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SECURITY INFORMATION

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## GENERAL

1. Continued Soviet desire for Korean truce reported:

The Soviet ambassador in Peiping confidentially informed the Swedish ambassador there that the Chinese demand for the recapture of all released Korean prisoners

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should not be taken literally, according to the Swedish ambassador in Washington. The Soviet ambassador stated that Rhee's coup had "no military significance," and that if the US took a more resolute line with Rhee it could prevent further sabotage, making it unnecessary to discuss India's proposal for the transfer of POW's outside of Korea.

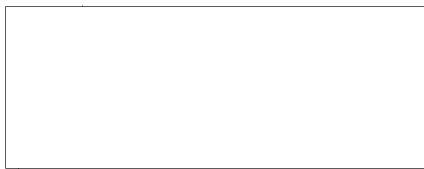
The Swedish ambassador gained the impression that the Soviet statements were intended to reach the US.

Meanwhile, Vyshinsky told the Swedish ambassador in Moscow that since Rhee had tried to sabotage an agreement it was now most important that every effort be concentrated on reaching an armistice, and that questions concerning the political conference and the UN General Assembly must await an armistice.

Comment: The USSR has previously used its influence to advance the conclusion of an armistice and these conversations reveal continued interest in a truce.

The Communists at Panmunjom are currently exploiting Rhee's action as a potentially divisive issue between the UN Command and South Korea, but they have not suggested an intention to refuse on this issue alone to conclude a truce.

## SOVIET UNION

2. Moscow embassy comments on Soviet currency reform denial:

The American embassy in Moscow, commenting on Finance Minister Zverev's public denial that a currency reform is impending, notes the

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extraordinary sensitivity of the Soviet people to rumors affecting their personal interests. The embassy sees no real reason for a monetary reform at this time, and suggests that the scare may have resulted from widespread rumors that new but not devalued currency will be issued.

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### FAR EAST

#### 3. Anti-American comment rising sharply in Japan:

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Anti-American criticism is increasing sharply in the Japanese press, according to a Far East Command survey which notes that the volume of adverse comment and derogatory reporting in major urban and rural papers reached a postoccupation high the week of 15 to 21 June. Critical comment was 50 times greater than favorable coverage.

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There was as much adverse comment between 8 and 21 June as during the entire first quarter of 1953. Maneuver and base areas were the primary targets of press criticism, although damages caused by air accidents and crimes by military personnel were also emphasized.

Comment: The Communists, Leftist Socialists and left-wing labor leaders have been successfully exploiting local opposition to American military bases in a nationwide campaign to arouse anti-American sentiment and discredit the Yoshida government.

The growing anti-American campaign might impede any American plans to move additional troops to Japan following a Korean truce.

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## SOUTHEAST ASIA

4. Negotiations for removal of Li Mi troops from Burma reach critical point:

The work of the mixed committee in Bangkok<sup>3.3(h)(2)</sup> has reached a critical point, according to Ambassador Stanton. The Burmese representative takes a serious view of statements by the Nationalist field commanders who are now in Bangkok and the subsequent denial of any control over these statements by the Taipei representative.

The statements repeated Taipei's earlier arguments against withdrawal and implied that Burma is responsible for alleged atrocities against overseas Chinese. Stanton feels the situation is not hopeless if Taipei will order the generals to cooperate and if their arguments are officially rejected by the United States.

Comment: Further doubt is cast on the Nationalists' willingness to cooperate by the statement of a high defense official in Taipei on 30 June that negotiations cannot continue if only one party is asked to give ground.

Meanwhile, the chief Burmese delegate is  under increasing pressure from the War Office<sup>3.3(h)(2)</sup> in Rangoon to withdraw from the talks, although he and the Burmese ambassador continue to oppose such action.

## AUSTRALIA - NEW ZEALAND

5. New Zealand officials see five-power group eclipsing military aspect of ANZUS:

The New Zealand army chief of staff has<sup>3.3(h)(2)</sup> expressed the opinion that five-power conferences involving the United States, Great Britain, France, Australia and New Zealand will eventually transcend ANZUS as a military planning group, with the latter existing only as a political body. He said the New Zealand prime minister shared this view.

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The chief of staff also reiterated New Zealand's intent to send forces to the Middle East in time of global war, but stated that while his country would "do its bit" in the event of localized trouble in Southeast Asia, the prospect of furnishing any considerable force was slim.

Comment: As currently constituted, the informal five-power liaison organization meets on an ad hoc basis to discuss military problems concerning Southeast Asia. Its evolution into a more elaborate body with extended responsibilities would have considerable appeal for Britain

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Australia, however, views such a development with mixed feelings, fearing a possible lessening of Australian influence.

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#### NEAR EAST - AFRICA

##### 6. Egypt threatens to adopt stronger policy on Suez base:

Vice Premier Nasr has stated that if Egypt's offer on maintenance of the Suez base is not accepted, Cairo will announce publicly that Britain can retain no installations there and will receive no assurances of the base's future availability.

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Nasr told American embassy officials that this policy would be adopted if the British attitude on the base does not change following Anglo-American discussions. He added that meanwhile the army regime will "keep things quiet" but must continue "preparations for any eventuality."

Ambassador Caffery says the British belief that a policy of firmness is responsible for the period of calm appears dangerously at variance with the above statements.

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Comment: Egypt presumably hopes that the United States will persuade Britain to modify its position on the base. Disappointment is likely to lead to an outbreak of violence and anti-Western sentiment.

7. Egyptian Revolutionary Command Council renews request for US arms:

 Colonel Nasr and Major General Hakim Ami:3.3(h)(2) the new commander in chief of the Egyptian armed forces, have advised the American embassy in Cairo that Egypt now desires to secure some of the arms which the United States has agreed to supply.

The officers expressed interest in obtaining "some showy items," such as tanks and armored cars, in order to boost morale and strengthen Amir's position with the army. Nasr offered assurances that any arms obtained would not be used against the British.

Comment: Negotiations for the purchase by Egypt of \$11,000,000 worth of American arms were suspended in early May in response to strong British representations following the breakdown of Anglo-Egyptian defense talks.

EASTERN EUROPE

8. Comment on the reorganization of the Hungarian Workers Party:

The reorganization of the top leadership of the Hungarian Workers Party on 27 and 28 June is comparable to the streamlining of the Soviet Communist Party following Stalin's death, and may presage similar moves in other Satellite Communist parties.

The politburo has been greatly reduced to nine members and two alternates, while the old secretariat has been replaced by a three-man group. In contrast to the change in the Soviet Union, Premier Rakosi remains a member of both the political committee and the new secretariat, but his former position as secretary general has been abolished.

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These personnel changes have brought to the top a younger, stronger and more cohesive group of men who have greater experience with the problems of a socialist economy. Several former party leaders and Social Democrats who were of value to the regime during the transitional period have been dropped from the politburo. In view of the numerous indications that the government is preparing to modify its economic policies, the new party leadership will be able to claim credit for any concessions.

### WESTERN EUROPE

#### 9. Paris embassy reports Letourneau "out" of Indochina affairs:

 The American embassy reports that Jean Letourneau, minister and commissioner general for the Associated States since 1950, is now "effectively out."

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Vice Premier Paul Reynaud, who reportedly will be responsible for Indochinese affairs, and Foreign Minister Georges Bidault have not yet decided on the extent to which the Ministry for Associated States should be "absorbed" into the Foreign Ministry.

Comment: The Foreign Ministry has been increasingly occupied with the international aspects of the Indochina question. If Paul Reynaud assumes Letourneau's cabinet duties, he may be expected to take a more liberal stand on independence for the Associated States than Bidault.

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