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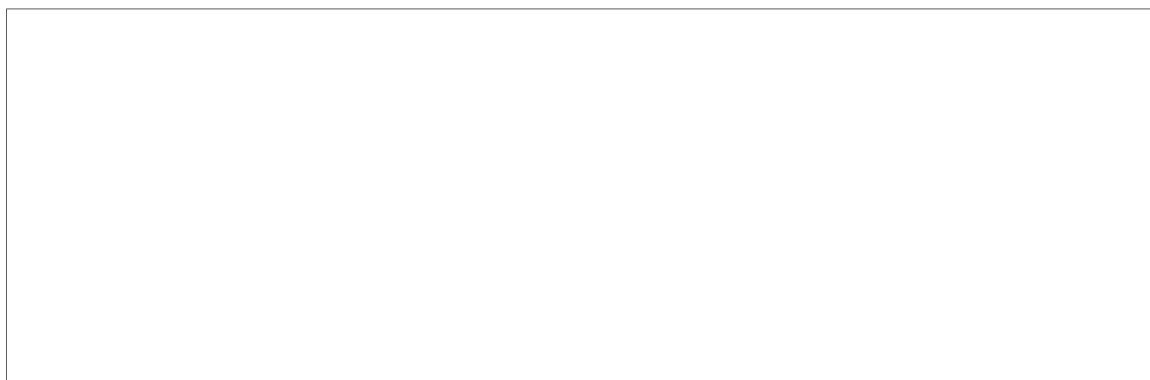


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State Dept. review completed

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GENERAL

1. British Foreign Office reaction to Bulganin's 4 August speech:

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The British Foreign Office's "preliminary" reaction to Marshal Bulganin's speech on 4 August before the Supreme Soviet is that it was an "ungenerous" restatement of old Soviet positions, according to the American embassy in London. The Foreign Office had expected a Soviet rejection of President Eisenhower's plan for aerial inspection.

Bulganin's assertion that the Eden security pact proposals deserve attention is not believed to reflect any progress, in view of his disappointing statements on German unity.

2. France seeks lower level of trade controls on Communist China:

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The French Foreign Ministry's director of economic affairs told American officials in Paris on 4 August that his government desires the trade controls on Communist China lowered to the level governing trade with the Soviet bloc. He pointed out that France regards the present disparity as ineffective in controlling trade with Communist China.

The French official said he is recommending that the Consultative Group of COCOM meet on 27 September.

Comment: The United States is committed to discuss controls on China trade at the next meeting of the Consultative Group, the ministerial level of COCOM. The last meeting was held in September 1954. Except for the United States, most countries on the China Committee of COCOM appear unanimous in their desire to reduce present controls on trade with Communist China to the level for the Soviet bloc. (Concurred in by ORR)

FAR EAST

3. Hatoyama government seen weakened:

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Ambassador Allison reports that the prestige of the Hatoyama government has suffered a serious blow because of its ineptness in the Diet session ending 30 July, which failed to pass major legislation and irritated the conservative opposition. He believes the government will have a hard time weathering another Diet session.

Allison believes Hatoyama will probably attempt to recoup his government's prestige during the current recess by achieving some diplomatic or other success.

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Such an agreement could be presented as a victory for Hatoyama's policy. The ambassador also believes Foreign Minister Shigemitsu's visit to Washington will be used to bolster the government's prestige.

Comment: Hatoyama infuriated the Liberal Party, whose support is the key to his minority government's survival, by announcing on 4 August that he intended to compile the budget "by himself," and rejecting Liberal overtures for a merger. Liberal Party secretary general Ishii is threatening a showdown in the next Diet session, probably in November, if Hatoyama fails to take the opportunity for a merger now.

4. Additional details of Sun Li-jen case reported:

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The Chinese Nationalist Ministry of National Defense has made available to American officials a report alleging that General Sun Li-jen had endorsed and gave financial support to a Communist-instigated plot to induce defections in the Nationalist armed forces. General Sun was forced to resign last week as Chiang Kai-shek's personal chief of staff and has apparently been arrested. The charge adds that a former aide and close friend of Sun's has also apparently been arrested.

The American chargé comments that if the report is true, which he doubts, it will "sow consternation" on Formosa, since if Sun is found seditious, there is a question whether anyone can be trusted. Even if the report is false, the damage to Nationalist China's reputation will be considerable.

NEAR EAST - AFRICA

5. Cyprus government expects new outbreak of violence:

British authorities on Cyprus told the American consul in Nicosia on 5 August they were "virtually certain" that new outbreaks of organized violence are planned in connection with the British-Turkish-Greek talks on the Cyprus issue scheduled to begin in London on 29 August.

The government has more information on the organization of the terrorist EOKA group and intends to take further action against its members before the London conference.

Comment: Despite efforts by the authorities to control the situation, violence in connection with the talks can be expected. Although deliberate attacks on American lives and property are unlikely at this stage, there is growing antagonism toward Americans.

Cypriot nationalists have been extremely critical of the proposed meeting because of Britain's failure to invite their representatives. Nationalist leader Archbishop Makarios has already announced that the Cypriots will not accept any agreement which does not satisfy their aspirations. The Greek government has submitted the Cyprus issue for consideration by the UN General Assembly.

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6. Comment on South Korea's ultimatum to truce inspectors to withdraw:

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The South Korean government's ultimatum on 6 August to the Neutral Nations Supervisory Commission to withdraw its truce inspection personnel by 14 August is: (1) a reflection of Rhee's impatience over failure to dissolve the commission; (2) a result of his fear of a rapprochement between the United States and Communist China; and (3) another effort by him to force more favorable terms of American aid, now under negotiation in Washington.

The ultimatum declared that South Korea could not assume responsibility for any incident that might involve commission members who fail to depart. The reported bayoneting by American guards of three Korean wounded war veterans who attempted to break into a commission compound during a demonstration in Pusan on 7 August suggests that Rhee may be testing American determination to protect the truce teams. "Demonstrations" by Korean wounded veterans are government-directed and controlled by the police.

The commission is not expected to order the withdrawal of its teams in response to the ultimatum and further violence may occur this week as the deadline approaches. Isolated actions--such as sniping, for which complete security cannot be provided--are also possible. Rhee will probably seek still other means of embarrassing the United States in his continuing effort to influence American foreign policy in the Far East.

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