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State Department review completed

25X1A

SUMMARY

GENERAL

1. Bohlen feels Moscow is soft-pedaling Formosa "commitment" (page 3).

FAR EAST

25X1

3. Railroad construction sought for coastal province opposite Formosa (page 4).

SOUTHEAST ASIA

4. Bao Dai implies he will retain Diem as premier (page 6).
5. Recent assassination in Laos linked to Thai-subsidized Laotian prince (page 6).

NEAR EAST - AFRICA

25X1

7. Americans endangered by Moroccan terrorism (page 8).

EASTERN EUROPE

8. Yugoslavia weighs Soviet proposal for higher-level trade talks (page 8).

WESTERN EUROPE

9. Comment on West German politician's call for zonal all-German elections (page 9).

25X1

25X1A

GENERAL

1. Bohlen feels Moscow is soft-pedaling Formosa "commitment":

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[Redacted] At a Chinese "Liberation Day" celebration in Moscow, Malenkov, Molotov and Voroshilov pointedly ignored the Chinese Communist ambassador's toast to his regime's determination to "liberate" Formosa. Also, a Soviet censor in Moscow, in an unusual procedure, took pains to point out to an Associated Press correspondent that Khrushchev's Peiping speech had stated that the "Soviet people" rather than the "Soviet Union" supported China's Formosan liberation campaign.

Ambassador Bohlen feels that these incidents indicate a fear that undesirable implications have been read into Khrushchev's speech and that the government is attempting to soft-pedal the degree of Soviet public commitment.

Comment: Moscow's caution on the Formosa issue is consistent with its policy of avoiding commitments in Asia which might conflict with the achievement of higher-priority cold war objectives in Europe. Khrushchev's pledge of support by the "Soviet people" was made in the context of a statement of sympathy for the Chinese Communists' desire to liberate "their long-suffering brothers" rather than a Soviet commitment to a military campaign. Khrushchev made no mention of the kind, extent or timing of this support.

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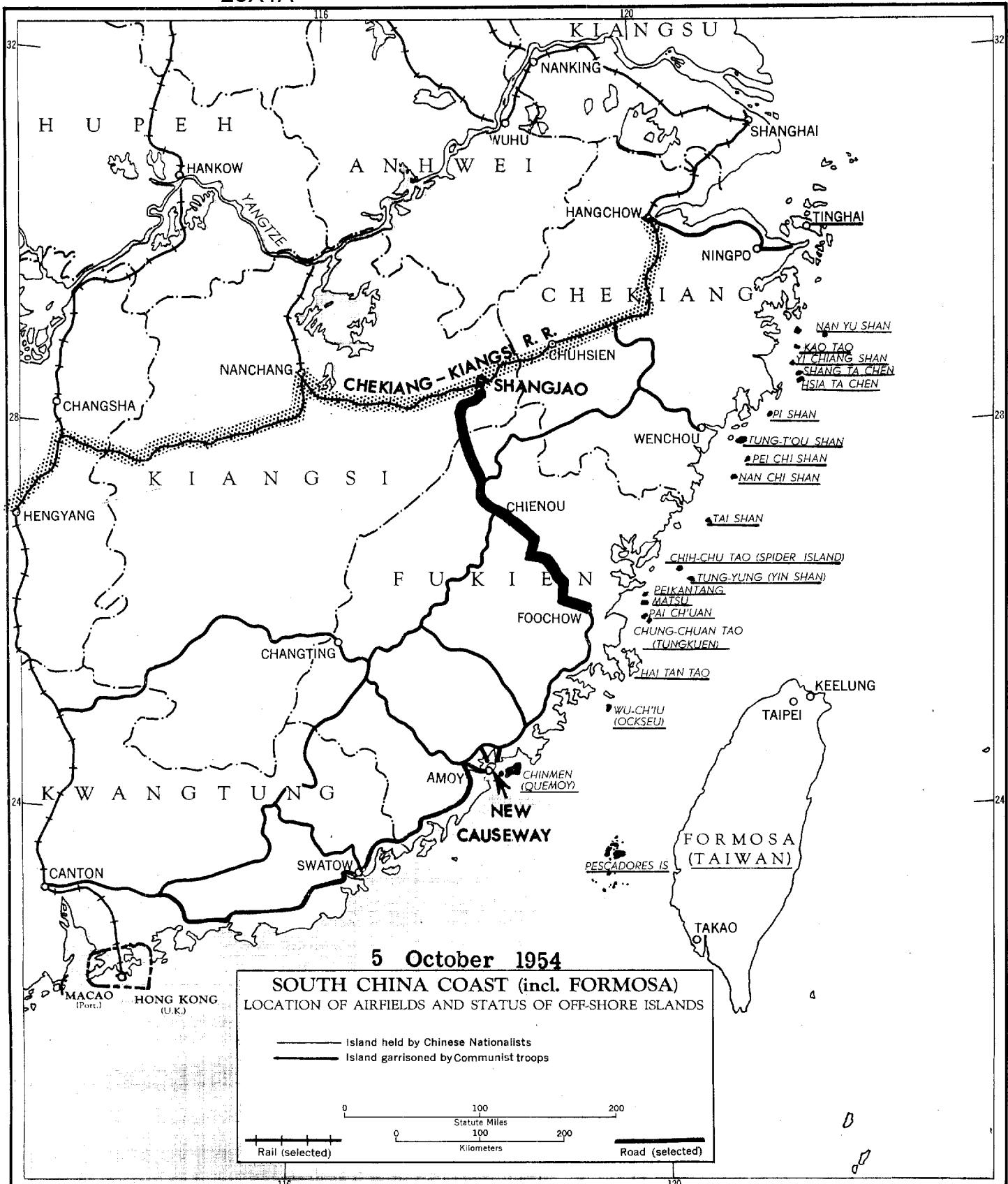
3. Railroad construction sought for coastal province opposite Formosa:

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[Redacted]

The Fukien provincial delegate to the recent National People's Congress in Peiping expressed the "hope" that the government would begin railroad construction in Fukien Province opposite Formosa ahead of schedule because coastal shipping is "obstructed" by the United States and the Chinese Nationalists (see map, p. 5). The delegate also said the province's highways have been considerably improved and a "sea dike" has been filled between Amoy and the mainland to facilitate transportation and to consolidate coastal defense.

