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12 June 1953

Copy No. 67

3.5(c)

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 64
NO CHANGE IN CLASS.
DECLASSIFIED
CLASS. CHANGED TO: TS S 2009
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE 12-11-71 REVIEWER

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Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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SOUTHEAST ASIA

1. Vietnamese representative in Paris details demands for new French-Vietnamese agreement:

[Redacted]

The Vietnamese high commissioner in Paris has commented to an American embassy official that the French-Vietnamese accords must be renegotiated. He stated that the judiciary agreements and those regulating economic relations between France and the three Associated States are not acceptable to any of the states and must be changed. The high commissioner pointed out, however, that his government would not unilaterally denounce the agreements.

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Comment: The 3 July meeting of the High Council of the French Union, which will be attended by the three Indochinese prime ministers, will present an opportunity for a joint presentation of demands by the Associated States. Vietnam will probably concentrate on ending French controls over state banking and foreign exchange.

2. French decisions in Indochina linked to security of Thailand and Malaya:

[Redacted]

Commissioner General Malcolm MacDonald, speaking before the British Defense Coordinating Committee in Singapore, stated that the fate of Indochina depends largely on the French government's willingness to reinforce its

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garrison in Laos and to issue a political declaration granting greater autonomy to the Associated States. He believes that the United States and Britain should try jointly to persuade the French to take these steps.

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If positive action is not taken in Indochina, MacDonald anticipates increased Communist pressure on Thailand, possibly resulting in a new government there which would seek an understanding with the Viet Minh. This would jeopardize Malaya's security, as Thailand could be used as a base for fifth column penetration.

3. Philippine Chinese population altering anti-Communist position:

The Philippine Chinese community's support 3.3(h)(2) for the Formosa regime has been substantially reduced during recent weeks, [redacted]

[redacted] Anti-Communist leaders in the community have adopted a middle-of-the-road policy; they fear that after a Korean truce the Philippines and the United States may recognize Peiping, which would then find means to retaliate for their past anti-Communist efforts.

Meanwhile, the Chinese Communist Party apparatus in the Philippines is exploiting a belief, already fairly widespread among the Chinese, that Peiping can offer them more protection from venal Philippine officials than the ineffective Nationalist embassy has afforded.

Comment: Such a trend among the Chinese in the Philippines can also be expected among the large and influential Overseas Chinese communities in the other Southeast Asian countries. Any development that can be construed as a victory for Communist China weakens anti-Communist sentiment.

SOUTH ASIA

4. Comment on closure by India of its legation in Portugal:

India's decision to close its legation in Lisbon on 11 June apparently acknowledges its failure to obtain control by diplomatic means of Goa, Damao, and Diu, three small Portuguese enclaves in South Asia.

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India is now left with the choice of attempting to eliminate Portuguese possessions on the subcontinent by military conquest, economic pressure, or subversion. Since the first alternative is unlikely, and the latter two have not been markedly successful in the past, India probably will fail to achieve its aims in the near future. Nationalistic pride will demand, however, that it continue to apply pressure on Portugal.

NEAR EAST - AFRICA

5. Britain feels Egyptians should make first move to resume defense talks:

Prime Minister Churchill feels strongly that the next move in the Anglo-Egyptian dispute should be made by the Egyptians. According to the American embassy, London thinks that further improvement in the Egyptian attitude is necessary before the prospects for successful negotiations can be considered good.

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The Foreign Office has twice answered requests of the Egyptian ambassador in London for new British proposals by telling him that Cairo would do well to give thought to the proposals already advanced. London considers that there has been too little constructive thinking in Cairo on this subject.

Ambassador Caffrey on 10 June described as "wishful thinking again" the hope of the British embassy in Cairo that Egyptian officials will suggest a resumption of talks when General Robertson returns to Cairo on 17 June.

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SECURITY INFORMATION**6. Libya's need for financial assistance becoming acute:**

American minister Villard in Tripoli believes Libya's need for financial assistance will become acute before there is any possibility of its ratifying the American base agreement.

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Villard also reports that Libyans "deeply resent" the US air force's use of Wheelus Field without payment pending ratification of the agreement.

Comment: The Libyan government has requested an immediate advance of \$1,000,000 for the American use of Wheelus Field. It has also progressively raised the annual payment from the originally proposed \$500,000 to \$1,000,000 and now indicates that \$2,000,000 yearly is the minimum that is acceptable. In addition, Libya has stated that the draft agreement must be renegotiated before it can be ratified.

The United States has made no payment for the use of Wheelus Field since Libyan independence in December 1951, but is currently considering advancing Libya \$500,000.

The reported offer by Egypt to supply all of Libya's financial requirements would make American negotiations with Libya more difficult.

WESTERN EUROPE**7. Comment on "de-socialization" measures in East Germany:**

The decisions taken by the Socialist Unity Party's politburo on 9 June represent an important and possibly basic modification of the rapid socialization program in East Germany.

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The promises to shift productive capacity to consumer goods, to support private entrepreneurs, and to attenuate the internal security program are in obvious conflict with other recent measures such as the increase in workers' norms decreed only last week.

In any case, the regime and its Soviet supervisors are engaged in an effort to soften aspects of the previous program responsible for popular unrest within East Germany and for West German suspicion of Soviet intentions. In the latter respect, the Soviet Union may hope that moderation in East Germany will preclude the necessity of major concessions, such as agreeing to free all-German elections, to persuade the West to participate in four-power talks on Germany.

The sudden modification of previous policies is certain to increase speculation as to the present status of Deputy Premier Walter Ulbricht and other East German Communists who have been associated with the "tough" policy. Ulbricht has long been regarded as one of Moscow's most trusted lieutenants, however, and his position in the party hierarchy still appears strong.

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