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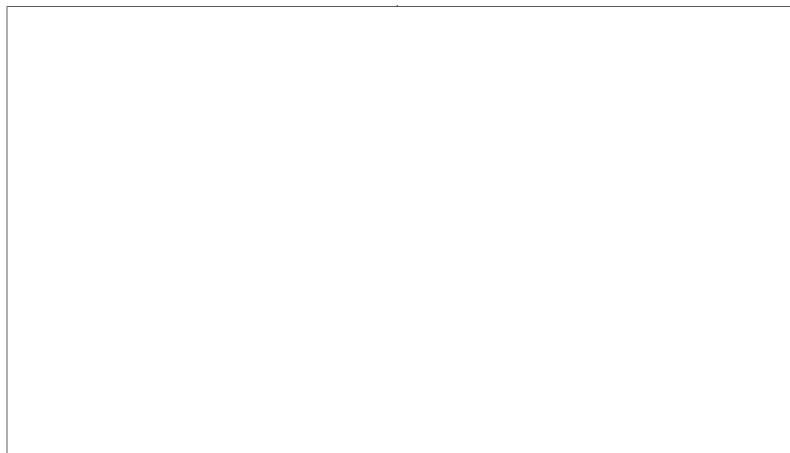
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1. THE TAIWAN SITUATION

Reference:

Taipei reports that as of 2230 local time on 26 May order is being maintained under martial law and a curfew. However, restiveness among students in Taichung, a city of about 200,000 in central Taiwan, is reported and martial law may also be imposed there. Other areas of the island appear to be quiet, and press accounts on 26 May were "apologetic," according to the US embassy in Taipei.

The Taipei garrison commander, the commander of the military police, and the chief of the provincial police have been relieved by Chiang Kai-shek for neglect of duty.

A high-ranking Kuomintang leader and a police official have informed American representatives in Taipei that the disturbances were planned in advance. The former indicates that top-level political rivalries

provided the motive, and that the national Youth Corps, which is under the direction of Chiang Ching-kuo, Generalissimo Chiang's son, was used to spearhead the outbreak. Certain Kuomintang party leaders hoped to force Premier Yui and Foreign Minister Yeh from office by embarrassing them. The events, however, took a more violent turn than expected by these leaders.

Premier Yui and his cabinet resigned on 25 May but Chiang Kai-shek has refused to accept their resignations for the time being. One report states that a military man will head any new cabinet.

Japanese, South Korean, and Philippine officials are reported in the press to have stated that the disorders

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in Taipei demonstrate the necessity for concessions by the United States on the issue of local jurisdiction over American military forces abroad.

The Peiping People's Daily calls for "Chinese unity" in the struggle by the whole nation for "liberation" from American oppression. Moscow, following Peiping's lead, cites the disorder as a demand for Americans to "go home." [redacted]

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2. THE SITUATION IN HAITI (As of 2100 hours 26 May)

Comment on:

The political situation in Haiti remains explosive, although, according to fragmentary press items, fighting which erupted in Port-au-Prince on 25 May

has halted. Anti-United States, pro-Communist Daniel Fignole has proclaimed himself provisional president.

Army chief of staff Brigadier General Leon Cantave, who seized control from an executive council of government on 21 May, reportedly defeated an attempt to oust him by Port-au-Prince police chief Colonel Pierre Armand, who was backed by most members of the deposed executive council. Armand apparently agreed to a cease-fire on 26 May following a 24-hour battle during which his troops attempted to rout Cantave from his military headquarters in the capital.

In a striking example of double-dealing in a country where such tactics have been the rule for six months, presidential candidate Daniel Fignole reportedly switched his allegiance from the executive council, which he had controlled with another candidate, and directed his terroristic street mobs in support of Cantave, thus apparently turning the tide of battle in Cantave's favor. Cantave subsequently supported Fignole's claim to be provisional president. Cantave and what he describes as a "majority of the armed forces" appear to be the only authority behind Fignole's coup.

Armand and the remaining supporters of the executive council probably retain the support of a number of junior officers, the air force, the coast guard, and the police, all of whom supported Armand during the 24-hour "civil war." This group may well attempt a counter-coup.

