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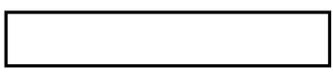
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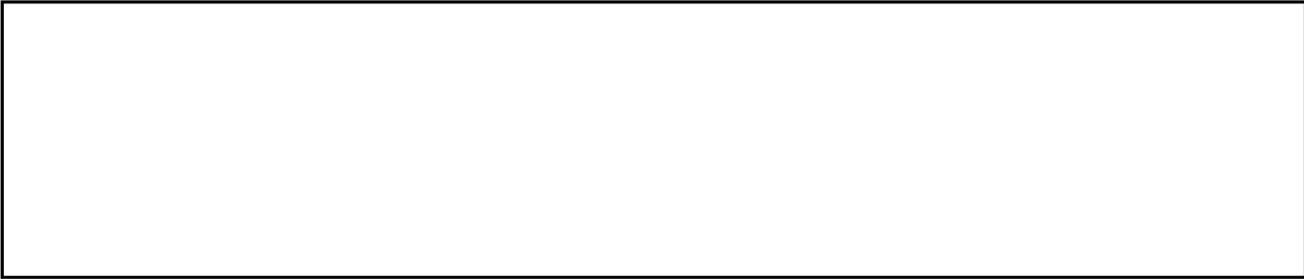
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INDIAN SOCIALIST PARTY DETERIORATING AS A  
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The Praja Socialist Party, which is still the strongest threat to Congress Party control of India, has during the past year adopted a visionary, long-range program antipathetic to formalized political activity and has failed to develop an organization in depth. By the time of the next national elections in 1956, therefore, it may have become an ineffective political force.

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**SECRET****THE SOVIET WORLD**

Communist efforts to isolate the United States and to win new positions of strength in neutral zones last week included various peaceful gestures and promises of future benefits for those who would walk without the Americans.

Moscow announced that three Soviet trade officials were on their way to Tokyo to negotiate with Japanese business representatives for sale of Soviet coal, lumber and manganese. A Chinese Communist trade mission was also en route to Tokyo, and a Chinese trade official in Peiping informed a member of the Japanese Diet mission that his government was interested in finding a solution to the fishery problems in the East China Sea. The president of the Chinese Red Cross hinted that Peiping would consider the release of Japanese war criminals. Underscoring the purpose of these overtures, the chairman of the China Peace Committee told a Japanese Diet delegation on 3 August that the main obstacle to normalizing Sino-Japanese relations was Tokyo's adherence to American policies regarding Communist China and Formosa.

The Soviet government has shown concern over American activity in the Near East. Recent Soviet propaganda has criticized the settlement of the Iranian and Egyptian disputes and emphasized the danger that these countries may join an American-dominated military bloc. Pravda on 9 August issued another warning to Iran not to join a Middle East military bloc, and referred pointedly to the text of the 1927 Soviet-Iranian treaties prohibiting either country from joining an alliance directed at the other.

The Soviet press on 8 August abandoned the equivocal attitude it has maintained toward the Egyptian government since its formation, with a strong attack on the Anglo-Egyptian treaty as guaranteeing neither Egypt's territorial integrity nor sovereignty. It warned that the treaty "can mean indirect, if not direct, participation of Egypt in the Turkish-Pakistani pact," which it described as a threat to peace in Asia.

The Eastern European Satellites are endeavoring to utilize their acceptance of the American flood relief offer as evidence of their sincere desire to reduce international

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tensions. The East German press and radio is portraying its acceptance of President Eisenhower's "generous offer" as an expression of East Germany's "policy of furthering...international understanding." The East German government may also see an opportunity to enhance its sovereignty through the negotiations on the relief offer.

The Hungarian government has accepted the American relief offer specifying that it desired cash rather than food and clothing. This follows Hungary's acceptance of a Dutch offer of aid if it was in the form of currency. Czechoslovakia has not yet answered but it will probably accept. Rumania, which suffered only slight damage, politely declined the American relief offer.

