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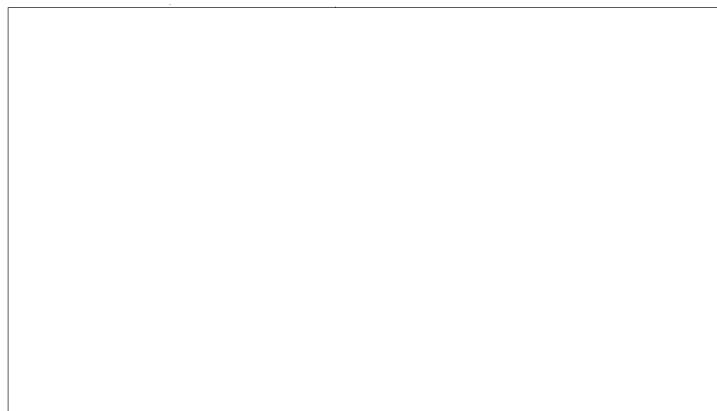
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**1. FRENCH EXPERT FORESEES DRASIC REFORM
FOLLOWING CURRENT ECONOMIC CRISIS**

[redacted]
 The French member of the Managing Board of the European Payments Union [redacted] predicted [redacted] that a "drastic reform in the French economic structure will inevitably result" from the present French economic crisis. He told an American representative that the many steps to be taken by the French government would probably not follow "orthodox economic policy" and might not conform to "the letter" of some of France's international economic commitments.

He stated that the National Economic Council had already decided to introduce drastic credit restrictions to emphasize the consequences of continued failure to reduce the budgetary deficit. He wondered, however, whether a "manageable budget deficit" is possible as long as the Algerian crisis exists. [redacted]

Comment	Stopgap measures tightening credit restrictions and "temporarily" restoring various restrictions on imports have been applied in the past few weeks, and Finance Minister Gaillard has just told the National Assembly he will seek a foreign loan. Even discounting the burden of the Algerian war, it is doubtful that the Bourges-Maunoury program can attain long-range equilibrium for the French economy.
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~~TOP SECRET~~**2. USSR FIRES MISSILE 950 NAUTICAL MILES**

[Redacted] the firing of a ballistic missile--designated a "63-series" missile--to the 950-nautical-mile impact area of the Kapustin Yar guided-missile test range.

Comment

This is the first evidence of a Soviet ballistic missile firing to such a distance. Previous firings have not exceeded a 650-nautical-mile range. The new downrange stations involved in this firing have been active since July 1956, and had recently been engaged in extensive practice procedures.

The "63-series" is probably a new missile test series. Although this could be the first test of a new missile, it more probably involved the present 650-700-nautical-mile missile modified by the reduction of warhead weight. Such a modified missile could have a maximum operational range of 1,000 to 1,200 nautical miles.

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3. USSR TO DELIVER MORE JET AIRCRAFT TO EGYPT

Comment on:

[redacted] 17 MIG-17's will be delivered in August. The aircraft apparently will be made operational soon after their arrival, since the attaché inquired whether additional aircraft assembly technicians would be needed in Egypt. The Egyptians have planned to accept instructors and sufficient aircraft assembly specialists to permit assembly of one plane per day.

The aircraft presumably will be delivered under the Soviet-Egyptian agreement of last January under which the USSR apparently agreed not only to replace Sinai losses but also to provide materiel further to develop Egypt's armed forces. Fourteen MIG-17 aircraft may have been delivered in late March, but this is the first firm evidence of an aircraft delivery scheduled since the Suez hostilities.

Exclusive of any of the aircraft mentioned above, the Egyptian air force is currently believed to include 10-20 MIG-17 jet fighters, 40 MIG-15 jet fighters, and 35 IL-28 jet light bombers. [redacted]

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4. USSR OFFERS TO FINANCE ICELAND'S PURCHASE OF EAST GERMAN FISHING CRAFT

The USSR has offered to finance the \$3,250,000 cost of Iceland's purchasing a total of 17 fishing craft from East Germany, with a 15-year, 2.5-percent loan. Iceland has already ordered five 75-ton motorboats and has recently negotiated for the procurement of 12 additional vessels of 250 tons each.

The US embassy comments that the Icelandic cabinet will find it difficult to reject such an attractive offer.

Comment

Such a loan would increase Iceland's already extensive economic dependence on the USSR.

