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GENERAL

1. Comment on Molotov's bid to normalize relations with Japan:

[REDACTED] Foreign Minister Molotov's statement of 11 September to a Japanese editor that the time is ripe for a normalization of relations with Japan is the highest-level move thus far in the current Communist psychological offensive aimed at reducing American influence in Japan and bringing Tokyo into closer relations with the Orbit.

Initial Japanese Foreign Ministry reaction to Molotov's statement has been one of skepticism. The government has reiterated its position that Japan will respond to any Soviet proposal only on the basis of the San Francisco Peace Treaty--a position to which it is virtually bound, in any event, until April 1955.

Since the Geneva conference, however, Japan has become increasingly vulnerable to the Communist overtures, which have included diplomatic gestures, trade talks, trade concessions, and the exchange of cultural delegations. The Communists are expected to continue their campaign of friendly gestures toward Japan, but the USSR probably does not have any serious intention to negotiate a peace treaty so long as the Yoshida government remains in power. [REDACTED]

FAR EAST

2. Overseas Chinese see "face-saving" attacks by Peiping possible:

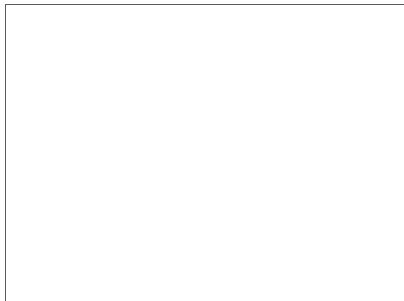
[REDACTED] There is a growing feeling in the Chinese community in Singapore that Chinese Nationalist attacks on the Amoy area increase the possibility of a Chinese Communist assault "for face-saving reasons." [REDACTED]

[REDACTED] Comment: Confronted with continued Nationalist air and naval retaliation, the Communists have reduced their shelling of the Quemoy Islands to about 100 rounds per day, as compared to an estimated 6,000 rounds on 3 September when they began their bombardment.

Several observers, both official and unofficial, have warned that Peiping may be forced into some face-saving action. This could take the form of air and amphibious attacks against any of the Nationalist-held offshore islands or air attacks on Formosa.

SOUTHEAST ASIA

3. Laotian premier working for defection of Pathet Lao leader:



Crown Prince Savang of Laos told Ambassador Heath on 7 September that the premier, Prince Souvanna Phouma, recently had a day-long conference with his half-brother Souphanouvong, titular head of the Viet Minh-sponsored Pathet Lao. Souphanouvong was said to have written a statement declaring his loyalty and submission to the royal government and to have convinced his brother that he is not a Communist.

A French adviser to the Laotian government later told the American embassy in Vientiane that Souphanouvong had agreed to the absorption of his forces into the national army only if Laos adopted complete neutrality and rid itself of French and American influence. The Laotian defense minister was said to favor this deal.

Comment: Souphanouvong has been collaborating with the Viet Minh since shortly after the end of World War II and his entry into the government would involve considerable risk of its being subverted by the Viet Minh.

WESTERN EUROPE

4. Comment on the Schleswig-Holstein state election in West Germany:



The relatively poor showing of the Christian Democratic Union in the state elections in Schleswig-Holstein on 12 September indicates

that Chancellor Adenauer's policies have lost some public support in recent weeks. Other factors contributed to the Christian Democrats' losses, however, principally the 14-percent drop in voter participation and the fact that the campaign was fought largely on local issues, including state government scandals.

The Christian Democrats and the opposition Social Democrats won 32.2 and 32.3 percent of the vote respectively, as compared to 47.1 and 26.5 percent in the national elections in September 1953 and to 19.8 and 26.9 percent in the state elections of 1950. The results indicate a return to a state voting pattern more nearly normal than last year's. The Social Democrats' gain can probably be attributed largely to opposition to Adenauer's foreign policies, but was not sufficient to indicate any great increase in the appeal of Socialist policies on a national scale.

Present indications are that the Christian Democrats, in coalition with either the Refugee Party or Free Democrats or both, will retain control of the state government and its representation in the upper house of the federal parliament. Adenauer can be expected, however, to use these election results to buttress his demands in current negotiations with the Western allies.