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FAR EAST

1. Chou En-lai reportedly promises "liberation" of Formosa in 1955:

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[redacted] Chinese Communist premier Chou En-lai told Ceylonese minister of commerce Shirley Corea recently he was so sure Formosa would be "liberated" he would be willing to make a firm commitment to deliver Formosan sugar late next year.

Corea told American ambassador Crowe on 20 October that Chou, when asked how the "liberation" would be achieved, replied that he expected an internal revolt on the island to aid a Chinese Communist invasion force. Corea's impression was that Peiping is grossly underestimating the power and courage of the West and anticipates a quick, cheap victory.

Comment: It is doubtful, in the light of the stated American intention to defend Formosa, that Peiping is confident of an easy victory. Chou's remarks to Corea, who had just returned from negotiating a trade agreement in Peiping, were probably intended to reach Western capitals. Chou issued similar warnings in conversations with other Asian diplomats in 1950 prior to Chinese Communist intervention in Korea. In this case Chou's remarks appear to be trial balloons rather than firm promises of a course of action, and it is expected that further such conversations will be reported.

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[redacted] HIS ACCOUNT OF THIS CONVERSATION IS, HOWEVER, CONSISTENT WITH CHINESE COMMUNIST PROPAGANDA PROMISING "LIBERATION" OF FORMOSA, IMPLYING THAT FURTHER PREPARATIONS ARE NECESSARY, AND URGING NATIONALIST OFFICIALS AND TROOPS TO DEFECT.

SOUTHEAST ASIA

2. Fall or major reshuffle of Indonesian government appears inevitable:

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[redacted] The fall or major reshuffle of the Indonesian government appears inevitable following the threat of the Greater Indonesian

Association (PIR) to withdraw from the cabinet on 25 October, according to the American embassy in Djakarta.

President Sukarno's position, which will be decisive, remains unknown, but the embassy believes three alternatives are possible: (a) the Ali government may remain in power without the PIR, in which case Communist support would be essential; (b) the government may fall and the PIR would form a new cabinet including the present opposition, in which case the National Party would drift further to the left; (c) a nonpolitical leader may be asked to form a business cabinet.

Comment: The combination of economic deterioration and governmental paralysis is creating a highly exploitable situation for the Communists. D. N. Aidit, secretary general of the Indonesian Communist Party, has already stated publicly that Communists should be taken into the government if the PIR should withdraw.

It is believed that President Sukarno will use his influence to keep the present regime in power, although discontent over the government's economic policies continues to spread and may force a major government shake-up.

NEAR EAST - AFRICA

3. Leftism and anti-Westernism seen growing in Middle East:

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The Lebanese press, which closely follows the Syrian scene, pictures the recent Syrian parliamentary elections as a warning to the West that leftism and anti-Westernism are growing in the Middle East.

The press notes that in Syria there has been a spectacular advance of leftist parties, that the socialist ideology is making progress, and that a Communist has entered parliament for the first time.

Newspapers explain this tendency toward the left as an outcome of indignation against the West because of

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the Palestine question. It is also seen as resulting from the people's disappointment in their rulers' failure to secure justice for them.

Comment: This evaluation is partially confirmed by the recent Arab elections. Iraqi elections of 9 June demonstrated the effectiveness of the Communists in organizing a "National Front" of extremists. The Syrian elections of 24 September were a victory for the leftist Arab Socialist-Resurrectionist Party. The Jordanian elections of 16 October, as in Syria, sent a Communist to parliament for the first time.

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EASTERN EUROPE

4. Comment on Satellite plan reductions:

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[redacted] East Germany has followed Czechoslovakia and Hungary in reducing industrial plan targets for 1954 because of inability to reach the goals set forth early this year. This is revealed by an analysis of East Germany's 18 October announcement that its plans had been fulfilled. The originally announced 1954 plans had called for sharp reductions in the rates of industrial growth compared to the achievements of earlier years.

East Germany cut its initially scheduled increase from 12.6 to about 8.2 percent, Czechoslovakia from 5.1 to 2.1 percent, and Hungary from 4.5 to less than 1 percent. These downward revisions underscore the acute difficulties which the Satellites are experiencing in shifting the emphasis of their economies to fulfill the promises of the new course.

The most pronounced failures in all three Satellites occurred in the critical fuel and power sectors, which were to receive special emphasis under the new course. Until these two industries are able to overcome their problems--such as lack of satisfactory equipment, high worker absenteeism, and shortages of skilled labor--they will continue to act as brakes on industrial expansion in these Satellites.

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In the case of Poland, the fourth industrialized Satellite, satisfactory progress has been made and it is unlikely that plan goals will be reduced.

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5. Comment on possible purge of top Hungarian Communist:

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Recent developments suggest that First Secretary Matyas Rakosi of the Hungarian Communist Party may be the first Satellite leader to be purged since the introduction of the new course in Eastern Europe.

Premier Nagy in a Szabad Nep editorial on 20 October specifically blamed "one-man leadership"--an obvious reference to Rakosi's role--for the harmful policies followed by the party and government prior to the adoption of the new course and stated that only collective party leadership is capable of overcoming the grave consequences of these mistakes. Rakosi has not appeared publicly since 1 October and he has not been mentioned in connection with the important central committee meeting held from 1 to 3 October, which emphatically re-endorsed the new course.

A purge or demotion of Rakosi, who was the Hungarian party leader most closely identified with the harsh Stalinist policies, would tend to provide a strong impetus to the new course both within the party and among the people, since it would serve to emphasize that the new course will be rigidly pursued. The regime's vacillation in carrying out its new policies has created an economic situation in Hungary much more critical than those in any of the other Satellites.

Rakosi, who is a Moscow-trained Communist and Jewish, is highly unpopular and his purge would conform with the recent emphasis on nationalism and the rehabilitation of those who had been accused of being "national deviationists."

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