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GENERAL

- 1. French ambassador sees improvement in relations between Britain and India:**

[redacted] relations between Britain and India have improved recently as the result of British initiative, especially during the Geneva conference.

[redacted]

Comment: Relations between London and New Delhi have been very good, at least since 1949. Heightened British activity in New Delhi recently appears to have been directed at broadening existing understanding on issues such as Indochina and Southeast Asian defense.

There is some evidence Nehru may be attracted to the idea of an "Asian Locarno." It is, however, still not clear how much success the British have had in inducing him to admit the necessity for a collective defense arrangement in Southeast Asia.

SOUTHEAST ASIA

- 2. French staff officer asserts French intend to abandon entire Tonkin**

[redacted]
Colonel Gracieux, General Salan's chief of staff, informed the American chargé in Saigon on 1 July that French military plans

call for a withdrawal to the Haiphong area and that a prolonged defense is not contemplated even then.

Gracieux said he "hoped" that forces evacuated through Haiphong could be landed near Dong Hoi in Annam, where the best defense line could be formed in the Chalk Hills running laterally toward Thakhek, Laos (see map, p. 5). He also thought that reinforcements could be brought in to this line via Thakhek. Gracieux said, however, that this regroupment must take place before 1 October, when the monsoon will make landing near Dong Hoi difficult.

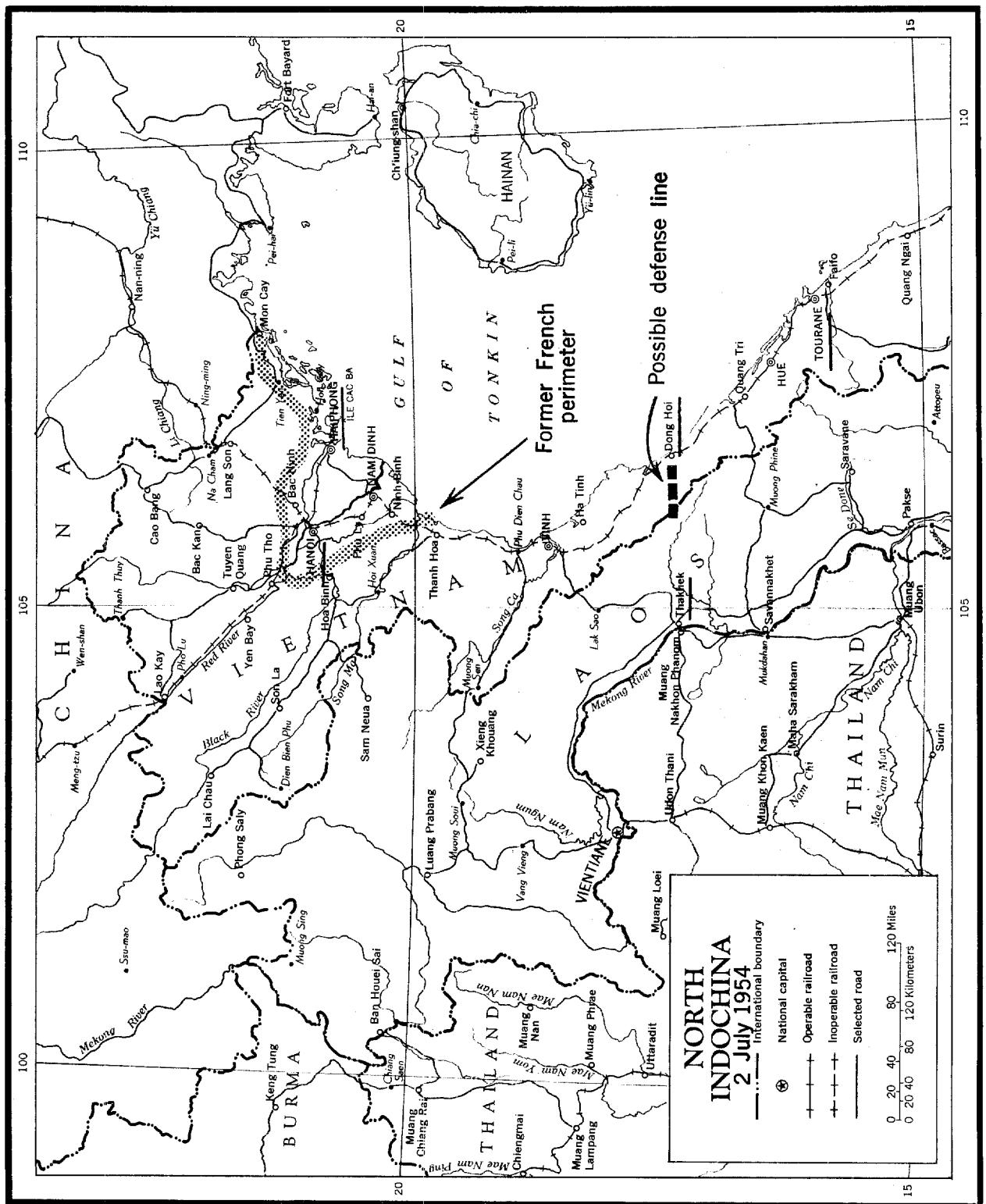
Comment: The French may be expected to try to establish a line somewhere north of Tourane, the site of their best airfield in Indochina and the only one capable of supporting sustained operations of heavy, medium and jet light bombers.

