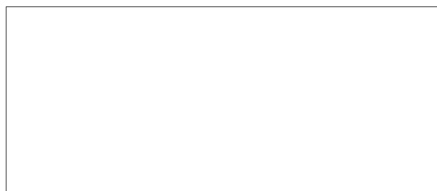


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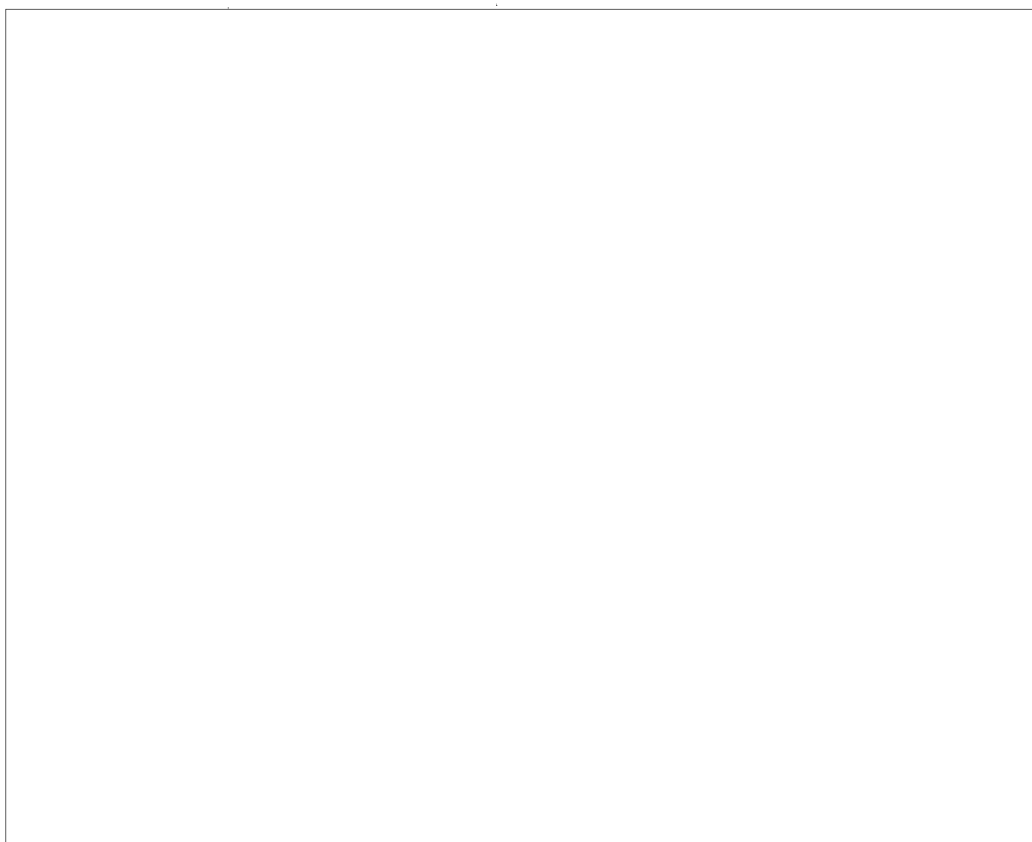


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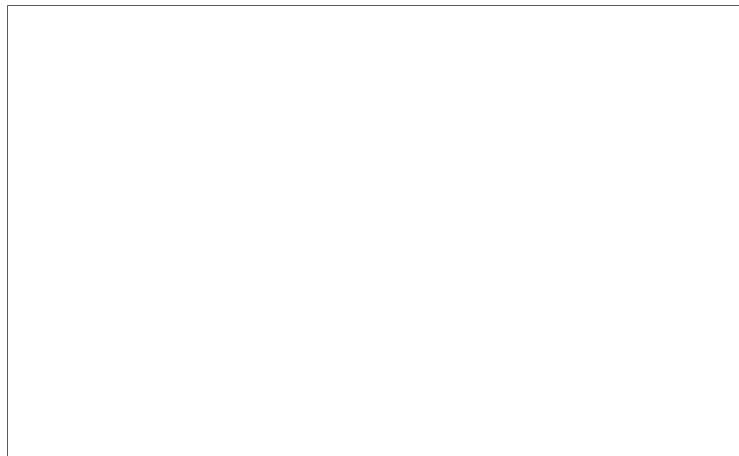
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**1. EGYPT ORDERS HALT OF ALL DISCUSSIONS PENDING
ISRAELI WITHDRAWAL**

Egyptian foreign minister Fawzi told Ambassador Hussein on 12 January that he had received instructions to inform UN secretary general Hammarskjold that "there will be no further discussions on any subject as long as Israel remains in Egypt!"

