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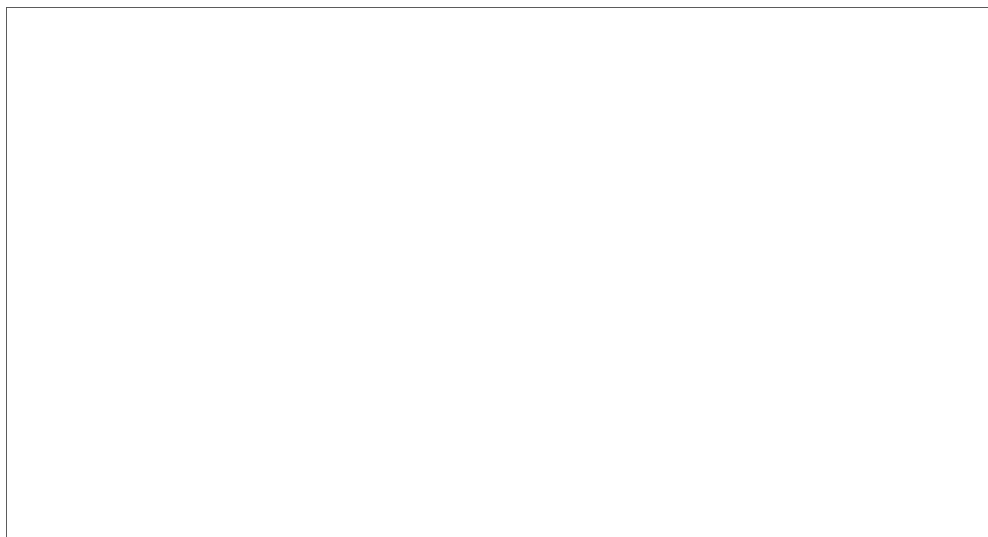
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**OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY**

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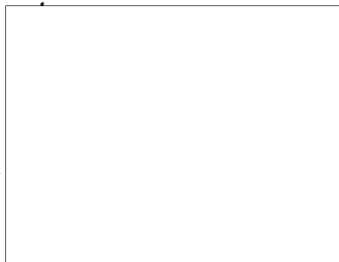
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1. SYRIA RECOGNIZES COMMUNIST CHINA



Syria's recognition of Communist China on 2 July reflects strong anti-Western sentiment and is an expression of Syria's antagonism toward what it considers the "pro-Israeli, pro-Baghdad pact" policy of the United States. It is also an attempt to underscore Syria's endorsement of Egypt's policy of "independence." Egypt has been campaigning to get other Arab states to follow it in its recognition of Peiping on 16 May.

A high Foreign Ministry official told the American embassy in Damascus prior to the visit of Soviet foreign minister Shepilov that Syria did not expect to receive anything concrete as a result of the visit, but if it did, recognition of Communist China would be an "appropriate, easy, and inexpensive" quid pro quo. 

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2. YUGOSLAVIA TAKES SOVIET BLOC LINE ON POZNAN OUTBREAK

Comment on:

The Yugoslav press attack on the Poznan rioters as "enemies of democratic socialist Poland" is a measure of the extent to which Yugoslavia is aligning itself with the Soviet bloc. Editorial comment directs the blame primarily toward "reactionary" forces. The Yugoslav treatment adds the warning that Stalinist elements may be strengthened as a result and "democratization" of the country retarded.

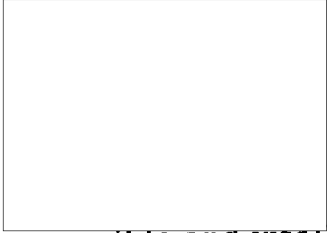
Borba, the leading Yugoslav newspaper, calls the outbreaks a "reactionary and destructive gesture which will probably have repercussions beyond the Polish frontiers." According to another commentary, the effective counteraction "shows how unrealistic all plans to hamper the true socialist development of Poland are."

Three years ago Yugoslav vice president Edvard Kardelj praised the East German demonstration and the Czech currency riots of June 1953 as workers' actions without parallel "except in the struggle of the Yugoslav working class against Soviet pressure." He welcomed them as a protest against the stagnant "state-capitalist" relations forced on the workers by the Stalinist Soviet system.

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3. GREEK FOREIGN MINISTER COMMENTS ON SHEPILOV'S VISIT

 Greek foreign minister Averoff told the American ambassador in Athens that Soviet foreign minister Shepilov impressed Greek officials as "astute, flexible and intelligent" and that he was "sweetly reasonable and disarming" during the lengthy conversations.

Shepilov indicated that Greece could share in the "tremendous resources of the USSR--such as the unbelievable riches of the Urals--which must be used for the peaceful development of the world." He said that Moscow was ready to aid Greece with a large number of projects including electric power development, a sugar refinery and farm mechanization.

The discussions on specific points raised by the Greeks were apparently inconclusive. Shepilov avoided any new endorsement of the Greek position on Cyprus and shied away from Greek proposals that the USSR buy some of the large tobacco surpluses.

Athens appears to have been careful to make no commitments which might prejudice its pro-Western position. At the same time, it has not closed the door to any future Soviet approaches and thus has left itself room to maneuver between Western and Soviet offers.

Prime Minister Karamanlis side-stepped a Soviet offer to visit Moscow, saying that he would consider a visit when he sees "demonstrable progress on improving relations."

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4. NENNI'S RELATIONS WITH THE COMMUNISTS

Pietro Nenni, chief of the Italian Socialist Party, has reportedly said [redacted] that he considers it unnecessary to denounce openly his party's unity-of-action pact with the Communists since "the pact just isn't there any more." He was unsure, however, whether he would be able to get his party to follow him in giving the party "a platform of its own" and in seeking co-operation with "those democratic forces willing to reach a reasonable compromise for the implementation of a joint program."