3. Diem followers considering a deal with Viet Minh:

[Redacted] Members of Premier-designate Ngo Dinh Diem's entourage feel that Vietnam is being by-passed in the current Geneva negotiations and are now seriously considering an approach to the Viet Minh. [Redacted] Hoang Xuan Han, an associate of Diem, is said to be shuttling between Paris and Geneva, where he has had talks with the pro-Viet Minh scientist Buu Hoi.

Buu Hoi is expected in Saigon shortly, probably to serve as a go-between for Diem and the Viet Minh. Diem is opposed to partition and will press for general elections as part of a settlement.

Comment: Diem, like many anti-Communist Vietnamese, has been greatly angered by what he regards as a French sellout to the Viet Minh in Tonkin. It is quite possible that he is coming to believe that a direct Vietnam-Viet Minh settlement would prove less disadvantageous to Vietnam than to abide by France's apparent willingness to surrender Tonkin without a fight.



Diem may calculate that the chances, however slight, of an eventual political overthrow of the Viet Minh within a unified Vietnam are nevertheless greater than the possibility of a successful defense of the southern half of Vietnam.

4. Burmese "not hostile" to a Southeast Asian defense organization:

[redacted] Burma is "not hostile" to the creation of a Southeast Asian defense organization, since it would be directed against

Communist military expansion. [redacted] however, [redacted] it would be difficult for Burma to join such an organization because it would involve alignment with "one of the two power blocs."

Comment: [redacted]

[redacted] the Chinese Communist premier was unable to persuade the Burmese that their best interest lies in joining a Communist-sponsored Asian "peace bloc," as earlier reports had suggested might be the case.

NEAR EAST - AFRICA

5. Jordan king advises "fire on Israelis when fired on":

[redacted] Jordan's King Hussain, in commenting on the Israeli-Jordanian hostilities in Jerusalem, told Ambassador Mallory that citizens must be protected in their homes and that he has therefore "counseled that whenever fired upon, fire should be returned."

Mallory says this statement is counter to the caution urged by General Glubb, Arab Legion commander, who has tried to restrain the Jordanians.

Comment: The current fighting is the most serious in many months. It follows the near-breakdown of the UN truce supervision machinery. While the truce will probably be restored in Palestine, the over-all picture is one of increasing deterioration. [redacted]

WESTERN EUROPE

6. Early resignation of Italian foreign minister foreseen by Christian Democratic leaders:

Former premiers De Gasperi and Fanfani have indicated in recent interviews with Ambassador Luce in Rome that they expect Foreign Minister Piccioni to leave the

government shortly. De Gasperi, who said that the Chamber debate on EDC should start before the summer recess and not be tied to Trieste, described Piccioni as obsessed with the idea of "doing better than Pella had done re Trieste." He said that Piccioni had originally refused to sign any agreements with the United States pending a Trieste solution. Piccioni modified this stand only after Premier Scelba said he would sign a Trieste settlement if Piccioni refused.

Comment: Piccioni is the only important Italian cabinet official opposed to reaching agreement separately on the Trieste and EDC issues. His removal from the cabinet would greatly improve the parliamentary prospects of both issues.

The success of the De Gasperi and Fanfani factions in winning control of the Christian Democrats at the recent party congress will probably hasten Piccioni's departure.

LATIN AMERICA

7. Venezuela angry over loss of opportunity to air Costa Rican "Communist problem":

Venezuelan president Perez is angry because the postponement of the OAS conference on Guatemala has denied him the opportunity to air his views on the "Communist problem"

In Costa Rica before the assembled Latin American foreign ministers.

The strong Venezuelan reaction is attributable in part to the American decision to ship arms to Costa Rica. The Venezuelan ambassador in Washington has been instructed to protest the postponement to the Department of State.

Comment: Caracas originally opposed OAS discussion of the Guatemalan problem because it felt a consultative meeting would jeopardize Venezuelan plans to provoke a revolution in Costa Rica.

Long-standing Costa Rican fear of such a move was heightened on 22 June when a Venezuelan plane dropped scurrilous leaflets over the Costa Rican capital. The Costa Ricans feel vulnerable and have sought American support. The Costa Rican government is anti-Communist.

8. Nicaraguan president warns that Guatemalan situation remains critical:

Nicaraguan president Somoza told Ambassador Whelan on 1 July that the situation in Guatemala is still critical. He said two Guatemalan Communists were directing armed civilians in guerrilla warfare and that eliminating Communism from Guatemala will be "a tougher job than most people realize."

Somoza believes that Castillo Armas should head the new government and added that if he later becomes "too ambitious," Somoza can "take care of him."

Comment: Sporadic Communist-incited violence has been reported since 1 July on the Guatemalan Pacific slopes, where Communists have been most effective in the past two years in conditioning the mestizo farm hands to violent action. Though the possibility of continued violence in this area cannot be eliminated, the return of army units from the front subsequent to the signing of the peace agreement on 2 July should provide sufficient armed strength to restore order in the affected area. Early on 2 July Guatemalan junta member Lt. Colonel Cruz minimized the seriousness of this violence.

Although Colonel Monzon temporarily heads the new junta established in the 2 July agreement with Castillo Armas, the latter appears to be in the stronger position. It has not yet become evident, however, which leader will command the loyalty of the majority of the army officers.

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