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5. SHAH'S POLITICAL ROLE MAY BE CHALLENGED

A group of some 30 high-ranking Iranian army and police officers are agreed that the Shah must withdraw from politics and from the day-to-day operations of the government, [redacted] If the Shah refuses to "rule instead of reign," the group will create a republic. They feel that the best time to make their preparations is while the Shah is absent from the country, but they will take no action without assurances of strong support from abroad.
(NOFORN)

Comment

Prime Minister Eqbal, who is not known to be connected with the above group, has repeatedly indicated [redacted] he will resign unless the Shah stops interfering in his administration of the government. The Shah plans to return from Europe in August or September, and may face a showdown at that time.

There has been a steady deterioration of political conditions in Iran and a growing attitude that the country would do better under a republican form of government.

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6. DJAKARTA MUNICIPAL ELECTIONS

Comment on:

The most significant change in the voting pattern in the 22 June Djakarta municipal elections is the Communist Party's rise to second place with a vote of 123,000 from a poor fourth place in 1955 when it polled 76,000. This Communist gain is probably the result of vigorous campaigning and President Sukarno's personal encouragement of Communist activity. The Masjumi retained first place. The National Party and the Nahdlatul Ulama (NU), both non-Communist, which held second and third places respectively in 1955, were reduced to third and fourth places. On 22 June, the Nationalists polled 106,000 and the NU 94,000.

The Masjumi's plurality in almost complete returns indicates that anti-Communist and anti-Sukarno forces have retained substantial strength despite strong and continuing efforts to repress them. The Masjumi's vote of 132,000 of the 455,000 votes counted, however, gives it a margin less than that achieved in Djakarta during the 1955 national elections.

Provincial elections in the remainder of Java are scheduled for the near future. The Masjumi won a plurality in West Java in 1955, but polled fourth in Central and East Java. The Communist Party held a strong second place in both Central and East Java in 1955.

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7. SIHANOUK RESIGNS AS CAMBODIAN PREMIER

Comment on:

The resignation on 21 June of Cambodia's Premier Prince Sihanouk and his scheduled departure next month for medical treatment in France may foreshadow a significant change in the nation's political pattern. Since the general elections of September 1955, there have been eight Cambodian governments, each under Sihanouk's control.

During this period dissatisfaction engendered by Sihanouk's autocratic and often erratic leadership has steadily intensified as a result of recurrent administrative crises. The chief spokesman of Cambodian discontent is Dap Chhuon, the minister of national security, who has also frequently attacked Sihanouk's foreign policy of friendly relations with the Communist bloc.

Sihanouk may grant more freedom of action to the next government. Such a regime may also be expected to continue the tougher attitude toward Communist subversion recently adopted by Sihanouk. Anti-Communist Leng Ngeth, capable former premier and recently Cambodian ambassador to Moscow, is being mentioned as the next premier. Dap Chhuon also aspires to the post, but there is strong opposition to him, particularly from the royal family.

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8. CHINESE NATIONALISTS AND SOUTH KOREANS TO DISCUSS NAVAL BLOCKADE

[Redacted] [Redacted]

Vice Admiral Liang, commander in chief of the Chinese Nationalist navy, has been authorized to discuss during an early July visit to South Korea the establishment of a joint naval patrol to blockade the Chinese mainland and North Korea. Joint naval exercises and use of facilities for training and operations are also to be considered. [Redacted]

Comment There are no known military agreements between the two countries, although a limited number of exchange visits of military personnel are made on the basis of verbal understandings. A treaty of friendship, which Liang may try to conclude, reportedly has been blocked by Rhee's demand for recognition of the "Rhee line" and for territorial claims in Manchuria, and by Chinese demands for special treatment of Chinese living in Korea.

Nationalist naval units operating out of South Korean bases would have a limited capability for interfering with North China shipping, but such action would incur the risk of retaliation from the Chinese Communists.

The South Korean navy is under the operational control of the UN Command.

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9. REMOVAL OF PRO-COMMUNIST OKINAWAN MAYOR
FACES DIFFICULTIES

Comment on:

Opponents of pro-Communist Mayor Kamejiro Senaga of Naha, Okinawa, face serious difficulties in achieving his removal from office,

They must win at least 20 of the 30 assembly seats in the election scheduled for 4 August.

The conservative opposition is hampered by the decision of three and possibly five anti-Senaga assemblymen not to run for re-election. Senaga already has begun a campaign on behalf of his supporters in which he undoubtedly will use the city administrative organization. He has threatened strong action against city employees who support his opponents.

Senaga probably will pose as the champion of Okinawan grievances against the United States and emphasize such popular issues as reversion to Japan and opposition to the American acquisition of land for military use. American observers feel there is a good chance for the conservatives to win 20 assembly seats, thereby assuring a vote of no confidence. Senaga's defeat in the subsequent election for mayor is believed uncertain.

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