Comment

According to press reports, the Israeli cabinet, which met on 13 January to discuss Israeli withdrawal policy, has decided to halt Israeli forces at a line 16 miles on the Egyptian side of the 1949 armistice lines.

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[REDACTED]

2. SITUATION IN ALGERIA

[REDACTED]

Tension in Algeria has reached the stage where rash acts by either Moslems or Europeans designed to gain an advantage just before or during the forthcoming UN debate on Algeria may precipitate widespread massacres, [REDACTED]

[REDACTED] in this eventuality the attitude of the French military--particularly its willingness to restrain settlers bent on reprisals--would be in doubt. [REDACTED]

Comment

[REDACTED]

Riots may result if the French general in charge of security in the Algiers area carries out his threat of 13 January to force the opening of any Moslem shops which obey the rebels' order for an eight-day general strike coincident with the UN debate late this month.

French premier Mollet conceded [REDACTED] on 8 January that an "explosion" in Algeria was possible at any moment and could lead to 40,000 or 50,000 casualties in Algiers alone within 24 to 48 hours, with comparable results in other large cities. In such an event, simultaneous massacres of French residents in Morocco and Tunisia would also be likely.

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3. CHINESE ECONOMIC PLAN ALLEGEDLY UPSET BY SATELLITE UNREST

[REDACTED]

The USSR has told China that it is unable to meet the increased demands of China's Five-Year Plan. [REDACTED]

[REDACTED] in East Berlin.

[REDACTED] failure of the Satellites to deliver promised machinery and manufactured goods has caused China to re-examine its current plan and to revise downward the industrial section of the Second Five-Year Plan. In Warsaw Chou reportedly is to explain that Polish failure to supply coal to East Germany is reducing East Germany's ability to meet China's needs, and he will attempt to induce Poland to maintain its previous trade position within the bloc by promises of Soviet and Chinese loans and material assistance. [REDACTED]

Comment

The Soviets last August cut Chinese proposals concerning the level of Soviet support for China's Second Five-Year Plan, [REDACTED]

[REDACTED] This is the first report suggesting that the USSR may renege on its August commitment.

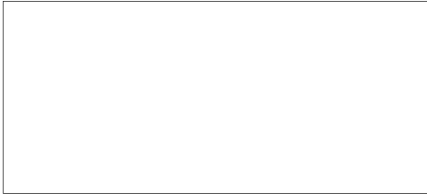
Previous reports have tied possible revisions in Chinese plans to events in Eastern Europe and to imbalances and shortages which developed in the Chinese economy during 1956. It is likely that Chou En-lai, in connection with his current attempts to bolster bloc political solidarity, is trying to salvage what he can of Satellite commitments to China and to ensure fulfillment of industrial deliveries from the USSR.

The USSR has been providing China with a yearly total of about \$800,000,000 worth of industrial plants, machinery and transportation equipment; the Eastern European Satellites have provided an additional \$400,000,000 annually. East Germany and Czechoslovakia are responsible for about 70 percent of the Satellite exports. Peiping has consistently criticized delays in the delivery of Satellite industrial goods.

[REDACTED]

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CID 4. SYRIANS TO HOLD "UNION" DISCUSSIONS WITH EGYPT



A Syrian committee headed by Minister of State Khalid al-Azm was scheduled to depart for Cairo on 14-15 January to discuss Syrian "union" with Egypt, according to the American embassy in Damascus.

Azm told Ambassador Moose "federation" would be a more accurate description than "union," as Syria would retain its sovereign entity. Azm thought unification of "currency and commerce" was remote, but closer co-ordination with Egypt in military and foreign policy was desired now. He thought a joint committee on foreign policy would be formed at cabinet minister level.

Comment

Syrian-Egyptian talks on union were held shortly before the Suez dispute. Cairo, however, while publicly lauding Egyptian-Syrian union, privately takes a reserved view.

The simultaneous presence in Cairo of the Jordanian delegation seeking Arab financial assistance suggests that the Jordanian delegation may join the Egyptian-Syrian talks.

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5. [REDACTED] ON HUNGARIAN
POLITICAL SCENE

[REDACTED]

Hungarian premier Kadar, still a national Communist, hopes to retain the strictly economic concessions promised during the revolution but has no intention of implementing any significant political concessions in the near future, according to UN deputy secretary general De Seynes, who recently returned from Hungary. De Seynes, [REDACTED] [REDACTED], feels that Kadar is convinced that any alternative to the present government would lead inevitably to a renewed blood bath and complete chaos.

