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GENERAL

- 25X1A 1. Chou En-lai said to have agreed to "two-stage" settlement in Vietnam:



In a two-hour conversation at Bern on 23 June, Chou En-lai told Mendes-France a settlement in Vietnam should be reached in two stages, according to the acting chief of the French delegation at Geneva. Chou said an armistice should be reached in Vietnam as soon as possible, and a final political settlement should be reached thereafter by direct negotiations between the Vietnamese and the Viet Minh.

In regard to Laos and Cambodia, Chou said the immediate problem was to obtain the withdrawal of all foreign forces, including the Viet Minh, after which the Laotian and Cambodian governments should arrange political settlements based on majority will. Chou insisted there must be no American bases in either state.

Mendes-France complained to Chou that the military staff talks between the French and the Viet Minh at Geneva had been stalled for several days. Chou agreed to intervene with the Viet Minh to speed the talks.

Comment: The Communists have previously maintained that "at least some" political questions must be settled as a condition for the truce. Chou's statement suggests the Communists may now be thinking in terms of an early military settlement amounting to partition, postponing a political agreement.

The Communists have recently arranged direct talks between the Viet Minh and the Laotian and Cambodian delegations at Geneva, and have urged further such talks. A bid may soon be made for direct Vietnamese-Viet Minh talks as well.

The Communists have recently been proposing a Viet Minh withdrawal from Laos and Cambodia in exchange for neutralization of those states, but have insisted that native "resistance movements" will remain and must be recognized.

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2. Dutch fear Indonesia may abrogate union and provoke international crisis:

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Foreign Minister Luns believes that Dutch public opinion may force an appeal to the UN if, as he now fears, Indonesia unilaterally abrogates its union with the Netherlands and repudiates the financial agreement between the two governments. Luns doubts the UN would take any helpful action and consequently expects Dutch confidence in the UN, NATO, EDC, and other postwar institutions to be undermined.

Luns also complained to Ambassador Matthews on 24 June that the Indonesians are "counting heavily" on assurances from American "official sources" that Dutch interests in Southeast Asia will receive little consideration in Washington.

Comment: While the Dutch have long regarded the union statute as dead, they are seriously alarmed over the threat to their extensive economic interests in Southeast Asia. Discussions to end the union agreement are to start on 29 June.

Both Dutch and Indonesians have continuously sought American support for their positions, and an unsuccessful appeal to the UN would probably revive Dutch resentment over the United States' role in the establishment of an independent Indonesia.

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SOUTHEAST ASIA

- 25X1A 4. French reported implementing plan to abandon southern delta area:

[Redacted] An official of the Vietnamese Ministry of National Defense informed the American embassy in Saigon on 24 June that three days previously the French had withdrawn from much of the southern portion of the Tonkin delta, leaving the Vietnamese forces there without artillery support and fully exposed to the Viet Minh. The official said Vietnamese authorities plan to protest to the French concerning the withdrawal.

General Salan had informed the embassy the previous day that the French had had to draw in their delta lines and might shortly have to evacuate the civilian populace outside those lines.

Comment: The plan of the French to withdraw their units from the southern delta area and leave its security to Vietnamese forces was recently reconsidered in the light of enemy capabilities and Vietnamese weaknesses, but has apparently been revived. Although this regroupment will result in an increase in French mobile reserves and an enhanced capability to protect the delta nucleus, it will have a profoundly disturbing effect on Vietnamese morale throughout the delta.

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25X1A 5. Ablest Cambodian general may be dismissed:

Cambodian defense minister Tioulong, who is also commanding general of the Cambodian army, says the government's resignation, [redacted]

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was intended primarily to relieve him of his portfolio. The immediate cause, he told American chargé Goodman, was his failure to obey royal orders to provide honors recently to General Navarre. The king was so angered he decided to remove Tioulong from the Defense Ministry. It is not certain yet if Tioulong will also lose his position as head of the army.

