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**GENERAL****1. Chinese Communist trade delegation to visit Egypt:**

**Comment:** Peiping hopes for political reasons to establish formal trade ties at the government level, but Cairo has not yet recognized the Chinese Communist regime, and at the Bandung conference in April discouraged Chinese efforts to arrange a formal trade deal.

Peiping is expected to buy more cotton from Egypt than it did last year, in view of greater needs in China and large exportable surpluses in Egypt.

Peiping has shown increased eagerness to inaugurate formal trade relations with countries of the Near East. An Israeli delegation was received earlier this year, although no agreement was consummated.

**SOVIET UNION****2. Bulganin calls for higher productivity and reorganization of economic planning:**

In a speech delivered at the opening of a large conference of industrial workers in Moscow on 16 May, Premier Bulganin praised the rapid growth of the Soviet economy, but scored numerous industrial defects which, he said, must be eliminated in order to "vanquish capitalism in economic competition."

The premier stated that the State Planning Committee (GOSPLAN) was being split into two bodies, one to be responsible for long-range economic planning, the other for

current planning. In addition, a new committee is being established to ensure the incorporation of new technical processes into the Soviet economy.

Bulganin demanded greater labor productivity through increased use of new technology, more industrial specialization, and additional reductions of administrative bureaucracy.

Comment: Continued failure to attain goals in labor productivity has caused increasing concern to Soviet leaders. Industrial output plans have been attained only by expanding the urban labor force more rapidly than scheduled.

The present drive to increase agricultural production precludes further increases of the urban working force and makes the need for higher output per worker more pressing.

The establishment of separate bodies for long- and short-range economic planning resembles the division of these functions which existed in the USSR from 1948 to 1953, and which resulted in a significant improvement in production during that period. [redacted]

## FAR EAST

### 3. Comment on North Korean bombardment of South Korean fishing fleet:

[redacted]  
The North Korean bombardment of a South Korean fishing fleet operating well within North Korean waters in Haeju Bay on the west coast with 870 rounds of artillery on 10 May would appear to be a reaction against trespassing by South Korean fishermen (see map, p. 5). The

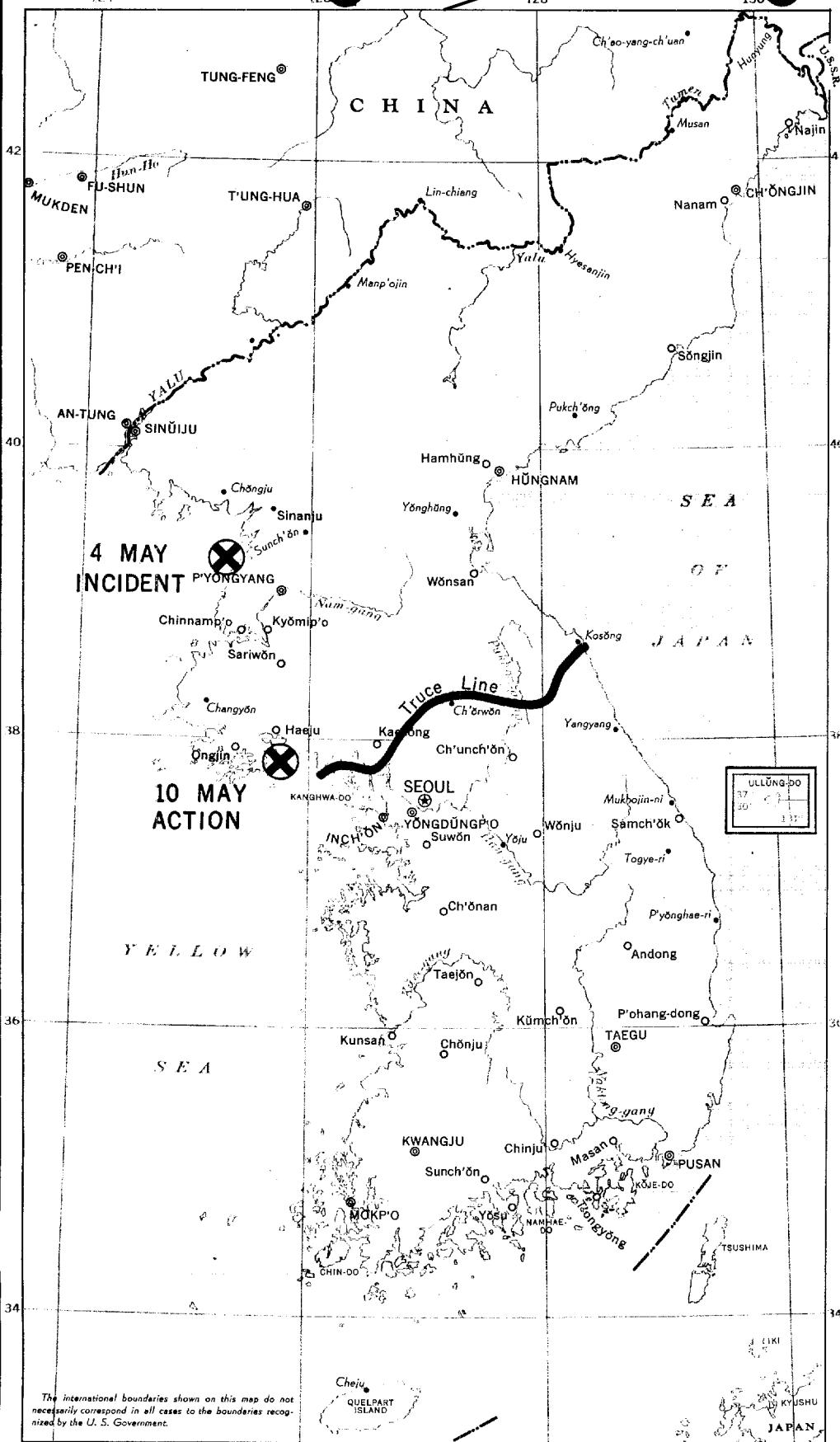
incident may, however, have been a calculated retaliation for a South Korean attack on a North Korean fishing fleet 20 miles northwest of Pyongyang [redacted]