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3. POLITICAL CRISIS INCREASING FRANCE'S FINANCIAL DIFFICULTIES

Reference:

Growing prospects for a long political crisis intensify France's serious financial difficulties. The American embassy in Paris reports that although

Premier Mollet decreed a cutback of almost \$650,000,000 in appropriations before he was defeated, he will be unable, in his caretaker status, to follow through on his plans to increase annual revenue by over \$400,000,000.

Mollet's present status also blocks in principle his move to obtain a long-term advance of almost \$600,000,000 from the Bank of France to support France's dwindling foreign currency reserves. The Finance Ministry may be forced before the end of June to ask for short-term advances on an emergency basis to help the treasury meet its obligations.

While Mollet's defeat did not evoke any appreciable signs of panic in Paris financial circles, the dollar--officially pegged at 350--has reached 417 on the black market after hovering around 400 at the beginning of May. Gold turnover on the Paris exchange has increased considerably. [redacted]

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4. SIGNS OF POSSIBLE CHANGE IN FRENCH POLICY ON ALGERIA

The view is spreading in France that Minister Lacoste's program for pacifying Algeria has outlived its usefulness, according to Maurice Faure, Mollet's under secretary for Moroccan and Tunisian affairs. Four of the leading candidates for the premiership--ex-premier René Pleven, Finance Minister Francois Mitterrand, Education Minister René Billeres, and Popular Republican leader Pierre Pflimlin--are convinced that a far-reaching change of policy is necessary. Faure says that the next government can take a new line.

Faure's statements may be overoptimistic, since some parties such as the Popular Republicans and the Independents-Peasants group may make their support of a successor to Mollet dependent on a firm commitment not to "abandon" Algeria. Nevertheless, in recent months there has been a greater willingness on the part of the French press, including the influential daily Le Monde, to discuss freely the need for relinquishing claims to Algeria as a part of France. Even some political leaders on the right are taking a similar approach.

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5. ABORTIVE COUP IN HONDURAS MAY WEAKEN MODERATE GOVERNMENT

Comment on:

Colonel Armando Velasquez' attempt to seize the Honduran government, thwarted by army and police action on 24 May, may strengthen the hand of the military clique which recently tried to use the Nicaraguan border dispute as justification for taking over the country. This clique, led by Defense Minister Oswaldo Lopez, opposes the governing junta's plan to restore constitutional rule through general elections on 21 September. The junta had recalled Velasquez from his ambassadorial post in Mexico early this month in the apparent hope that he would help neutralize the clique's maneuvering.

Velasquez, who was apparently operating independently of any major politico-military group, has obtained asylum in the Guatemalan embassy, but several officers and civilians have been arrested for complicity in the plot. The situation will probably be used by Lopez and his clique to place further obstacles in the way of a return to constitutional government. Honduras has been under authoritarian rule since 1954.

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6. SITUATION IN LAOS

Comment on:

Premier Souvanna Phouma's "new" plan
for settling the Pathet Lao problem,

[redacted] is more advantageous to the Communists than had been expected. It provides for the establishment of a coalition government by granting the Pathets two "fairly unimportant" seats in the cabinet. Although the Pathets will be asked to dissolve their organization and open their two provinces to government control, they will be permitted to reconstitute themselves as a political party "under another name" and their troops will be integrated into the royal army after only superficial screening.

The national assembly, which will debate the proposals after they are presented by Souvanna on 27 May, is under mounting pressure to accept a quick settlement. Prince Petsarath, who has just returned from a visit to Pathet-held territory, has declared that the Pathet Lao are neither Communist nor Communist-controlled, and that they have broken their ties with the Viet Minh. He has also written a letter urging the deputies to work for "unification in order that Lao blood will no longer be spilled and Laos will be neutral, completely independent, peaceful and unified."

The only serious obstacle for Souvanna appears to be the possibility of a rapprochement between Deputy Premier Katay and Phoui Sannanikone, leader of the second largest party in the assembly. Although bitter rivals, both would suffer a severe political setback if Souvanna's plan is implemented. They reportedly are planning to unite in an effort to force the premier to demand more effective guarantees from the Communists. Their combined strength in the assembly could bloc Souvanna's strategy and possibly cause his overthrow.

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