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7 June 1955



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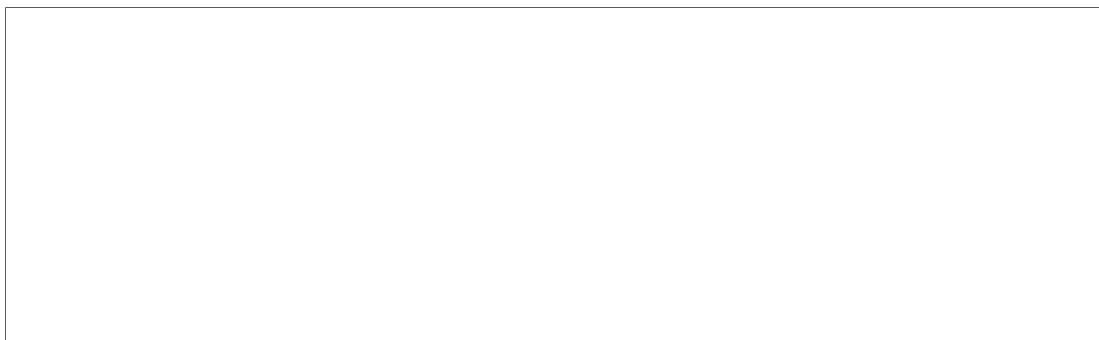
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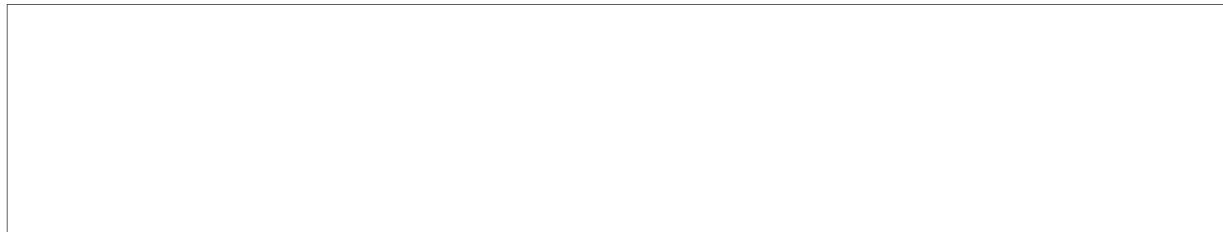
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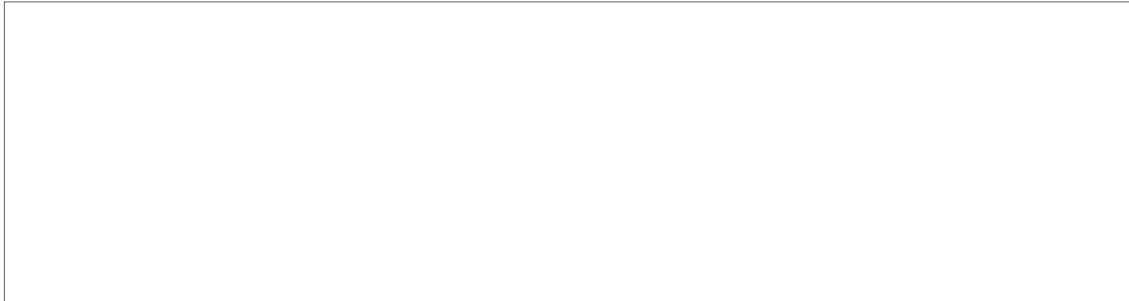
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GENERAL

1. Soviet foreign trade agencies to be set up at Hanoi and Peiping:



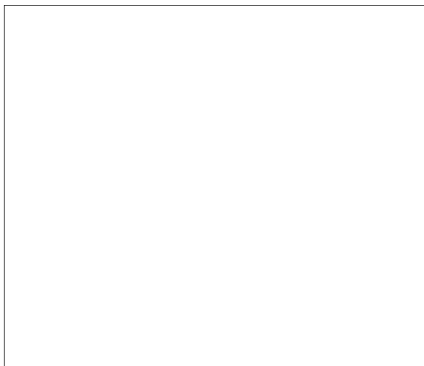
Comment: 

the Soviet Union and the Viet Minh have negotiated an agreement providing for 300,000,000 rubles (\$75,000,000 at the official rate of exchange) worth of Soviet aid in goods and technical assistance. A trade agreement between the two countries is also to be signed, although the volume of Viet Minh exports in the immediate future will be small.

 the Soviet-Viet Minh negotiations in Moscow reveal confusion and inadequate preparation on the Viet Minh side, suggesting that a large measure of Soviet and Communist Chinese economic guidance will be required to ensure reasonable success of the aid program.

