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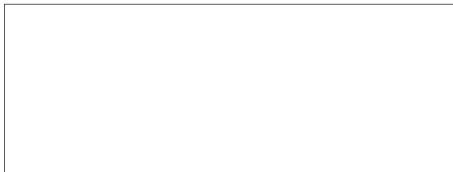
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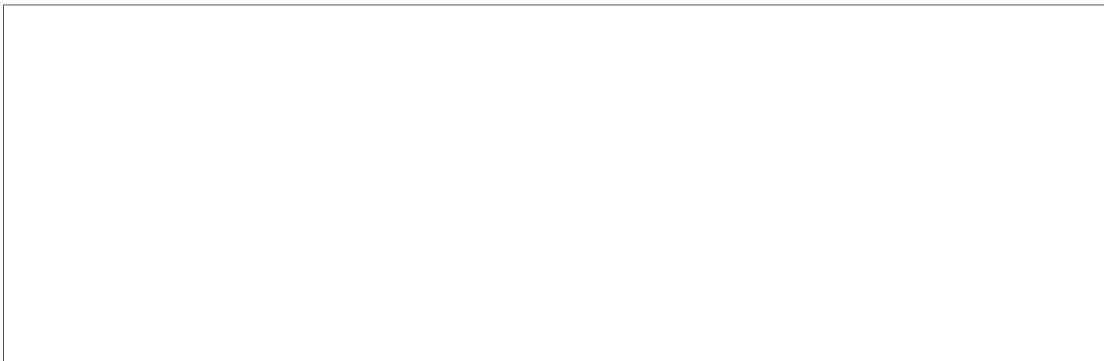
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Office of Current Intelligence**CENTRAL INTELLIGENCE AGENCY**~~TOP SECRET~~

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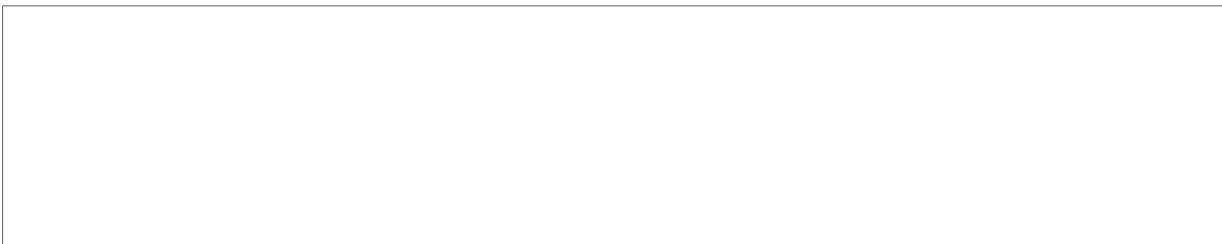
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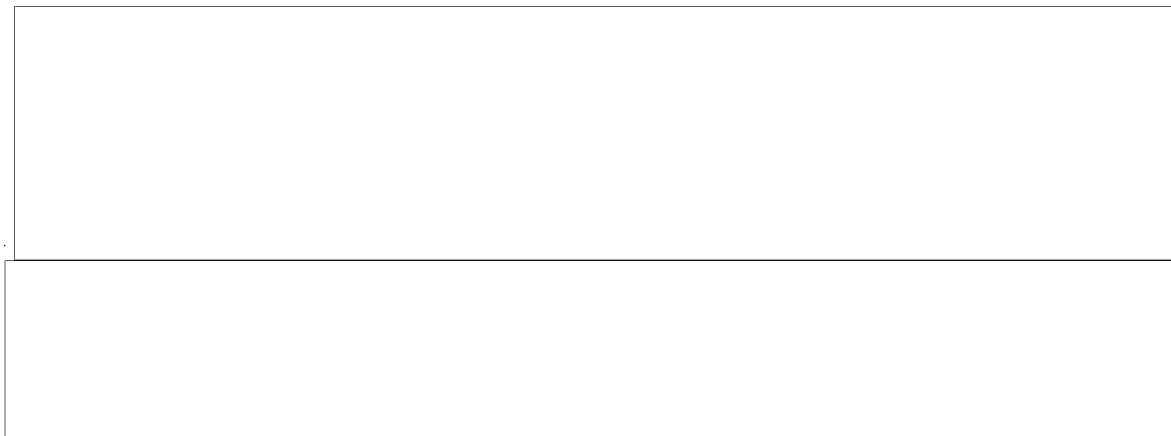
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FAR EAST

- 1. Japanese government reported subsidizing visit of Peiping representatives:**



Comment: The report refers to a 39-member Chinese Communist trade mission originally scheduled to arrive in Tokyo on 21 March to conclude an unofficial trade agreement with private Japanese businessmen.

The Hatoyama government has publicly taken an official "hands off" policy toward the Chinese delegation, and this is the first report that it will subsidize the visit. The government will very likely seek an opportunity to hold private talks on economic, and possibly political, matters. Important conservative business organizations have thus far refused to take part in what they believe to be a pro-Communist gathering for essentially propaganda purposes.

Press reports on 21 March state that the Japanese Foreign Ministry has rescinded an earlier decision to limit the Chinese to the Tokyo-Osaka-Nagoya areas. Plans call for visits to over 50 factories in these areas alone, many of which produce military items for the American armed forces.

SOUTHEAST ASIA

2. Premier Diem states army morale is low:

[redacted] Premier Diem told an American official on 20 March that morale in the Vietnamese army is low, largely as a result of the arbitrary dismissals of officers by Defense Minister Minh. Diem stated that Minh was favoring officers friendly to himself, and that the cabinet had rejected Minh's request for broad powers in the demobilization of officers.