According to De Seynes, there are no Hungarian Communists left who are in sympathy with the USSR; Kadar himself is closely watched by Soviet bodyguards. The regime is totally disorganized and there is lack of contact between cabinet ministers and their staffs.

De Seynes was told by non-Communists in Budapest that a general uprising had been planned for mid-December, when either he or Hammarskjold was initially scheduled to arrive, but subsequently the freedom fighters decided on an undeclared truce with the regime, apparently in order to minimize the hardships of a cold winter. A visit by Hammarskjold now appears feasible, but in De Seynes' opinion, it would be politically useless since it would give the regime a measure of UN approval. [REDACTED]

Comment Mounting economic problems and increased difficulties with the workers during the past several days have already caused the Hungarian regime to step up its repressive tactics.

Premier Kadar has been forced by the USSR and the pressure of events to act contrary to his earlier sympathies with national communism and he is unlikely to push for genuine Hungarian independence so long as the situation remains chaotic. The re-establishment of order, however, could lead to his reassertion of national Communist tenets and consequent friction with Moscow.

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[REDACTED] [REDACTED]
6. INDIA REMAINS OPPOSED TO A KASHMIR PLEBISCITE

[REDACTED]

Both Krishna Menon in New York and Raghavan Pillai, secretary general of the Indian Ministry of External Affairs in New Delhi, have bluntly informed American diplomats that India has no intention of giving up its portion of Kashmir. Both men were also cool toward the idea of another visit to the area by a UN representative seeking to arrange for a plebiscite. Menon indicated his government would reluctantly accept a Soviet veto if this was the only way to avoid UN Security Council action.

Menon said he understood that Nehru and President Eisenhower had agreed the Kashmir situation should not be stirred up, and expressed his hope that the UN would take no action on the case. [REDACTED]

[REDACTED]

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7. MISSILE-BASE TALKS WITH BRAZIL SEEN
FACING COLLAPSE

President Kubitschek told Ambassador Briggs on 12 January that Brazil's present counteroffer on Washington's request for a missile-tracking base may be withdrawn and negotiations broken off unless

agreement can be reached before the Brazilian congress reconvenes on 1 February. He said congressional pressure for a voice in the matter, backed by nationalist and Communist agitation, would probably make agreement impossible after that date.

Ambassador Briggs believes a breakdown could seriously prejudice Brazilian-American relations as well as Kubitschek's domestic position, but notes that Kubitschek may assume the United States is forced to accept his price.

On 11 January, Brazil amended the terms of its 17 December acceptance of the American request by adding a clause that would commit the United States to conclude separate agreements promising "accelerated" economic and military aid. It was hinted that Kubitschek might send President Eisenhower a note listing Washington's "overdue obligations" in these fields.

Kubitschek promised to take over the negotiations from the Foreign Ministry and await a formal comment from Washington.

Comment

Kubitschek once before, following President Eisenhower's personal note of 15 December, seemed determined to take charge of the negotiations. However, after pushing through cabinet approval, he turned the matter back to the Foreign Ministry and during subsequent delays resumed his previous equivocal position in the face of nationalist and Communist agitation and cabinet pressure for economic bargaining.

8. LATIN AMERICA CO-ORDINATES PROPOSALS FOR INTER-AMERICAN MEETINGS

[REDACTED]

The Latin American ambassadors in Washington met on 8 January at the request of the Brazilian ambassador to co-ordinate the Latin American position for the meeting of the Inter-

American Committee of Presidential Representatives scheduled for 28 January, [REDACTED]

[REDACTED] Urrutia said the majority agreed to insist on two or three "fundamental proposals"--namely, higher prices for exports to the United States and credits for economic development--rather than "showing interest in several dozen proposals, which would merely enable the US to choose and approve the least expensive!" [REDACTED]

[REDACTED] the State Department hoped to support "a few secondary proposals with the ridiculous sum of \$5,000."

[REDACTED] the Brazilian ambassador quoted a letter he had sent to Vice President Nixon, pointing out "dismay" at US aid proposals for the Middle East in contrast to the "absolute neglect of Latin American problems."

Comment

The Inter-American Committee, which first met in September, was established following the meeting of American presidents in Panama last July to seek means for making the Organization of American States a more effective instrument of social and economic co-operation.

Brazil has played an influential role at inter-American meetings. Its sponsorship of the meeting on 8 January may have been prompted in part by dissatisfaction with the extent of US economic aid and with the "pre-conditions" which keep Brazil from drawing on Export-Import Bank credits granted last July. This dissatisfaction has been reflected in negotiations for a US missile tracking site.

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