Comment: Deprived of coastal shipping, its traditional communications means, Fukien now largely depends on poor highways for supplies brought into the province. The principal route runs from Shangjao on the Chekiang-Kiangsi railroad, 250 miles to Foochow. Even a short 100-mile branch



5 October 1954

SOUTH CHINA COAST (incl. FORMOSA)

LOCATION OF AIRFIELDS AND STATUS OF OFF-SHORE ISLANDS

— Island held by Chinese Nationalists
— Island garrisoned by Communist troops

116

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rail line over this route, which could be built in a year, would ease the Communists' problem of supplying air bases and other military forces in the Fukien coastal area.

25X1

SOUTHEAST ASIA

4. Bao Dai implies he will retain Diem as premier:

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In a 3 October interview with Ambassador Heath at Cannes, Bao Dai expressed no objection to Premier Diem's remaining in office, and agreed that Chief of

Staff Hinh had acted "very reprehensibly" in opposing Diem's orders and taking the army into politics. Bao Dai said the implication in his telegram of 1 October to Diem that Hinh should be taken into the cabinet was the result of a "drafting error," but that Hinh should be retained as chief of staff. He thought he could rely on Diem's loyalty more than on that of other candidates for the premiership, although Diem was "not a natural statesman, nor overly intelligent."

Comment: Bao Dai's remarks indicate that Diem may be given a breathing spell in which to fend off opposition elements which are now seeking outright control of the government.

The chief of state's failure to mention the Binh Xuyen organization, one of Diem's most potent enemies, suggests that Bao Dai may continue to use this group as the local instrument of his political influence.

5. Recent assassination in Laos linked to Thai-subsidized Laotian prince:

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The Laotian foreign minister and the French high representative in Laos both informed the American minister

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25X1A

that the assassination of the Laotian defense minister on 18 September was carried out by a Laotian terrorist who escaped to Thailand. The terrorist is associated with an agent of the dissident Laotian prince Petsarath, who is now living in exile in Thailand.

Both informants hold Petsarath responsible for the murder and believe his motive was to break up the existing government and gain a foothold in, if not control of, its successor.

The foreign minister alleged that Petsarath is subsidized by the Thai government, or certain elements in it which seek to strengthen their influence in Laotian affairs. He has asked the Thai government to arrest and return the assassin but has received no reply. The legation states that neither Thai nor Communist involvement can be ruled out.

Comment: Prince Petsarath was associated with his half-brother Souphanouvong, now the nominal head of the Viet Minh-sponsored "Pathet Lao" regime, in an independent Laotian government formed at the end of World War II. He was reported involved in an abortive attempt--with Thai support--to overthrow the Laotian government last June.

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7. Americans endangered by Moroccan terrorism:

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[Redacted]

Top American civilian and military officials in Morocco agree that the 3 October bomb explosion in Rabat, in which six Americans were injured, was not directed against Americans. They point out, however, the likelihood that the 12,000 Americans in French Morocco will from time to time be affected by such incidents and have recommended that travel orders for several hundred air force dependents now awaiting transportation to Morocco be held up for 90 days.

Comment: Several indications of increasing anti-American sentiment among Moroccans have been reported in recent months. American popularity is reported to be declining as a direct result of American support for French policy in North Africa.

EASTERN EUROPE

8. Yugoslavia weighs Soviet proposal for higher-level trade talks:

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[Redacted]

The Yugoslav government is considering a Soviet proposal for further trade talks on a higher governmental level than that of the negotiations just concluded,

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according to a member of the Yugoslav State Secretariat for Foreign Affairs. He believes the character of the export items included by the USSR in the arrangement concluded last week indicates a desire to develop significant trade with Yugoslavia, and that the USSR would offer to include wheat in an intergovernmental agreement.

The same official stated that Yugoslavia had shown its intention to support the Battle Act by refusing to include mercury in its export list. Mercury was requested by the USSR in the recent trade talks.

Comment: These statements appear designed to exert pressure on the United States to increase its grant of 400,000 tons of wheat under the American Surplus Commodity Act. The Yugoslavs are probably aware of currently increased domestic and Satellite demands for Soviet wheat which might preclude its export in substantial quantities.

The Yugoslavs will probably be willing to conclude a one-year intergovernmental trade agreement with the USSR substantially in excess of the recently concluded arrangement for a total exchange of \$5,000,000 covering the last three months of 1954.

WESTERN EUROPE

9. Comment on West German politician's call for zonal all-German elections:

Thomas Dehler, chairman of the West German coalition Free Democratic Party, has called in a magazine interview for immediate negotiations with the Soviet Union on German unification. If necessary, he said, "we should accept elections which would not be really free" in the Soviet zone, since an all-German parliament would be strong enough to "digest" any Communists elected.

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This is the first time any responsible West German politician has supported the idea, occasionally discussed in the press, of all-German elections on a zonal basis, a procedure which some believe would be acceptable to Moscow. The Bundestag officially favors a single election district covering all of Germany.

Dehler, who has endorsed the decisions of the London conference, is evidently intent on gaining popular support for his party by putting it in the vanguard of renewed efforts at German unification. His plan will probably provoke a sharp debate, and will be opposed by Chancellor Adenauer.

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