debt
to China.

By this strategy and the refusal to ac-
cept additional commodities which Japan has offered to China,
Peiping is attempting to prevent Japan from paying its debt.
Peiping probably hopes to use Japan's increasing indebtedness
to force it to establish official economic relations with Commu-
nist China, a first step toward diplomatic recognition.
(Prepared jointly with ORR)

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4. NEW BURMESE CABINET

The make-up of the new Burmese cabinet headed by U Ba Swe reveals that the Socialist Party, which heretofore has done most of its ruling from behind the scenes, has greatly enhanced its direct control of the Burmese government. It also suggests that the present government leaders do not actually want U Nu to return to the premiership after a year's retirement.

Not only have the Socialists increased their representation in the cabinet, but those ministers who are closely identified with Nu have been relegated to relatively unimportant posts. The retention of Foreign Minister Hkun Hkio, a Shan, is a sop to the ethnic minorities, as foreign policy will undoubtedly continue to be formulated by the Socialist hierarchy, possibly with the advice of U Nu.

Premier Ba Swe, who is also secretary general of the Socialists, is retaining the portfolio of defense minister and assuming control of national planning. His chief rival in the Socialist Party, U Kyaw Nyein, will serve as minister of the national economy and as a deputy premier, and their apparently overlapping responsibilities could produce serious friction. The other posts held by Socialists appear to be about equally divided between the supporters of the two leaders.

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5. BRITAIN MAY RENEW EFFORTS TOWARD POLITICAL SETTLEMENT FOR CYPRUS

Amid increasing public criticism, the British government is preparing a new attempt to get a political settlement regarding Cyprus while continuing its efforts to pacify the island, according to the American embassy in London.

In current British policy discussions, the Colonial Office evidently is proposing resumption of negotiations with Greece and Turkey on the basis of a "liberal" constitution, to be drafted by a special British committee, and a new formula that might go as far as setting a date for the exercise of Cypriot self-determination. Archbishop Makarios would not be brought into the negotiations until "a later stage."

The embassy concludes that the ground is laid for a difficult and embarrassing British policy shift, and that at least some high officials are now prepared to contemplate eventual British withdrawal from political control of the colony.

Comment This is the clearest indication yet received that the British government has lost confidence in the purely military approach to the Cyprus problem it adopted on exiling Makarios on 9 March. The Greek government would probably insist that Makarios participate in any negotiations from the outset, and many British observers believe it is too late to obtain a political settlement short of granting outright union of Cyprus with Greece.

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6. ARGENTINE REBELLION QUELLED

The Argentine provisional government's drastic measures to put down the brief rebellion of "Peronista-Nationalist" elements on 9-10 June demonstrated a determination to deal swiftly and severely with any armed opposition. Further violence could result, however, if the regime prolongs rigorous enforcement of the severe martial law regulations it has announced and fails to consider some of the complaints stated in the rebel communiqué. There is considerable dissatisfaction among influential army groups over the continuing atmosphere of political turmoil.

The rebels, reportedly led by retired generals Raul Tanco and Juan Jose Valle, included parts of army units in Buenos Aires and La Plata as well as retired military and Peronista civilians. The government also charged that Communist elements participated.

General Valle was reported in mid-May planning a rebellion--possibly in two stages and including high army officers on active duty--which had objectives similar to those cited in the rebel manifesto. The manifesto called for immediate release of all political and trade union prisoners, returning control of the trade unions to the workers, measures to fight "the enormous price increases," and general elections within 180 days with no political party excluded.

Political tension in Argentina will probably increase with the approach of 16 June, the anniversary of the first phase of the anti-Peron revolution of 1955, which ended in overthrow of the government in September.

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THE ARAB-ISRAELI SITUATION (Information as of 1700, 10 June)

UN truce observers on the Israeli-Syrian border have reported that the Israelis appear to be constructing tactical defensive positions, probably bunkers, in the demilitarized zone near Banat Yacov. The observers, who have heretofore had free access to the area where the construction is taking place, have been forcibly prevented from approaching the area on two occasions since 7 June. The chairman of the Israeli-Syrian mixed armistice commission believes the Israelis eventually will allow an investigation, but that they will not heed a UN request to demolish the construction. The chairman noted that the Israeli attitude toward the UN truce teams has stiffened since the 4 June Security Council resolution, which produced a very unfavorable reaction in Israel.

The American military attaché in Cairo believes that a previous report of cancellation of army leaves beginning 5 June is true, although the Egyptian army foreign liaison officer has said it is only a rumor. The attaché further believes, however, that the cancellation is connected with the political celebrations which begin 18 June and culminate in the plebiscite on 23 June.

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