The commander of Vietnamese army troops near Saigon, meanwhile, has expressed uneasiness at finding his forces between those of the Binh Xuyen and of Cao Dai general Trinh Minh The, who has been the recipient of about half of Diem's confidential funds. [redacted]

Comment: [redacted]

[redacted]

Trinh Minh The recently "rallied" to the government with much fanfare and was directed by Diem to deploy his troops in such a way as to counterbalance the forces of the Binh Xuyen. General The's endorsement of an "ultimatum" to the government by the sects on 20 March illustrates the government's difficulty in dealing with these groups.

NEAR EAST - AFRICA

3. Iranian prime minister threatens to resign:

[redacted] Prime Minister Zahedi has informed the Shah that either he or Seven-Year-Plan director Ebtehaj must leave the government and that the Shah must make the choice, according to Minister of Court Ala.

The Shah replied that he has confidence in Ebtehaj and cannot ask him to withdraw. The monarch wants Zahedi to reconsider and establish a satisfactory working relationship with Ebtehaj.

Ala told the American chargé in Tehran that the Shah hopes Zahedi will leave the country for medical treatment so that within a month or two a new prime minister can be appointed. The Shah added that if Zahedi should refuse to leave Tehran, it might be necessary to make an "outright change" in the government. The Shah hopes, however, that Zahedi's departure from the government will be in circumstances enabling the monarch to pay him high tribute for his great services to Iran.

Comment: The uncertain political situation in Iran appears headed for clarification shortly after the end of the Iranian New Year's holidays in late March.

4. Greek king dissatisfied with handling of military affairs:

[redacted] King Paul of Greece is disturbed by the army's lack of combat readiness and poor morale, [redacted]

[redacted] The king has complained to Prime Minister Papagos and Defense Minister Kanellopoulos about the "extremely poor" appointments to general officer rank since Army Chief of Staff Gikas assumed office last November.

The king dislikes Gikas and is displeased over his possible succession as chief of the National Defense General Staff. He also reportedly feels that Kanellopoulos is one of the worst defense ministers in Greek history. [redacted]

Comment: The king's reported departure from his normal policy of noninterference in military matters suggests that he foresees a change of government and is maneuvering in support of political and military elements which the palace considers reliable in opposition to the secret military society IDEA. This society has been increasing its influence in both the political and military spheres.

LATIN AMERICA

5. Honduran chief of state threatens to turn government over to ex-dictator:

Honduran chief of state Julio Lozano has decided to resign and turn the government over to ex-dictator Tiburcio Carias, according to Foreign Minister Mendoza.

Lozano allegedly reached this decision after becoming convinced that the International Bank for Reconstruction and Development would not grant Honduras a loan. He believes that such a decision by the bank would wreck his administration's politically important five-year economic development program.

Ambassador Willauer feels that denial of the bank loan would seriously endanger Honduran political stability and that "a political upset now would have catastrophic results."

Comment: The International Bank is favorably disposed to granting a loan to Honduras, but the 70-year-old Lozano is tired and demoralized by the political struggle among the three parties represented in his three-month-old 'government of national union.'

Lozano may be inclined to abandon his effort aimed at restoring national unity and to turn the government over to Carias, even though he admits Carias would probably rule despotically and deepen the political antagonisms dividing Honduran society. On the other hand, he may calculate that a threat to resign would unify and strengthen his government by dramatically posing the disagreeable and only practical alternative, one-party dictatorship.

THE FORMOSA STRAITS

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

This report is based on information received in Washington during the period 1100 hours 20 March to 1100 hours 21 March 1955.

1. Military action over the weekend was negligible. There were continued scattered indications of the improvement of Communist fortifications opposite the Matsus and Quemoys. Offensive action, however, was limited to scattered artillery fire on the Quemoys.

2. The rehabilitation of Nantai airfield near Foochow is in progress and could be completed and the field readied for jet operations within 10 days. There is no present indication of comparable work at the other five fields in Fukien. Each of them could be readied for air operations in five to ten days, however.

3. Air photos taken of the Chinese Communist air base at Nanchang, about 300 miles northwest of the Matsus, showed only 37 MIG-15's there on 17 March. At least twice as many MIG's are thought to be based at Nanchang, where they are apparently used to defend against overflights of the East China coast.

4. Heavy communications activity of high precedence on a naval administrative net between Canton and Swatow on 18 and 19 March is believed to have no direct relation to operations in the offshore islands area. Although a 50 percent reduction in naval communication activity in the Shanghai naval district was noted on the same dates, it cannot at this time be traced to any movements of naval units toward the offshore island areas.

5. The volume of Chinese Communist and Soviet propaganda on Formosa has dropped sharply since its all-time peak at the beginning of February. However, Peiping has continued to affirm its objective of "liberating" Formosa and other Nationalist-held islands,

and has devoted attention to the Soviet-proposed international conference to deal with US "aggression" in Formosa. Moreover, Peiping Radio on 20 March derided any American belief that "tactical atomic weapons" could achieve a "quick victory."

6. The Finnish tanker Aruba, loaded with 13,000 tons of jet fuel, is nearing the Nicobar Islands, northwest of Singapore, possibly intending to anchor there. The Aruba's master has informed the owners that neither his officers nor crew believed it safe to enter the Singapore area in the absence of US and Chinese Nationalist assurances. The final disposition of the Aruba's cargo is still uncertain.