These remarks are consistent with other hints from Nenni that he now feels it would be profitable to break with the Communists--if by doing so he could form a new alliance with parties in the present government coalition. The American embassy in Rome points out, however, that "assuming he wants to 'go' anywhere," there are a number of important factors tending to restrain him in addition to those pushing him toward a break with the Communists. Restraining factors include the strength of pro-Communists in Nenni's party, the reported Communist financial support of his party, the Socialists' joint participation in the Communist-led labor and other mass organizations, and the "unity-of-the-working-class" slogan. [redacted]

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5. FULFILLMENT OF POLISH-BURMESE TRADE AGREEMENT THREATENED

[redacted] A Polish trade representative in Rangoon [redacted] have expressed pessimism on 13 June regarding the prospects for the successful fulfillment of the barter agreement between Burma and Poland. He said Poland had been forced to accept a considerably lower grade of rice than called for in the trade agreement. He also stated the Burmese were apprehensive that the goods to be supplied by Poland would be inferior to similar products manufactured in the United Kingdom, the United States, and Japan. The Polish official conceded that these fears were well founded.

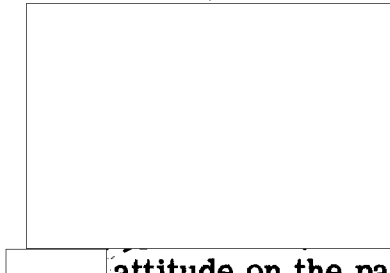
[redacted]

Comment Burma has been increasingly dissatisfied with its barter agreements with bloc countries and has tended to discriminate against them in favor of cash customers. Poland is slated to take 50,000 tons of Burmese rice this year. Actual shipments, however, may not reach that total, as only 11,000 tons have been shipped to date.

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**6. INDONESIA REPORTED DISSATISFIED WITH DELAY
IN EAST GERMAN CONSTRUCTION OF SUGAR MILL**



Reported differences of opinion between Indonesia and East Germany over the building of a badly needed sugar mill in Jogjakarta may induce a more cautious attitude on the part of the Indonesians toward a recent East German offer to supply capital goods on a long-term credit basis. Such an attitude may also be reflected in forthcoming trade and aid negotiations with other European Satellites and the USSR.

The mill was scheduled to commence operation in September, but only one third of the machinery is said to have arrived at the site. Moreover, the plant's foundations and a connecting railway spur were far from being completed as of last April. In this connection, Indonesia reportedly will ask East Germany to speed up deliveries so the project can be completed by the end of 1957.

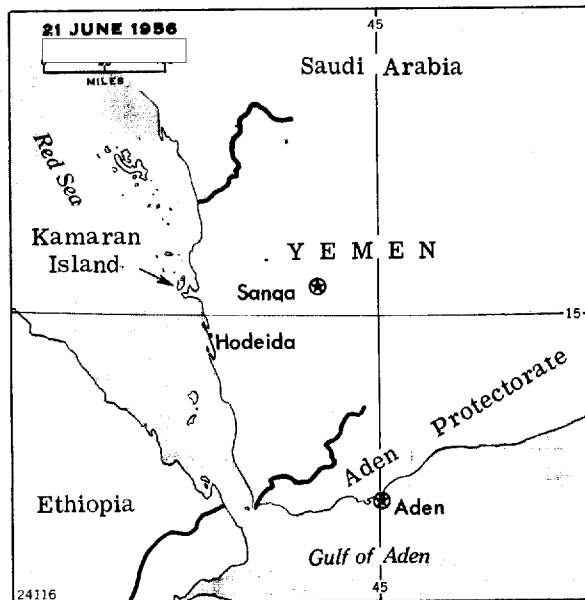
Although the delay may be partially due to the failure of the Indonesians to provide proper financing and transportation facilities for the imported equipment, the East Germans will almost certainly be blamed.

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The USSR has offered to build a new port at Hodeida on the Red Sea, according to a spokesman for the Yemeni legation in Cairo. The Soviet offer, which was accepted in principle and is now under study, was made in connection with a trade and economic agreement concluded on 23 June in Moscow. The agreement provides also for a number of Yemeni students to study mining

and oil research and exploitation at Moscow University. In addition, Moscow has offered to supply Yemen with agricultural machinery, tractors and well-drilling equipment.



Comment Yemen has been attempting to get arms and economic aid from the USSR since early March.

It is not yet known whether Badr was successful in getting arms or in persuading the USSR to prospect for oil on the Kamaran Islands, which are now claimed by both Britain and Yemen.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 4 July)

Rumors that Israeli troops are concentrating on Jordan's frontier have caused alarm in Arab capitals. The press in Beirut and Damascus has headlined the rumors, Arab leaders are consulting, and Egypt and Jordan reportedly have ordered their frontier troops on special alert. However, UN Truce Supervisor Burns told the press on 4 July that he had no information of such Israeli action in the Jerusalem area and had received no official complaints. The Israeli Foreign Ministry has described the rumors as "pure fabrication." It appears that the current tensions were generated largely by Israeli foreign minister Myerson's recent assertion that Israel felt free to resume work on diverting the Jordan River waters. Apparently, Jordan's King Hussain also contributed to Arab concern by his statements on 3 July to Arab and Western diplomats in Amman that the Israeli government's present attitude would result in armed aggression against Jordan. Hussain emphasized to the American, British and French ambassadors that if this happened, the other Arab states would come to Jordan's aid.

According to the Egyptian radio, Jordan has complained to the Mixed Armistice Commission that Israeli flights over Jordan have increased in the last two weeks.

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