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CO/ED

9 July 1955

Copy No. 99

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CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 15
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 11/1/00 REVIEWER:

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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State Dept. review
completed

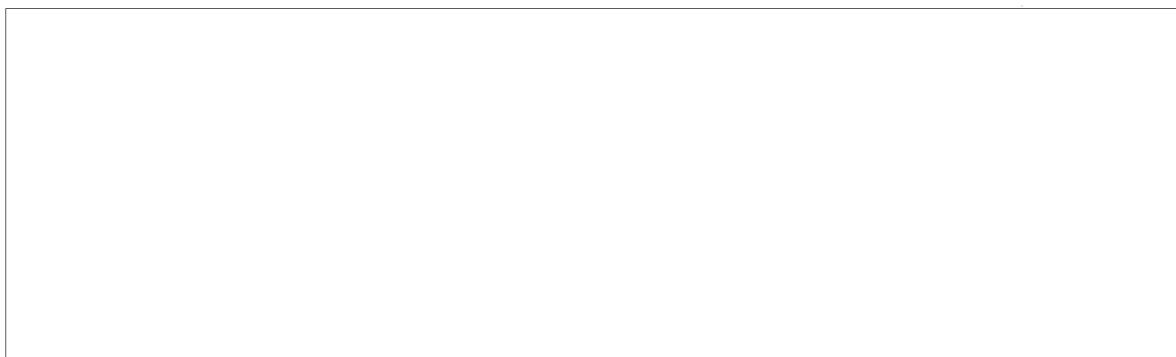
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SUMMARY

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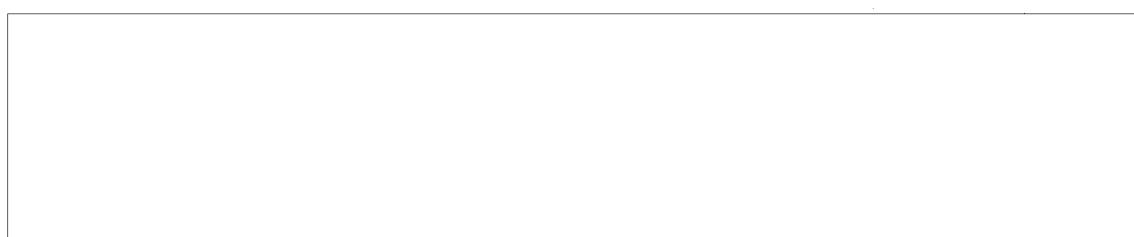
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6. Indonesia

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GENERAL**1. Comment on Sino-Viet Minh communique of 7 July:**

[redacted] The Sino-Viet Minh communique signed in Peiping on 7 July on the eve of Ho Chi Minh's departure for Moscow has the immediate effect of demonstrating Sino-Viet Minh solidarity and may serve to prepare the way for Soviet representations on Indochina at the summit talks.

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[redacted] [redacted] To ensure rapid restoration of the North Vietnam economy and to improve the Viet Minh's prospects in any all-Vietnam elections, Peiping has agreed, "without compensation," to an aid program totaling 800,000,000 yuan, about \$326,000,000 in the recently revalued Chinese Communist currency. The figure mentioned probably covers some aid already given under an agreement concluded last December.

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Most of the 7 July communique is an official reiteration of the main lines of recent Communist propaganda on Indochina. This communique is likely to be followed by a Soviet-Viet Minh communique from Moscow, before or during the summit talks, making the same political points and announcing the value of the Soviet aid program.

The USSR at Geneva may call for a reaffirmation of the 1954 Geneva agreements on Indochina, and is expected in any case to press for a five-, six- or ten-power conference to deal with Far Eastern questions.

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EASTERN EUROPE

4. Pre-Geneva optimism reported among Satellite populations:

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Hopeful expectations for the outcome of the Geneva conference are widespread in the capitals of Eastern Europe, according to American officials in the Satellites. Initially set off by the signing of the Austrian state treaty and the Soviet-Yugoslav talks in Belgrade, wild rumors reflect the popular excitement. Some of the American observers point out that optimism is so high that some disillusionment is certain.

In Prague there is speculation that the Geneva conference will result in a special neutral status for Czechoslovakia along Austrian lines. There is also speculation among the Polish populace that Poland and the other Satellites may be permitted to assume a neutral status in return for a neutral Germany.

The East German populace is believed to be pinning its hopes for improved internal conditions and even Germany's reunification on the summit meetings and the Adenauer visit to Moscow.

In Rumania there are rumors that political prisoners are being released, that the government base will be broadened, and that free elections will be held.

WESTERN EUROPE

5. Early passage now seen for West German interim arms bill:

Chancellor Adenauer's interim arms bill now stands a good chance of securing Bundestag approval late next week, according to American officials in Bonn. To an earlier version of the bill have been activity in various Bundestag committees.

Final parliamentary approval of the bill may yet be deferred until October, however, since the Bundesrat is threatening to pigeonhole it unless certain conditions are met. Coalition leaders, who say the bill requires the express approval of the upper house, are somewhat worried over the Bundesrat's attitude because of the chancellor's highhanded methods in introducing the bill in that body.

Comment: If the bill clears the Bundestag as expected, prospects are that the Bundesrat will act on it before adjournment, provided the government makes certain concessions on states' rights and patronage. The Bundesrat is tentatively planning to adjourn on 22 July.

The bill involved provides for the recruitment of 6,000 volunteers to get West German rearmament under way. It is an interim measure designed to serve only until permanent arms legislation is passed.

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6. Indonesia

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Comment: The Ali cabinet, apparently at the insistence of President Sukarno, installed General Utoyo as the new chief of staff on 27 June in spite of its knowledge of the army's united opposition to Utoyo's appointment. The army has refused to recognize Utoyo, and army-cabinet relations are at a complete impasse.

Indonesia's leading opposition party, the Masjumi--an anti-Communist, Moslem organization, is reported prepared either to join a cabinet appointed by and responsible to President Sukarno or to assume responsibility for forming a new government should the Ali cabinet fall. The Masjumi secretary general has stated that the elections now scheduled for 29 September would not be delayed by a change of government.