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**SECRET****POLITICAL AND ECONOMIC FACTORS EXPECTED TO LIMIT  
MENDES-FRANCE'S ECONOMIC REFORM**

Mendes-France's current economic program, for which he received decree powers from the National Assembly on 10 August, is a watered-down version of pre-investiture proposals. The modifications were necessitated by the diversity of views among his parliamentary supporters and various economic factors.

A treasury crisis and balance-of-payments difficulties are anticipated in the fall, and he may be forced to use his decree powers in such a way as to increase parliamentary opposition and lessen his chances for revitalizing the economy.

The build-up of the French economy has long been the basic remedy in Mendes-France's over-all prescription for solidifying France's world position. In his investiture bid of June 1953, he indicated he would make a drastic attack on the causes of economic maladjustment, which include high-cost production and distribution, fostered by extensive government protection of special interests such as the sugar beet and wine producers. These have combined to keep prices high and real wages low and have largely negated the effects of American aid.

The premier's economic program calls for a "rigorous" financial policy to permit production expansion. Finance Minister Faure, long close to Mendes-France, had already incorporated many of the latter's basic ideas in the 18-month program instituted under Laniel in 1953. He has, moreover, convinced the premier that too rapid an acceleration of this program might upset current progress. Both see the need for eventual elimination of marginal enterprises, particularly in agriculture; but their aim of full employment requires a cautious approach to the problem.

In June, the Faure program was already well on the way to its goal of a 10-percent increase in production and purchasing power by the spring of 1955. Industrial production had hit new highs with the consumers' goods industries leading the way; unemployment was down and decreasing; and steady purchasing power had improved confidence in the economy. The Treasury's Stabilization Fund was near \$400,000,000 at the end of June, foreshadowing a period during which the government could easily meet its obligations.

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The growing prospect of a budgetary crisis at the end of the year, however, would in any case have necessitated early recourse to a more stringent financial policy. As early as June, over \$571,000,000 had been added to the anticipated 1954 budget deficit by extraordinary outlays for increased subsidies to farmers, a civil service wage boost, and unforeseen military expenditures in Indochina. By the end of the year, total uncovered treasury obligations may reach \$2.5 billion. Moreover, the drop in American financial aid anticipated from the suspension of hostilities in Indochina will make more urgent the need to cut expenses and increase revenue.

The government has already taken steps to counter the belief that peace in Indochina will obviate tighter financial policies, and is attempting to convince the United States that aid for Indochina must continue to be channeled through Paris. Although \$248,000,000 is expected to be shunted from the military budget to the investment program, an austerity program to offset the feared cutback in dollar support seems imminent.

At the end of July, public fears that a curtailed dollar supply would force devaluation caused a 20-franc rise in the black-market dollar rate and a comparable upswing in the price of gold. French financial circles are convinced that eventual devaluation is necessary for convertibility. This drop in the franc rate after six months of stability, however, may force the premier to devalue before he has solidified his political position and generated enough financial confidence to ensure the maximum advantages from such a step.

Major opposition will develop within the premier's present parliamentary support if he uses the decree powers to tighten tax administration, limit social benefits, or channel investment funds in such a way as to eliminate the marginal producer. His plans for an expansion of housing construction as a key element of his program will increase his support on the left, but the Socialists are sure to insist on maintaining present levels of social benefits.

Moreover, a large part of the premier's own party, the Radical Socialists, will oppose restrictions on small businessmen, and agricultural interests will fight any early reduction in subsidies. Many business groups which would have feared to oppose an austerity program in 1945 now feel secure enough to fight moves to consolidate enterprises and eliminate uneconomic production. They can probably find parliamentary allies among opponents of other Mendes-France policies--on North Africa, for example, or on EDC. Nevertheless, the momentum created by Mendes-France's dynamism may arouse wide support for his program.

