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20 July 1955

Copy No. 99

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 24 /
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 11/1/80. REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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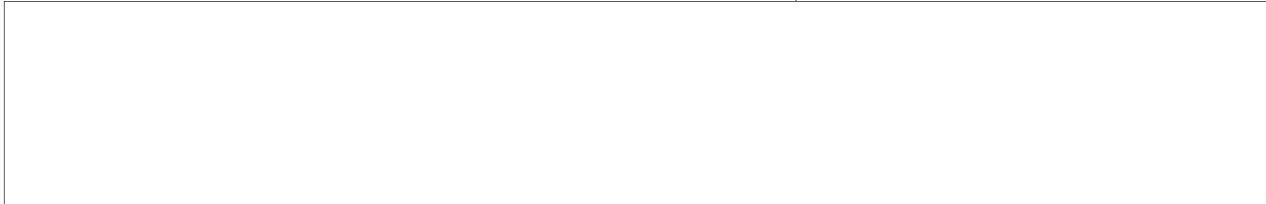
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GENERAL**1. Peiping willing to accept bilateral talks with US on ambassadorial level.**

The Peiping regime has agreed to a meeting of American and Chinese Communist representatives on the ambassadorial level in Geneva and has proposed 21 July for the first meeting,

These Geneva talks are to be held with a view to facilitating the settlement of "the question of civilian detainees" in Communist China and the United States "and to discuss other questions at issue."

Comment: Chou's willingness to raise the level and expand the scope of the consular-level talks under way in Geneva for the past year reflects his hope of gaining prestige, of obtaining a more comprehensive statement of the American position on Chinese issues, and of persuading the Asian "neutrals" and the major Western powers that he is continuing to seek a peaceful settlement of those issues.

These talks may quickly run into trouble on the question of their scope. Peiping has frequently indicated that it wishes to take up major matters, such as the American commitment to the defense of Formosa, rather than to confine the talks to lesser questions. Chou may plan to take a conciliatory line on the smaller matters in the hope of arranging formal negotiations on the larger.

The Chinese Communists have recently been calling for an international conference on Far Eastern issues as well as for direct talks with the United States. Peiping may well believe that such a conference would offer the best opportunity for bringing political pressure to bear on the American position.

2. Comment on Soviet-Viet Minh communique:

[Redacted]

The Soviet-Viet Minh communique is issued on 18 July just prior to the departure of Ho Chi Minh from Moscow generally follows the format of the Sino-Viet Minh communique of 7 July. Emphasis is placed on the happy state of Sino-Soviet-Viet Minh solidarity and the importance of unifying Vietnam "within the time limit provided for in the Geneva agreement."

The communique includes the announcement of a Soviet economic aid program amounting to 400,000,000 rubles--\$100,000,000 at the official rate--which is less than a third of the aid promised by the Chinese on 7 July.

[Redacted]

The new aid is to be used to raise the standard of living and rehabilitate the economy of North Vietnam, including the development of 25 "industrial and public utilities," and for the training of technical specialists in the USSR. The Chinese program is aimed primarily at improving Vietnamese transportation and communications facilities. As in the case of North Korea, the Soviet Union has thus assumed responsibility for handling the more complex problems of rehabilitating the economy of North Vietnam.

The communique, in contrast with the Sino-Viet Minh declaration, does not contain any virulent attacks on the United States.

Although one paragraph is devoted to a denunciation of the Manila pact and criticizes "some foreign powers" for interfering in the internal affairs of South Vietnam, Laos and Cambodia, the United States is not specifically mentioned. This difference in attitude, also reflected in recent propaganda, apparently springs from the USSR's desire to appear conciliatory during the summit conference. [Redacted] -Concurred in by ORR)

3. Portuguese prime minister incensed at Nehru's policy toward Goa:

[Redacted]

Prime Minister Salazar informed Ambassador Bonbright on 16 July that although he would do his best to avoid using force to repel Indian agitators entering Goa, Portuguese troops would fire on the Indian passive resistance intruders if necessary. He said Nehru wanted martyrs in order to justify Indian police action.

Salazar spoke bitterly of the way many people encouraged the false impression of Nehru as an "impartial mediator" in the East-West struggle. He hoped that as a result of Portugal's firm stand "the mask of peace would be torn from Nehru," leaving him "exposed for what he is, a living lie."

Comment: Public pressure is mounting in India for more forceful action against Goa. There are plans for a passive resistance march on 15 August, the anniversary of Indian independence. While India is unlikely at this time to try to take over Goa, a major incident might jeopardize its aspirations to mediate on such international questions as Formosa and Indo-china.

Nehru's recent talk with Pope Pius on the Goan issue is being successfully used in the Indian press as anti-Portuguese propaganda.

EASTERN EUROPE**4. Additional Soviet jet bombers moved to East Germany:**

[Redacted]

The transfer of a Soviet jet light bomber unit from the western USSR to the Soviet zone of Germany has been indicated by incoming rail shipments and the arrival of a minimum of 24 aircraft at Welzow in southeastern Germany on 18 July. The number of aircraft involved to date and the scale of logistical support indicate that a move of at least regimental proportions is now in progress.

[Redacted]

Other evidence suggests that the 18 July flights are a permanent reinforcement. This increase in bomber strength, together with the continued improvement and construction of airfields, the recent replacement of FAGOTS (MIG-15's) with FRESCOS (MIG-17's), [Redacted]

[Redacted] indicate continuation of a program to increase the size and capabilities of the Soviet air force in East Germany.

SOUTHEAST ASIA

5. Concern over possible Communist disturbances in South Vietnam reported:

[Redacted]

The American embassy in Saigon reports that local French and British circles are exhibiting nervousness regarding possible Communist reaction to Premier Diem's statement on all-Vietnam elections. The counselor of the British embassy is of the opinion that while it is still highly unlikely, an all-out Viet Minh attack cannot be completely discounted. The French claim to have evidence that the Viet Minh is effectively stirring up the countryside and cited a recent instance when a French army patrol came across an encamped Viet Minh armed unit, "with flag raised," not far from Saigon.

The American embassy takes the view that the prospects for north-south negotiations regarding elections are "more theoretical than real" as a result of Diem's statement. It feels, therefore, that Communist disturbances in South Vietnam are now "within the realm of imminent possibilities."

Comment: There have been Communist threats of trouble in South Vietnam if pre-election consultations did not get under way on 20 July. Diem's declaration has been strongly denounced in a broadcast from Hanoi on 18 July which accused the United States and France as well as Diem of sabotaging the Geneva agreement and of planning to use force to unite Vietnam.

The Viet Minh is believed to have as many as 10,000 troops scattered in small bands throughout South Vietnam as well as a considerable number of sympathizers. These forces could conduct widespread guerrilla warfare, but could not overthrow the Diem regime by their own efforts.