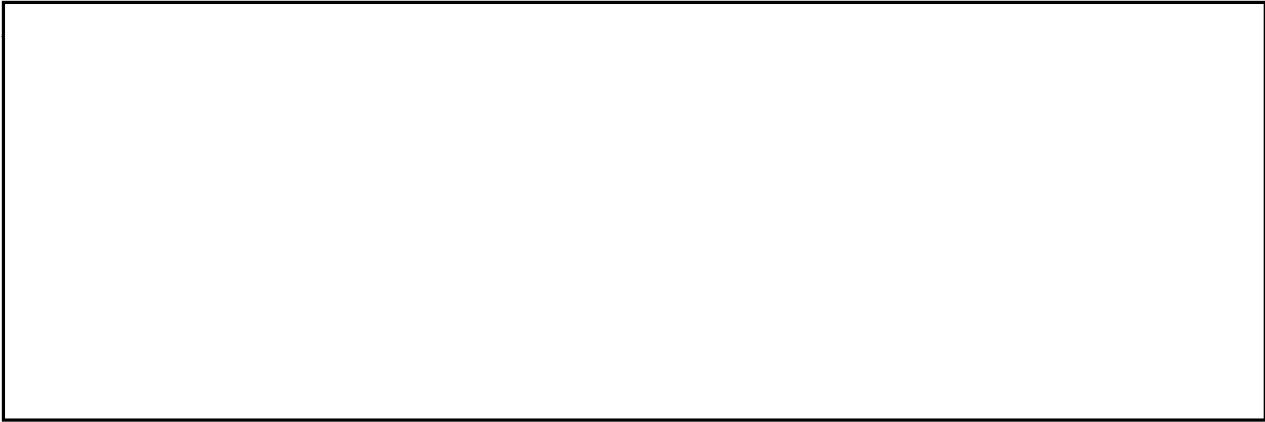
Goodman comments that it is incredible the king would at this time discipline his most able lieutenant.

Comment: Tioulong is generally considered the only Cambodian capable of holding the army together. Under his leadership, the Cambodians several days ago defeated one of the two regular Viet Minh battalions in Cambodia and sent it retreating northward toward Laos.

The success of any plan for American assistance in training an effective army would be largely dependent on Tioulong's retention of command.

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SOUTH ASIA

7. Pakistan faces foreign exchange crisis:

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[Redacted] Senior Pakistani officials concerned with economic development have told American officials that they believe a critical shortage of foreign exchange threatens Pakistan's political and economic stability. Karachi estimates the gap between available dollar and sterling resources and requirements for essential imports during the coming fiscal year at more than \$90,000,000.

The officials expressed the hope that the United States could assist in partially bridging the gap. They also hope to divert about \$15,000,000 worth of American and Colombo plan aid to pay for industrial imports.

Comment: The Pakistani regime's ability to re-establish its political prestige now depends largely on easing quickly the stringent economic position of consumers--particularly since the 30 May imposition of governor's rule in East Pakistan and the concomitant promise of economic relief.

Diversion of present resources to consumer items would force the abandonment of the country's industrial and agricultural development plans and thus make for recurring financial crises.

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WESTERN EUROPE

- 25X1A 8. Oslo formally rejects plan for stationing American air units in Norway:

[Redacted] Norwegian foreign minister Lange informed the American embassy on 23 June that his government cannot agree to the American proposal to assign air force units to Norway on a rotation basis. He said that this would conflict with Norway's policy of not permitting the stationing of foreign troops on its territory in peacetime. The only "practicable course" he saw for strengthening the country's air defenses was for the United States to equip an additional Norwegian air wing.

Comment: Norway has now joined Denmark in formally rejecting the concept of stationing foreign troops on its territory during peacetime. Government leaders agree that NATO requirements demand greater air strength in northern Europe than the two countries can provide, but hold that the stationing of foreign troops would be politically unacceptable and would be regarded as provocative by the USSR.