FAR EAST

2. Comment on current railway construction in East China:



The transfer of the 11th Railway Construction Division from South China to East China suggests an intensification of the railway construction program in Fukien Province, opposite the Nationalist-held offshore islands and Formosa. With the addition of this division the completion date for this project, which had been estimated to be early 1956, will be advanced.

Army
7 June 55

On 24 May an element of this division was addressed at Sha Hsien (see map, p. 5), tending to confirm a report that a regiment of the division was located at nearby San Yuen in late May. [REDACTED]

The 11th Division is evidently the second to be transferred from South China during May, as the 10th Railway Construction Division was addressed at Foochow in a 10 May message. A total of four railway construction divisions may now be located along the projected Kueichi-Nanping-Foochow and Nanping-Amoy rail routes. [REDACTED]

SOUTHEAST ASIA

3. Cambodian internal security situation worsens:

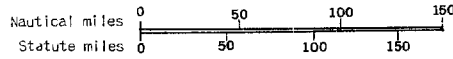
[REDACTED] Ambassador McClintock in Phnom Penh expresses concern over the worsening of the internal security situation in Cambodia during recent weeks. Royal councilor Penn Nouth has confirmed reports of a large rise in banditry and admitted that deserters from the army were partly responsible.

According to the French high commissioner, the increase in army desertions has been caused by the extortion practiced by army officers, who lately have increased the amount of personal "squeeze" they exact from troop pay.

Comment: Brigandage has been most prevalent in western Cambodia, where small roving groups of professional outlaws have made many routes unsafe for travel. Provincial officials reportedly have received little help from the central government in combating these bands.

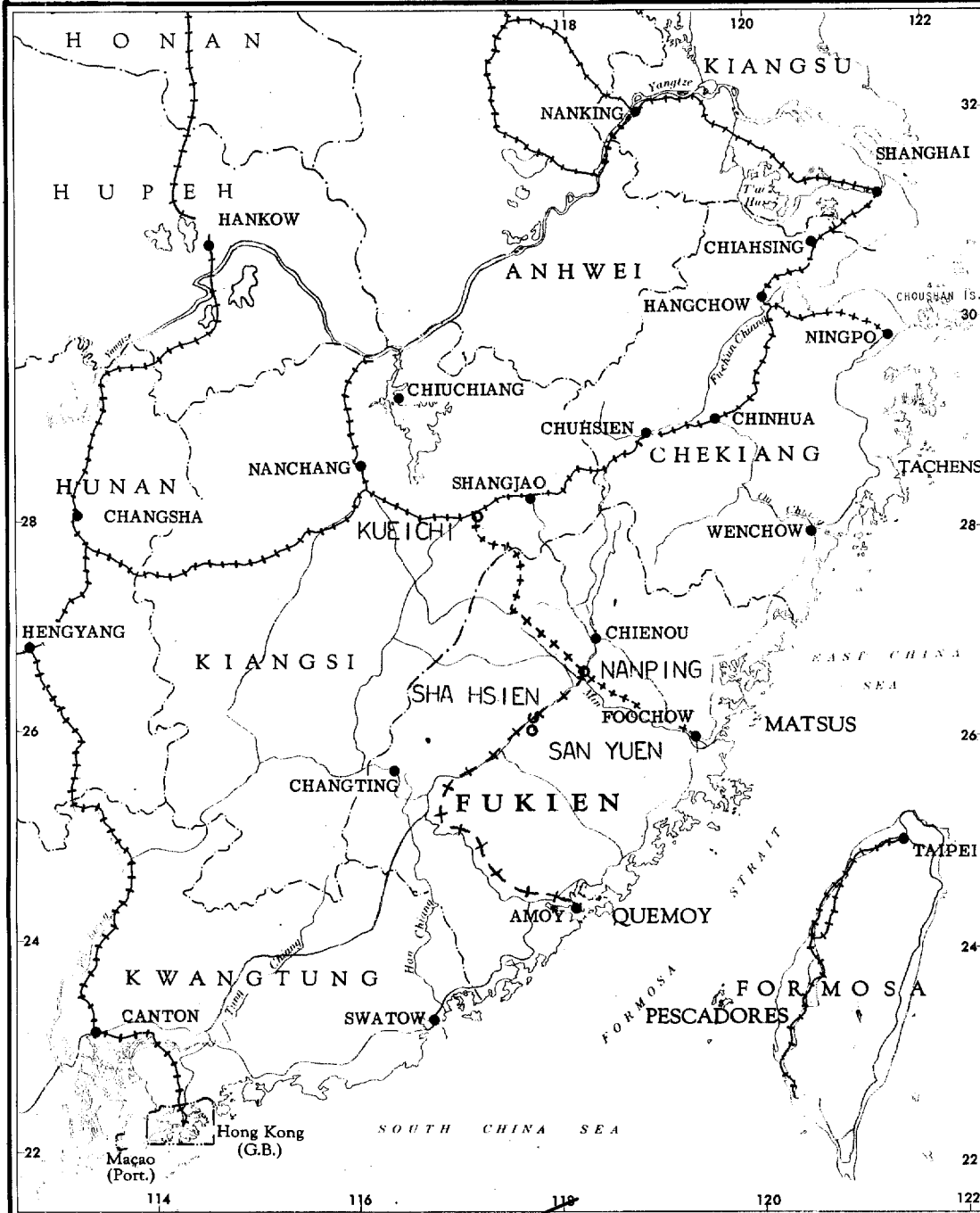
Members of the former rebel groups which were integrated into the royal army after the Geneva cease-fire have been dissatisfied at receiving lower pay than the regular troops and have deserted. [REDACTED]