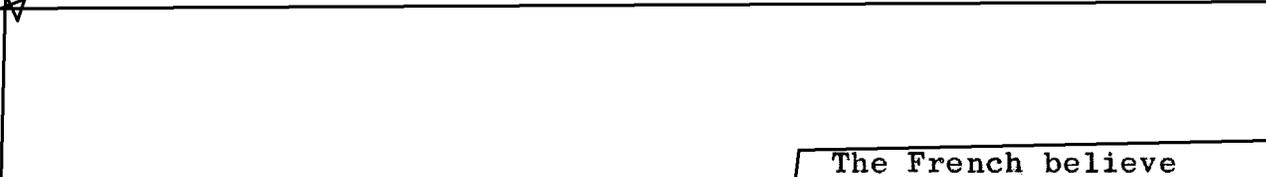
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**SECRET****VIET MINH CONTRAVENES INDOCHINA CEASE-FIRE**

Recent Viet Minh military and political activities throughout Indochina contravene those portions of the cease-fire agreement pertaining to free movement of troops and persons, foreign military aid, and withdrawal of forces from Cambodia.

In Tonkin, the Viet Minh has attempted on a wide scale to demoralize Vietnamese troops, encourage desertion, and otherwise interfere with the regrouping of a large Vietnamese force south of the demarcation line. A tactic used in several instances has been to assemble shouting and stone-throwing mobs of women and children in the path of troop convoys. According to one report, the Viet Minh kidnaped the families of Vietnamese soldiers to force them to desert. The cease-fire agreement (Article 15) provides that neither side shall take any action which might hamper troop withdrawals and transfers.

The Viet Minh is also trying to prevent the mass exodus of Vietnamese civilians to the south. Attempts in this field have included a letter-writing campaign in which civilians in Viet Minh-held areas have strongly urged relatives in the delta not to choose evacuation. Stronger measures were used at Dong Hoi, a populous French-held area just north of the truce line. There, the Viet Minh drove local villagers into the hills in order to prevent them from choosing evacuation.

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The French believe the Communists intend to utilize the period before the arrival of the inspection teams to achieve a maximum build-up of Viet Minh materiel strength. Even after the teams arrive, they are not expected to be adequate to maintain an effective check on the border.

Vietnamese Communist forces in Cambodia apparently are withdrawing to Vietnam, but are reported to have been replaced in large part by Viet Minh troops recruited from among the large Cambodian population in Viet Minh-controlled areas of south Vietnam. This is a type of violation the Cambodian government specifically foresaw when it required that the

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provision for withdrawal of foreign troops (Article 4) be extended to cover "Cambodians, not natives of Cambodia."

A tactic employed by the Viet Minh in south Vietnam, while not clearly a truce violation, illustrates the speed and audacity with which Viet Minh propagandists have begun to exploit every weakness of the free zone. There, demonstrations have been organized calling for the repatriation of French troops. Vietnamese police breaking up such demonstrations are thus put in the unpopular position of appearing to favor retention of the French.

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**SECRET****PROSPECTS AND PROBLEMS OF THE  
GREEK-TURKISH-YUGOSLAV MILITARY ALLIANCE**

Formal signing of the Greek-Turkish-Yugoslav military alliance on 9 August culminates more than two years of intermittent political and military conferences. It is a step toward closer tripartite relations based on the Treaty of Friendship and Collaboration signed at Ankara on 28 February, 1953 and is a significant step in strengthening Balkan defenses.

The three key articles of the treaty of alliance include Article 2 which specifies that aggression against one of the contracting parties shall be considered aggression against all and that the three signatories shall take "immediately all measures, including the use of armed force, which they shall deem necessary for efficacious defense." Article 5 provides for immediate mutual consultation to determine necessary measures in addition to those of Article 2. Article 6 concerns Yugoslavia's obligations to aid Greece and Turkey in the event of their involvement in conflict as a result of NATO commitments. It provides for consultation by the signing powers on measures to be taken "to meet the situation that would have been created in their area." The alliance will come into force on the day the last ratification instrument is deposited in Athens.