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## KOREA

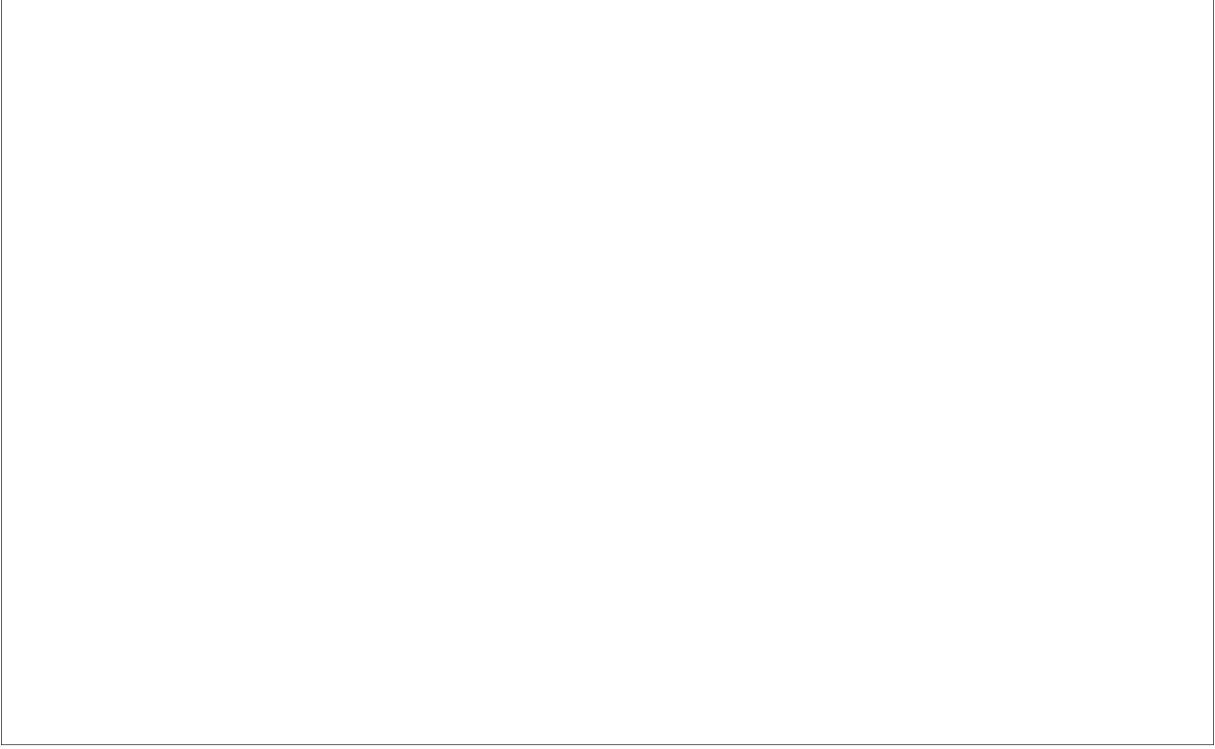
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It is doubtful that the pope could muster any effective armed group without the support of Phuong, whose present allegiance to Diem may prove temporary or require considerable cash subsidy.