CHINA-FORMOSA SITUATION



CURRENT RAILWAY CONSTRUCTION IN EAST CHINA

- Selected Road
- + + + + + Selected Railroad
- + + + + + Projected Railroad



EASTERN EUROPE

4. Ambassador Riddleberger believes conference may have widened gap between Yugoslavia and USSR:

[REDACTED] Ambassador Riddleberger believes that the atmosphere of the Soviet-Yugoslav conference may have widened rather than narrowed the gap between the two countries. Riddleberger has learned from good sources that Tito, who had been optimistic about the visit, was clearly disillusioned at the Soviet attitude and not nearly so convinced as formerly of Soviet peaceful intentions.

Tito reportedly was shocked at Soviet boasting that World War I had brought Communism to Russia, World War II had added Eastern Europe and China, and World War III would see it spread throughout the world. He also was reported shaken by frank statements about the continuation of the Stalinist line inside the USSR.

5. Western experts comment on implications of Soviet-Tito talks:

[REDACTED] Ambassador Bohlen notes that the Belgrade decisions may mark the beginning of Soviet efforts to find some basis for relations with the Satellites other than the Stalinist type of direct control. He believes the USSR may have felt a deal with Tito was an essential step in the process. The ambassador points out that it is probably clear to the men in the Kremlin that any liberalization of relations with the Satellites would be extremely dangerous as long as Yugoslavia maintained a defiant or even distant relationship with the Soviet Union.

Bohlen also states that the Kremlin may have feared that the establishment of Yugoslav-Chinese relations last fall would lead to eventual creation of a rival Communist center which would be influential over Asian neutrals such as India.

Jean Soutou, French Foreign Ministry expert on Eastern European affairs, sees the courting of Tito as allied with the current Communist united-front tactics in France and Italy.

Comment: Any alteration of the USSR's control mechanism in the Satellites would be designed to encourage popular co-operation with local Communist regimes. Furthermore, such a change at this time might be intended to parry any Western efforts to make the question of Soviet control of the Satellites a subject of four-power negotiations.

6. Soviet moves raise hopes among Satellite people for improved domestic situation:



Recent changes in Soviet policy toward Yugoslavia and Austria have encouraged a mood of "high optimism" among the Hungarian and Rumanian populations over the possibility of a "change" in the domestic Communist regimes. The American legation in Bucharest reports that Soviet prestige has suffered "considerably" and that rumors are widespread that Rumania will be liberated in 1955.

According to the American army attaché in Budapest, reversals in Soviet policies are causing confusion, undermining party discipline, and leading to speculation concerning the possible purge of party leader Rakosi, who took a leading part in the 1948 ouster of Tito from the Cominform. He is said by well-informed sources to be in an "exceedingly agitated state," shouting contradictory orders at meetings of the party leadership and showing signs of overstress and fatigue.