Progress is also being made in tripartite political planning. A permanent secretariat was established in November 1953. The new treaty establishes in addition a "permanent council," composed of the foreign ministers and special invitees, which will meet twice annually and in emergencies. A representative "consultative assembly," with advisory powers only, is also being organized to promote tripartite co-operation.

Mutual awareness of insecurity in a vulnerable area apparently prompted unusually quick action on the alliance. Last-minute delays resulted largely from Greek and Turkish desire to make sure that NATO obligations were in no way contravened by the phrasing of the new treaty.

Conclusion of the alliance, however, does not eliminate all tripartite problems. Traditional suspicion, resentment and the struggle for area leadership periodically strain tripartite relations.

One of the chief problems will be co-ordination of political decisions governing the use of forces. The exact relationship of the new military alliance to NATO has yet to be defined.

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Although the proposed alliance was unofficially approved by the North Atlantic Council, the Scandinavian representatives reserved the right to raise subsequent objections. Greek and Turkish forces are now committed both to NATO and to the Balkan alliance. On the other hand, Yugoslav forces are not committed to aid the North Atlantic community as firmly as some NATO powers would desire. Yugoslavia insists it is not interested in joining NATO, though it has admitted publicly that no war in Europe can be isolated, and has expressed willingness to co-ordinate military plans and forces with the West.

Peripheral problems of immediate concern are the Trieste issue and Greece's interest in promoting union with Cyprus, where there is a Turkish minority.

The extent to which these problems may cause estrangement will depend largely upon the external pressure of a common threat to Balkan security, the internal stability of the three principal powers, and particularly the manner in which the individual member countries come to view the alliance. Currently, Athens is particularly interested in the alliance because it joins Greek and Yugoslav efforts in developing defense in depth. Ankara regards it as a great diplomatic triumph for Turkish leadership in welding a strong link for Western defense. Belgrade views it as a means of getting under the NATO defense umbrella without extending its commitments beyond the Balkans and without political ties to NATO.

The military alliance, like its forerunner the tripartite Ankara Treaty of Friendship and Collaboration, provides for the adherence of other nations, primarily in the hope that Italy will eventually join. Rome's adherence may be achieved when the Trieste dispute is settled and an improvement in Yugoslav-Italian relations results. There is general agreement among present signatories of the pact that eventual Italian adherence would strengthen the Balkan defense position.

Nevertheless, the tripartite Balkan alliance, basically a regional development, strengthens Western defenses as a link in a chain which now extends from Norway to the western border of Iran.

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## INDONESIA BROADENING ITS TIES WITH ORBIT

Indonesia claims that it has continued its neutral foreign policy during the past year, but in practice it has taken steps to broaden its ties with the Soviet bloc and has become more critical of the West. The change is attributable both to Communist influence on the present government and to a revised estimate on the part of government leaders of the West's future role in Asia.

The National Party, which heads the government, has long argued that an exact interpretation of Indonesia's "independent" foreign policy demands balanced relations with both the West and the Soviet bloc. Immediately after it came to power in August 1953, with the support of the Communists in parliament, it set about acting on its interpretation. Within two months, Indonesia's first ambassador to Peiping had departed for his post. In April, Indonesia opened an embassy in Moscow, a development long delayed by anti-Communist elements in former governments. The Soviet ambassador, a fairly high-ranking official in the Foreign Ministry, is reportedly scheduled to arrive before November. Approximately ten members of his staff are already in Djakarta.

The entrance of Communists and fellow travelers into Indonesia has been far less restricted by the Ali government than by previous cabinets. Similarly, more Indonesians are traveling to Orbit countries. Particularly since the establishment of the Indonesian embassy in Moscow have Indonesian delegations from various organizations and government ministries accepted invitations to the USSR for tours of one to three weeks.

