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GENERAL

1. Britain prepared to discuss Formosa and Chinese UN representation in Korean conference:

United Nations negotiators in any Korean postarmistice political conference should consider discussing Chinese Communist UN representation and the disposition of Formosa,

3.3(h)(2)

according to a British Foreign Office draft paper. These issues would be discussed, however, only after substantial progress toward a political settlement in Korea.

The Foreign Office would be unwilling to discuss Indochina and Southeast Asia generally until the foregoing issues had been disposed of. It expects protracted negotiations on the Korean settlement, and believes that other problems will receive little serious consideration for many months.

Comment: The Foreign Office apparently now considers that the situation in the Far East will permit greater latitude for negotiations. Previously it held that a general area settlement could be achieved only through step-by-step negotiations on individual problems.

Australian minister of external affairs Casey has told the American ambassador in Canberra that Australia would, at this stage, not vote for Communist China's admission to the United Nations if the subject were to come up.

SOVIET UNION

2. Comment on Soviet plans to expand consumer goods production:

Pravda's announcement on 11 June that the Soviet Union had adopted "special measures" to exceed the original 1953 plan for production of consumer goods was preceded by specific orders implementing this policy.

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Such increases, which can be accomplished without significant cutbacks in production of armaments and major industrial commodities, should provide an incentive for labor to raise its productivity.

SOUTHEAST ASIA

3. French views on settlement of Indochina war reported:

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Comment: France has long hoped for some general Far Eastern settlement to solve the Indochina problem. The French have also hoped to defeat the Viet Minh by inducing the Chinese Communists to cut off aid to Indochina, and to this end may press the United States to accept Communist China as a UN member.

The Peiping regime can be expected to maintain a common front with the Viet Minh in any negotiations with the French. It would almost certainly not cut off aid to the Viet Minh in exchange for French support for its admittance to the United Nations.

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SECURITY INFORMATION**4. Letourneau may recommend withdrawal of French troops from Cambodia:**

[redacted] Minister for the Associated States Letourneau^{3.3(h)(2)} told Ambassador Dillon that he would advise his successor to withdraw all French forces from Cambodia if it were impossible to continue negotiations with any duly authorized representative of the Cambodian people.

The French were taken completely by surprise at the king's flight in view of their belief that he in general accepted the terms of the agreement Letourneau had discussed with him on 23 May.

Comment: France will probably continue efforts to discredit the king until a new French government permits formulation of a more definite policy.

WESTERN EUROPE**5. American officials in Berlin expect no major Soviet concessions:**

[redacted] The tentative conclusion of American officials^{3.3(h)(2)} in Berlin is that the present changes in East Germany are not indicative of Soviet willingness at this time to make serious concessions to the West on German unity.

The new tactics emphasize Soviet realization of the need for slowing the tempo and aggressiveness of socialization in order to stem the exodus of refugees and to counter the popular feeling of insecurity and discontent which was undermining Soviet objectives. The officials point out that the East German government says nothing about cutting down the armed forces and does not reverse the basic socialization program, but only criticizes the methods and speed of carrying it out.

The changes, it is believed, were timed for the greatest possible external propaganda effect, particularly in influencing West German elections and in appearing to meet some basic Western conditions for four-power talks.

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Comment: West German Social Democratic leaders reportedly now believe that the Soviet Union is prepared to sacrifice its position in East Germany and will agree to unification in the hope of extending its influence through all of Germany. Chancellor Adenauer, on the other hand, takes a more realistic view and has voiced strong suspicion of Soviet intentions.

6. Imminent retirement of Portuguese premier Salazar reported:

3.3(h)(2)

The most likely candidate for prime minister is said to be Luis Esteves Fernandes, present Portuguese ambassador to Washington.

Comment: Reliable reports have indicated previously that Salazar, [redacted] is seriously concerned 3.3(h)(2) with the problem of his successor. Esteves Fernandes is not usually mentioned as a possible candidate.

Salazar's voluntary retirement would probably not affect Portugal's internal stability or relations with NATO and the United States.

The interim role of Santos Costa would seem unlikely except in the event of serious intra-governmental disagreement on the choice of Salazar's successor.

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