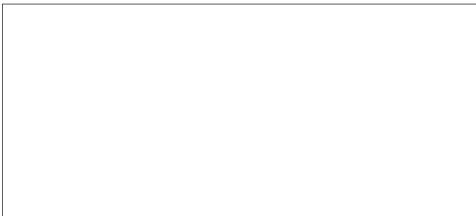


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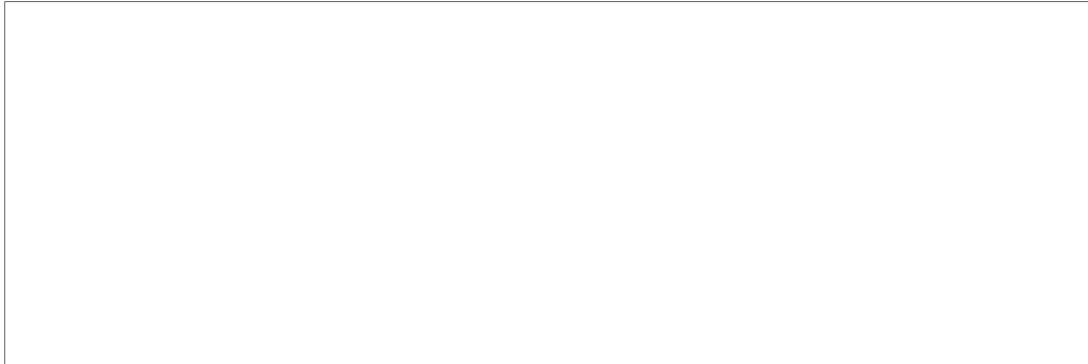
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~~TOP SECRET~~**SUMMARY****FAR EAST**

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**THE FORMOSA STRAITS
(page 10)**~~TOP SECRET~~

FAR EAST**1. Menon outlines views on talks with Chou:**

[Redacted]

V. K. Krishna Menon, who is going to Peiping soon for exploratory talks with Chou En-lai on the Formosa issue, told the American consul general in Madras on 4 May that he does not know what Chou has in mind as to the form and topics for negotiations. Menon himself intends to work for bilateral Sino-American talks limited to a cease-fire, after which conditions might be favorable for bilateral or multilateral talks on a wider range of issues.

Menon, insisting that his views be reported to Washington, said the Indians believe a cease-fire cannot be concluded unless agreement can be reached on some general formula for the ultimate disposition of Formosa. Menon will therefore explore the possibility of eventual settlement, after several years, on the basis of guarantees against an attack on Formosa, consultation with the people now on Formosa, dismantling of military establishments there, and "some form of trusteeship . . . responsible to Peiping."

Menon spent much of the interview in elaborate protestations of India's "good faith" and friendship for both the United States and Communist China.

Comment: Menon appears to be interested both in reassuring the United States as to India's neutrality and in obtaining an American response to his four-point proposal for a Formosa settlement. His proposal seems to envisage, and would facilitate, the eventual extension of Chinese Communist control over Formosa.

Peiping apparently desires bilateral talks with the United States. On substantive issues, the Chinese Communists have been arguing that there is no need for a cease-fire, that the status of Formosa is not negotiable, and that the only matter for negotiations is the withdrawal of American forces from the area. This is not, however, necessarily Peiping's final position.

SOUTHEAST ASIA

2. Laos considering encouragement of popular revolt against Pathet Lao:

[redacted] Laotian officials are considering covertly encouraging--with arms and money-- popular uprisings against Pathet Lao authority in the two northern provinces, according to Minister Yost in Vientiane. Crown Prince Savang feels the population is ripe for a revolt which, at the least, would seriously embarrass the Pathet Lao and might drive them out completely. Both Savang and Minister of Defense Souvanna Phouma agree there should be no involvement of the royal army at this time, although the defense minister is now covertly attempting to reinforce commando posts in the north.

Yost also reports that Premier Katay is still hopeful of some results from the political talks with the Pathet Lao, an optimism not shared by Savang and Souvanna. Katay has stated, however, that the negotiations will not be allowed to drag on.

Comment: Reports from several sources have indicated popular dissatisfaction with the Pathet Lao regime. In the event of an uprising seriously threatening the Communist hold over the northern provinces, the Viet Minh would be likely to intervene.

3. French efforts to avoid responsibility in Vietnam anticipated:

[redacted] Ambassador Dillon in Paris believes that recent events have not altered the French government's conviction that Vietnamese premier Diem is unable to achieve political stability and unity in South Vietnam. The ambassador expects Paris to make clear that French troops will not be available to maintain Diem in power. He anticipates French pressure for the "Bao Dai solution," under which Diem would share power in a high council with several others appointed by Bao Dai.

If the situation in Vietnam worsens, Paris will probably state it is considering immediate withdrawal of French forces and the evacuation of French nationals. If Vietnam is lost to the free world, France will be prepared to blame the United States.

Comment: Premier Faure's personal spokesman assured American officials on 5 May that his government was urging Bao Dai to support Diem. He said that increasing pressures were developing in Paris for a speedy withdrawal of the French expeditionary corps.