Commercial relations with the Soviet bloc have been expanded, and although they have as yet little economic importance, the National and Communist parties find them useful for political purposes. They argue that by seeking out Orbit markets the government is taking steps to limit the United States' power "to manipulate" prices of Indonesian products. Indonesia signed trade agreements with Communist China in July and with Rumania in early August and, during the past year, renewed its annual trade agreements with Hungary, Poland, and Czechoslovakia. An unofficial trade delegation from East Germany is now in Djakarta and the Central Indonesian Economic Council, a semiofficial organization, reportedly plans to set up a commercial agency for East Europe with headquarters in Prague.

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A shipment of rubber, believed to be destined for Communist China, is about to leave Djakarta. The shipment would constitute Indonesia's first violation of the UN-sponsored embargo, although the shipping orders are so written as to evade official responsibility for the rubber's destination.

Indonesia's gradual withdrawal from close association with the West has been highlighted in its relations with the Netherlands during the past year. In July, the last members of the Netherlands military mission departed. Indonesian authorities admit that political factors make it inadvisable to obtain replacements from other sources, despite the serious deficiencies in the training of the armed forces. Indonesia and the Netherlands agreed at The Hague in August to abrogate the Netherlands-Indonesian Union and related agreements on military, cultural and foreign affairs. The Communists have demanded that the Indonesian government make further demands that would adversely affect the extensive Dutch investments in Indonesia.

The question of Dutch control over West New Guinea looms as a significant issue which may carry Indonesia still further away from the West. Communist propaganda has consistently supported Indonesian claims to the area, and recently has given the issue increased attention. President Sukarno told the American ambassador in June and again in July that if the United States delays too long in settling such problems as New Guinea in accordance with Asian wishes, Soviet propaganda may win out among the Indonesian people. Sukarno's remark has the ring of political blackmail, at a time when Indonesia is threatening to take the issue to the United Nations.

Prime Minister Ali observed, after Chou's talks with Nehru in late June, that the "balance of power in the world seems to be shifting to new positions." Indonesia has refused to consider membership in a Southeast Asian defense organization. It has suggested instead a political-economic alliance of African and Asian countries and is reported to be considering a nonaggression pact with Communist China.

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**SECRET****CASTILLO ARMAS REGIME IN GUATEMALA WINS FIRST CRUCIAL TEST**

Although the Castillo Armas regime successfully reasserted its authority after the 2-3 August fighting in Guatemala City between a rebellious army garrison and an encampment of Castillo's irregular "Army of Liberation," the regular army still holds the ultimate political power in Guatemala. It will continue to be a potential threat to the regime until bitterness engendered in the June revolution has been neutralized.

The outbreak highlighted the need for Castillo to replace unreliable officers and build up a personal following in the regular forces. Known leaders of the uprising have been arrested and Castillo is believed to be in a position to weed out other unreliable elements. Thus far, he has retained the backing of Colonel Elfege Monzon, representative of the regular army on the three-man junta.

Castillo has reneged on his forced promise of 2 August to disband the "Liberation" forces, however, and this "army" of an estimated 600 men now encamped near the Honduran border may prove a source of serious friction between him and the regular army. The "Army of Liberation" is believed to have aircraft ready for use against the regular forces in the event of a further outbreak.

Castillo has great popular appeal in the capital, but his backing is unorganized and could dissipate quickly. The success of the Castillo regime's efforts to secure the support of politically important labor and the key "intellectual" strata will depend on its ability to eliminate certain Communist practices without repudiating the social and economic advances made since the popular revolution of 1944. Some important segments of labor are already being subjected to reprisals from management for their activities under Arbenz, and this could cost the government whatever labor support it now has. In view of the close ties between the Castillo regime and Washington in the minds of many Latin Americans, any widespread identification of it as "reactionary" would be adverse to United States interests.

On 4 August, Castillo told Ambassador Peurifoy he was seriously considering calling elections for a constituent assembly "in a month or so." He felt that his present popularity would assure the election of a friendly body which would ratify acts of the junta and elect him provisional president.

