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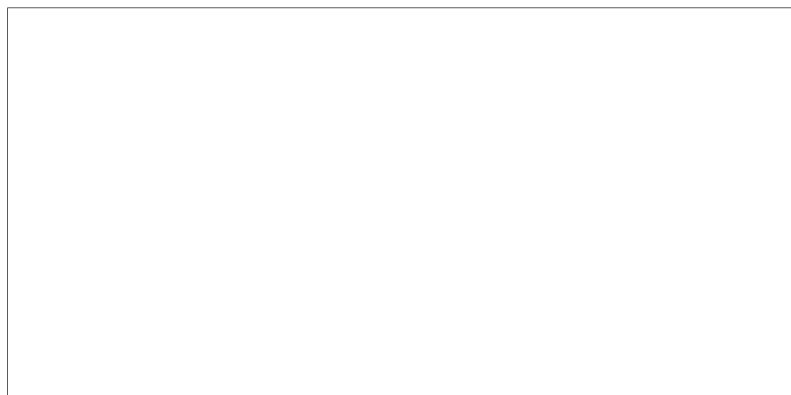
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1. EGYPT WILL REJECT WESTERN PROPOSALS ON SUEZ

Egypt intends to release shortly a communiqué on its position regarding a Suez settlement, according to the American embassy in Cairo. The draft communiqué

shown Ambassador Hare by Foreign Minister Fawzi states that (1) Egypt continues to respect the spirit and letter of the 1888 Convention (2) toll rates will remain as established by the last agreement between Egypt and the nationalized Suez Canal company (3) compensation and claims resulting from nationalization would be settled either by direct agreement or arbitration (4) canal tolls are to be paid in advance to the Suez Canal authority and (5) a special fund will be created for improvement of the canal.

Fawzi stated the communiqué was not an answer to the recent Western four-power proposals to place one half of the tolls in escrow pending a settlement, since "it would be improper to recognize any group of countries to speak for the users as a whole," and they "constituted pressure on Egypt which could not be accepted."

Comment

The communiqué as drafted puts the Egyptian position on a Suez settlement back to that adopted last July when Nasr nationalized the canal company. It ignores proposals made for a settlement since that time. It also ignores the "six principles" agreed on last October. The communiqué again makes clear that Egypt intends to remain the sole operator and administrator of the canal and believes its legal and diplomatic position is strong.

2. THE SITUATION IN JORDAN

Comment on:

Jordan's three-day demonstrations by armed mobs following formal termination of the Anglo-Jordanian treaty on 13 March illustrate the force which could

be directed against King Hussain if he should attempt to implement his reported demands that Prime Minister Nabulsi dismiss the four principal left-wing members of the cabinet. National Socialist, Baath, and Communist groups participating in the demonstrations were well armed, and Jordan's police, one of Hussain's main sources of support, were ineffective in controlling the demonstrators. The anti-Western and anti-American temper of large elements of the crowds was particularly evident.

Events showed clearly that with the passing of British power in Jordan, the United States has become the chief target of Egyptian- and Soviet-inspired extremists. The left-wing parties which dominate the cabinet, together with other nationalist groups, are apparently prepared to prevent Jordanian acceptance of the American proposals on the Middle East and to frustrate the Richards mission--tentatively scheduled to arrive in Jordan about 22 April. Nabulsi and Minister of State for Foreign Affairs Rimawi have publicly rejected the proposals by name, and the Jordanian Communist Party (JCP) reportedly plans to organize a general strike and demonstrations upon arrival of the Richards mission.

Coincidentally with this display of the anti-Western temper of the "street" in support of the Nabulsi government, the illegal JCP has openly flaunted its contempt for Hussain's personal efforts during February to curb it. The JCP for the first time paraded under its own banners during the recent demonstrations, and despite Hussain's personal order to confiscate all Communist publications and to ban their import, two Amman bookstores on 8 March had an assortment of Soviet magazines on public display.

Britain, which is now planning to move its 1,300 remaining troops out of Jordan in the next few months, appears anxious to discuss Jordan's future at the Bermuda conference.

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3. ISRAELIS SEND VESSEL THROUGH STRAITS OF TIRAN

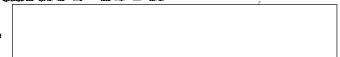
Comment on:



Israel's action in sending a small Israeli-flag merchant vessel, the Malkat Sheva, from Eilat through the Straits of Tiran on 18 March will not

be accepted by Egypt as a precedent for free and innocent passage of the Gulf of Aqaba. Cairo will probably use the vessel's passage as an additional argument for the removal of the UNEF unit from Sharm al-Shaikh, although Israel's supporters in the UN could argue that the presence of Israeli-protected shipping in the straits points up the need that the UNEF remain in order to keep the Egyptian and Israeli forces separated.

In sending the Malkat Sheva through without ostentatious air or naval escort, the Israelis appear to have followed advice which both the British and French Foreign Ministries stated they had given. At least two other ships, not under the Israeli flag but under Israeli charter, are expected to pass the straits soon.