Diem is personally agreeable to the maintenance of Bao Dai as titular head of state, but he would be unalterably opposed to a five- or six-man supreme governing council of the sort which the French and Bao Dai favor. The roster of councilors reportedly proposed by Bao Dai and the French appears to be more amenable to collaboration with the Viet Minh than the Saigon "Revolutionary Council." French charges that the "Revolutionary Council" has a pro-Viet Minh orientation remain unsubstantiated.

NEAR EAST - AFRICA

4. Comment on reported Iraqi plans for Syrian coup:

[redacted] [redacted] money, arms and ammunition are being sent into Syria from Iraq in order to overthrow the government of Prime Minister Asali. Over 100 Iraqi army officers are reported to have been infiltrated into Syria and are now working with the Druze tribesmen. [redacted] light machine guns, rifles and ammunition have been sent to the Druze.

[redacted]

Iraq's Crown Prince Abdul Ilah, desirous of becoming king or viceroy of Syria, is probably actively working with the Druze tribesmen and some Syrian politicians. It seems unlikely, however, that he can achieve his goal merely by working through the Druze and Syrian politicians without the overt support of either his own government or significant elements within the Syrian army.

EASTERN EUROPE

5. Greece not seriously concerned at trends in Yugoslav foreign policy:

[Redacted] Greek leaders have told American embassy officials that they find Yugoslav interest in expanding military co-operation with Greece undiminished and that Balkan pact military discussions are proceeding satisfactorily. They believe Yugoslavia is willing to continue quietly its military co-operation with the West, but that now is not a propitious time to effect the necessary Yugoslav co-ordination with NATO.

While Athens is aware of growing Yugoslavia support for a neutralist bloc, it is inclined to believe that public statements regarding Yugoslavia's role between East and West are chiefly a propaganda line subject to change. The Greek leaders attribute this drift in Yugoslav policy both to Belgrade's estimate that the danger of Soviet attack is now less and to pressure from factions within Yugoslavia that have opposed Belgrade's growing co-operation with the West.

Comment: These observations were made after Athens had been informed about the recent conversations in Belgrade between Tito and the American and British ambassadors, which disclosed a strong Yugoslav desire to stall any further military arrangements with the West.

Greece in general has been more optimistic than Turkey about Yugoslav military co-operation with the West. It has criticized Turkish moves to obtain an early Yugoslav commitment on a NATO link.

While it cannot be ruled out, there is very little evidence to support the view that internal factional opposition stands behind current Yugoslav foreign policy.

6. East Germany reportedly not to have large-scale armaments industry:

A representative of the East German Ministry of General Machine Construction was told by Soviet officials in Moscow recently that his country was not to undertake large-scale armaments production at the present time, [redacted] These officials added that armaments production throughout the Eastern bloc will be co-ordinated and that the USSR will provide East Germany with armaments when necessary. The Soviet officials said that East Germany's exposed position makes it insecure as a site for heavy armaments production. [redacted]

Comment: Permitting large-scale production of armaments in East Germany would be inconsistent with proposals for unifying Germany on the basis of neutrality, which the USSR is likely to advance.

East Germany now produces some types of military equipment, including armored cars and small arms. Preparations for military aircraft production were discontinued in 1953.

WESTERN EUROPE

7. Comment on possible invitation for Adenauer to visit Moscow:

[redacted] Soviet ambassador Malik in London has asked a West German correspondent there what the German reaction would be if the USSR invited Chancellor Adenauer to visit Moscow.

Such an invitation would be intended to put pressure on Adenauer to explore the possibilities of German

unification through direct talks with Moscow. If Adenauer refused to go, the USSR might invite other leading Bonn politicians, particularly leaders of the opposition Social Democratic Party.

Adenauer might be willing to go to Moscow, provided such a trip were approved by the Western powers.

8. Luce comments on Gronchi's election to Italian presidency:

Ambassador Luce believes Giovanni Gronchi's election as president of Italy poses serious problems for the United States. It emphasizes the existing trend toward state economic control and possible authoritarianism, "either of a national socialist or perhaps a socialist front type manipulated by Moscow." The election will probably tend to strengthen neutralist forces in Italy.

The ambassador notes that Gronchi, who has advocated that the government be oriented toward the left, is generally considered capable of making deals with both left and right in pursuit of his ambitions.

Comment: The Scelba regime has been under attack for its failure to carry out domestic reforms, and pressure is growing for a government shift to the left.

LATIN AMERICA

9.

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THE FORMOSA STRAITS

Report of the IAC Current Intelligence Group for the Formosa Straits Problem

This report is based on information received in Washington up to 1100 hours 6 May 1955.

1. Chinese Communist jet light bomber strike capability from the Shanghai area may be increasing.

movement of some of the 8th Division's BUTCHER (IL-28) jet light bombers to Hangchow from their original base in Manchuria. Since 25 April, these bombers have been very active in what are apparently terrain familiarization flights over the Hangchow Bay region. On 4 May, 30 of the bombers were noted in such flights.

Movement of the complete division would put an estimated 60 BUTCHER jet light bombers at Hangchow. The latest available photography revealed only 39 present on 14 April. These bombers operating from Hangchow can strike any target on Formosa, the Quemoys or the Matsus.

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