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**SECRET****INDIAN SOCIALIST PARTY DETERIORATING AS A POLITICAL FORCE**

The Praja Socialist Party, which is still the strongest threat to Congress Party control of India, has during the past year adopted a visionary, long-range program antipathetic to formalized political activity and has failed to develop an organization in depth. By the time of the next national elections in 1956, therefore, it may have become an ineffective political force.

In the national elections of 1951-52, the Socialist Party won 10.5 percent of the votes cast, as opposed to the Congress Party's 44.9 percent. Since then, the Socialists have been strengthened by mergers with the Peasants, Workers, and Peoples Party in 1952 and with the Forward Bloc (Subhasist) Party in 1953. They now hold the balance of power in the coalition government of Andhra state. The Socialists also head a minority government in Travancore-Cochin, though they are dependent on Congress support. They have made small gains in by-elections throughout the country, probably winning the allegiance of disillusioned voters who favored the Communists in 1951-52. These developments suggest that Socialist strength might grow in the near future.

There have been several developments in the past year which point to a contrary view, however. In late 1953, the Socialists adopted an impractical, long-range program aimed at greater autonomy for local governments, decentralization of industry, and creation of a nonparty mass movement of a Gandhian type which would concentrate on village self-government and economic improvement. The purpose of the plan is to effect the moral regeneration of India, with inspiration springing from the village level.

This program was foreshadowed as early as June 1953, when Jai Prakash Narain, India's foremost Socialist, emphasized the nonpartisan nature of the land reform movement in which he was participating. It was formulated by the time the Socialist Party convened in late December 1953. The plan apparently grew out of Narain's feeling that strong moral leadership could never develop within a government or party structure because government and party thinking usually aim at benefiting the organization rather than the people. On this sentiment, Narain seems to have grafted Vinoba Bhave's ideas of universality and self-sacrifice as applied to his "bhoodan yagna" or land reform movement.

This development is a partial answer to the controversy current in India as to whether Narain, who is afflicted with diabetes and has kept himself in the background for two years, has abandoned politics or whether he expects to re-enter the political arena at a later date. In a sense, the whole Socialist Party has abandoned politics, probably at least until 1956.

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Both Narain and Asoka Mehta, India's number-two Socialist, have made it clear in conversations and writings that their program envisages the almost complete breakdown of centralized authority in India and practically complete village autonomy. It aims at the development of cottage industries rather than heavy industry. Inspiration for the whole scheme is to come from the peasants themselves.

Despite a body of thinking that this new Gandhian type of movement will capture popular imagination, both Narain and Mehta have admitted the visionary nature of the plan and their doubts as to how a movement can grow without organization or centralized leadership. Mehta further admitted in May 1954 that the program was not aimed at the elections of 1956-57, since most Socialist leaders are too young to command public respect and since there is no hope of winning elections while Nehru is alive. Moreover, the Congress Party actually undercut the Socialist move early in 1954 by recognizing the possible threat of a new Gandhian movement and by itself adopting the principles of village self-help and the promotion of cottage industries as the foundation of its next Five-Year Plan.

The leaders of the Praja Socialist Party are of such variable character, furthermore, and are engaged in such diverse activities that they can hardly give effective direction to their program. Narain has formally dedicated his life to the land reform movement. Mehta was elected to parliament in mid-May 1954 and presumably now has less time than before to direct party operations. The prestige of Acharya Kripalani, another leader who seceded from the Congress Party in 1951, is declining, and Ram Manohar Lohia, the Socialists' only rabble rouser, inspires little popular confidence.

Finally, the party itself has not yet developed either the organization or the leadership in depth necessary to take over administration of state and national governments.

With no immediate goal toward which to work, and with their leadership engaged in diverse activities, therefore, it seems almost impossible for the Socialists to constitute a formidable challenge to the dominant Congress Party by 1956.

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