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4. FRENCH DEFENSE MINISTRY BACKS MILITARY CO-OPERATION WITH ISRAEL

Comment on:

[REDACTED]

[REDACTED] French defense minister
Bourges-Maunoury and his entourage are
encouraging Israeli extremists against
Prime Minister Ben-Gurion in order to
push Israel into military action at the
first opportunity. They are said to view
the present situation as an opportunity to settle the French
North African problem.

[REDACTED]

[REDACTED] among the backers of plans for French-
Israeli military action is Jacques Soustelle, ex-Gaullist and
former governor of Algeria. Soustelle is now reported head-
ing a bloc of 100 deputies who are pressing for an immediate
military alliance with Israel.

[REDACTED]

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5. SITUATION IN SYRIA

Comment on:

[REDACTED]

Shifts of loyalty in the Syrian armored brigades have resulted in postponement of a showdown between the leaders of leftist and rightist-controlled formations. Such a showdown has been predicted for the near future.

[REDACTED]

[REDACTED] Baathist (leftist) officers have seized control of a tank battalion and other units. [REDACTED]

[REDACTED] the chief of staff and the cabinet have been warned by the Baath not to transfer leftist army officers from politically strategic positions in the army.

The cabinet has held several emergency sessions in the past few days on this question but has reached no decision. Prime Minister Asali has taken a neutral position, while Minister of Defense Azm and two other ministers have refused to approve the transfers. The chief of staff has told the president that he will resign unless the orders are carried out. [REDACTED]

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6. CZECH CONTRACT TO BUILD OIL REFINERY IN SYRIA

Comment on:

Czechoslovakia's success in winning a contract on 17 March to construct an oil refinery at Homs in Syria resulted largely from pressure by leftist elements to accept the favorable terms offered by Prague. Announcement of the contract appears timed to show Syrian hostility to the Richards mission.

The Czech bid of about \$15,000,000 with repayment over a 10-year period at 3.5 percent interest was not substantially lower than the closest Western bid. Syrian president Quwatli said, however, that the Czech refinery offer had five advantages--low price, low interest rate, payment in Syrian goods, "guarantees" of quality equal to that attained by Western processes, and postponement of payments on arms indebtedness.

The refinery, presumably a thermal unit with a capacity of about 27,000 barrels a day, or 1,000,000 tons annually, will require the presence of bloc technicians in Syria for three or four years. The output of this plant will be considerably in excess of Syria's petroleum needs, a little over 600,000 tons in 1956, and Damascus may have considerable difficulty in finding customers for the plant's surplus.

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7. PHILIPPINE POLITICAL ACTIVITY

Comment on:

The death of Philippine president Magsaysay on 17 March has opened the way for rapid development of political instability in connection with the race for the presidency in the November elections.

Opposition Liberal Party leaders, who had hoped eventually to endorse Magsaysay's re-election, are now reportedly at a loss as to where to turn. A party member told the embassy officer the Liberals might nominate their own candidate, probably the ambassador to the United States, Carlos Romulo. Former Liberal senator Paredes, now affiliated with the administration, informed an American observer that he had been approached by Liberal leaders with an offer of the nomination on the evening following Magsaysay's plane crash.

On 18 March, Senator Recto, a severe critic of the United States and Magsaysay's major opponent within the Nacionalista Party, reaffirmed to an American embassy officer his intention to seek the presidency.

armed forces officials are worried about the ability of current political organizations to remain intact and fear that the election scramble will benefit neutral and leftist elements. They are determined to maintain order and to assure a smooth take-over by the new president, Carlos Garcia.

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8. SITUATION IN INDONESIA

Comment on:

Cabinet formateur Suwirjo has announced that the parties to be included in the new Indonesian government have been determined. He indicated, however, that the question of who was to fill the various positions was still under discussion.

The government that Suwirjo will present to parliament will undoubtedly be much the same as that of Ali Sastroamidjojo which it is replacing. Its nucleus of the National Party and the Nahdlatul Ulama will be supported by five or more small parties. Both the Communists and the anti-Communist Masjumi reportedly will be excluded. A likely choice for the post of prime minister is Subandrio, a neutralist and a former ambassador to the Soviet Union. Now secretary general of the Foreign Ministry, he apparently has grown in Sukarno's favor in the past few months.

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9. CHIANG KAI-SHEK ADVISES AGAINST EARLY ATTACK ON CHINA MAINLAND

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Chiang decried the lack of political preparations for a return to the mainland. He indicated that political reform was a prerequisite and that he could not sacrifice his men while "corrupt politics, bad manners, and poor methods" exist within the Nationalist government. [REDACTED]

Comment

These remarks contrast with recent public statements by Chiang and other Nationalist leaders which have hinted at an early return to the mainland while Nationalist military capabilities are at their peak. Most observers agree that these were probably intended primarily for morale purposes. A step-up in harassment and raiding activity is, however, likely.