Diem is using a joint French-American plan as the basis for further study regarding the integration of sect forces into the army. Two major Hoa Hao commanders remain bitterly anti-Diem and a solution to the sect problem will require considerable time, talk, and cash.

#### NEAR EAST - AFRICA

5. Iraq reported seeking Syrian coalition to upset Damascus government:

Baghdad has decided to send two former Iraqi prime ministers to Syria to try to persuade the Populist and Nationalist Parties there to organize a coalition which could bring about the fall of the present Syrian government.

This decision was taken at a meeting on 12 May of numerous former and present high Iraqi officials, including King Faisal and Prime Minister Nuri Said, and was reported to the American ambassador by Khalil Kenna, a trusted confidant of the prime minister.

Comment: This report indicates that the Baghdad government is emphasizing political rather than military subversion as a method of overthrowing the Damascus government.

## EASTERN EUROPE

6. Yugoslavs reportedly will refuse party ties with USSR:

A Yugoslav newspaperman has told an American official in Belgrade that he has definite information the initiative for high-level Soviet-Yugoslav talks

came from Moscow. He said he was sure Soviet leaders would try to re-establish party relations with the aim of drawing Yugoslavia back into the Soviet bloc, but that the Russians would fail, because Belgrade wants to keep relations on a government-to-government basis. Although he expects the USSR to try to reactivate the old mutual assistance agreement, he does not believe Belgrade is willing to enter into any kind of treaty with the USSR "just now."

Ambassador Riddleberger is inclined to think the Yugoslavs do not want to re-establish party ties. He believes they are hoping, however, to establish complete rapport in Yugoslav-Soviet state relations in the belief that this would be a major step toward relaxing international tensions. To this end, the Yugoslavs may seek a settlement of pre-1948 economic claims, the repatriation of Yugoslavs held in the USSR, and the expansion of trade and cultural relations. Riddleberger feels that the subjects covered in conversations on how to reduce world tensions will include disarmament, Germany, and European security.

Comment: In public statements the Yugoslavs have consistently denied any desire to re-establish ties with the Soviet Communist Party. They have, however, shown considerable satisfaction with private statements to them by Soviet officials allegedly indicating acceptance of Yugoslav party developments as a legitimate interpretation of Marxism.

7. Britain sees Soviet visit to Belgrade as triumph for Tito:

The British Foreign Office considers the forthcoming visit of Soviet leaders to Belgrade as a triumph for Tito, who is

described as an old Communist who will know how to take care of himself. The Soviet move is also regarded as another step in an attempt to establish a neutral belt including Germany.

London believes that in return for a Yugoslav declaration of neutrality, the USSR might offer further "normalization" of relations, economic concessions, restraint on military deployments in nearby Satellite nations, and even arms aid.

Comment: British officials have not directly discouraged the concept of a neutral belt as such, but they have insisted that any understanding with the USSR must not impair NATO's strength, which depends on German participation, or lead to a slackening of American interest in maintaining its commitment in Europe.

British officials have recently indicated that they are satisfied with Tito's present relations with the West.

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8. Hammarskjold prods Chou En-lai on American airmen:



UN secretary general Hammarskjold reminded Chou En-lai in a telegram on 16 May that he had received no reply to his query of 23 April as to what he could do to facilitate the release of American airmen imprisoned in Communist China. The telegram emphasized the importance of early action on this matter.

Comment: Hammarskjold told Ambassador Lodge two weeks ago he would soon tell Chou that, if there were no reply by 1 June, he would report to the UN that his mission had been a failure. Hammarskjold's 16 May telegram apparently did not set any such deadline.

Peiping, in the interest of improving the atmosphere for Sino-American negotiations on current Chinese issues, has been expected to release some of the at least 55 Americans detained in China.

**9. Comment on resignation of Dutch cabinet:**

[Redacted]

The Dutch parliament is likely to be dissolved and new elections scheduled as a result of the resignation of the Catholic-Labor coalition cabinet follow-

ing its defeat on the controversial rent bill. Although some attempt may be made to form another coalition to avoid new elections--which no party desires this year--the controversy over the rent bill comes at the end of a long series of disagreements between the coalition members.

The queen is empowered to dissolve either one or both of the two chambers, with elections following within 40 days. The present cabinet would continue as a caretaker government.

New elections would probably have little effect on the present political alignment. The two major parties, the Catholic and Labor Parties, are represented almost equally, but neither is likely to gain a parliamentary majority. However, as after the 1952 general elections, the process of forming a new government might be long drawn out.

[Redacted]