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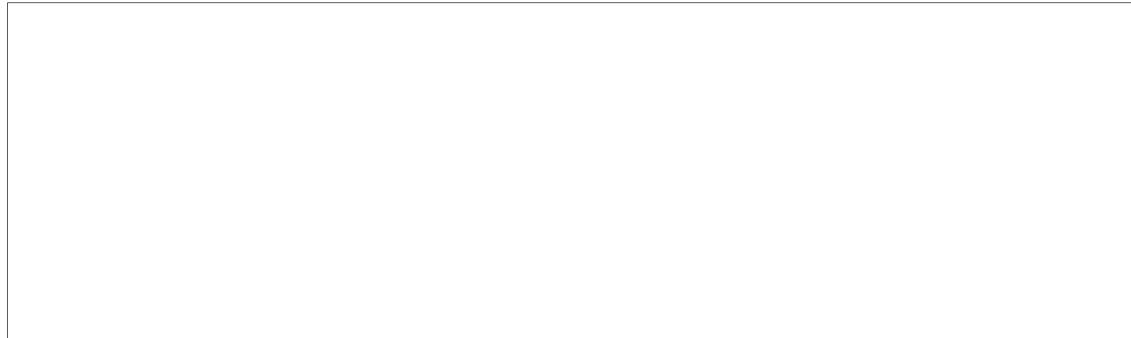
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CENTRAL INTELLIGENCE AGENCY

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GENERAL**1. British suggest early relaxation of China trade controls:**

[Redacted]

British deputy under secretary of state for foreign affairs Sir Harold Caccia formally asked a senior State Department official at Manila whether the United States would oppose modification of the controls on trade with Communist China if the Chinese refrain from further aggression.

Caccia said his government anticipates strong pressure from both Laborites and Conservatives to relax controls as a result of the Attlee-Bevan visit to China, and considers it important to discuss the matter with the United States before parliament reconvenes in October. He said those in favor of relaxation would argue that the Korean war, which led to the embargo, is now ended and that there is no longer any point in maintaining separate controls on trade with China.

Comment: This demarche indicates that Britain is now probably prepared to press for a new China trade control list no more severe than the recently eased controls on trade with the USSR and its European Satellites. Japan, Portugal, West Germany, and possibly some other countries which comply with controls on strategic trade with China would probably support the British position.

FAR EAST**2. Chinese Nationalists reinforce Quemoy garrison:**

[Redacted]

One Chinese Nationalist infantry division and a 155mm howitzer battalion embarked for Quemoy on 8 and 9 September. Another infantry division and a brigade of marines have been alerted to stand by.

In addition to these reinforcements, the American Military Assistance and Advisory Group is recommending that three battalions of 105mm howitzers and a battery of 40mm anti-aircraft guns be sent to Quemoy.

Comment: About 8,000 men of the 19th Division, an American trained and equipped unit, and approximately 1,000 artillery troops are involved in the movement, which should take approximately 24 hours. Their arrival on Quemoy would increase the garrison, now reported at 42,000 regular troops, to 51,000 regulars plus about 6,000 lightly armed guerrillas.

At present only five of the 149 Nationalist guns on Quemoy can reach targets on the west side of Amoy Island, and the arrival of 12 more 155mm howitzers would boost Nationalist capacity for fire on these areas.

3.

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SOUTHEAST ASIA

4. Vietnamese premier takes steps to counter coup plotters:

Premier Ngo Dinh Diem arrested two officers of the Vietnamese general staff on 8 September on suspicion of attempting to launch a coup.

Chief of Staff Hinh, a bitter opponent of Diem, initially approved of the arrest, but later demanded custody of the officers.

Meanwhile, Diem is attempting to reach an understanding with the Cao Dai and Hoa Hao sects and, according to a Cao Dai spokesman, will receive their support if he accepts their demands for certain cabinet posts. Diem is reported to be impressed by the apparent sincerity of these groups' efforts to come to terms with him and also by their evident disgust with the greedy demands of the Binh Xuyen, the gangster organization that controls the police.

Comment: The manner in which Diem handles the case of the arrested officers will largely determine whether the army will throw in its lot with Hinh and thus increase the possibility of a coup attempt.

An ad hoc coalition of the Cao Dai, Hoa Hao and Binh Xuyen has constituted an opposition with a much more effective political organization than any at Diem's disposal. If he could win the support of the former two and break the coalition, Diem's position would be greatly strengthened.

NEAR EAST - AFRICA

5. Iraqi Communists reported plotting overthrow of Nuri Said:~~TOP SECRET~~

[redacted]
 public opinion is to be prepared for a "political strike," which will be followed by attacks on police and government centers and on British and American embassies and information centers. [redacted] agents were sent to party cells in the provinces on 2 September with instructions to this effect.

Comment: This plotting is overambitious and is probably intended partly to boost party morale.

The party may also hope--in desperation--to ride the crest of any non-Communist reaction to Nuri Said's current ironhanded repression of political opposition. The veteran Nuri holds the advantage in any test of strength, but the fact that he faces the possibility of such tests acts as a serious brake on any pro-Western actions he might contemplate.

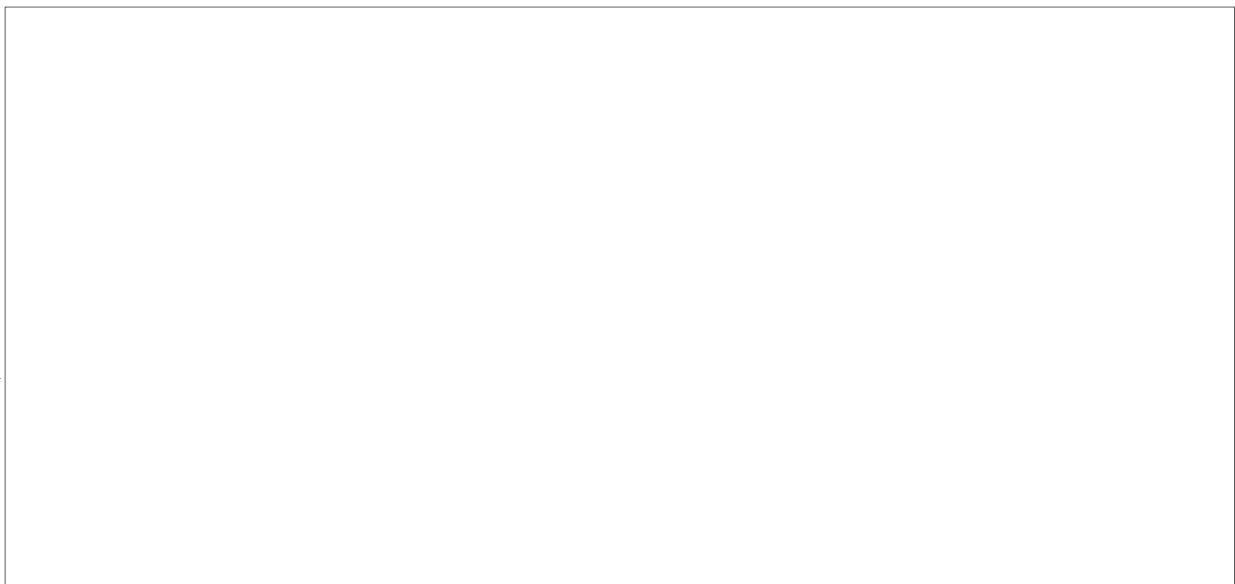
6. "And then there were nine"--Comment on Egyptian council change:

[redacted]
 The official announcement on 9 September that Major Salah Salam, number-two man in the Egyptian Revolutionary Command Council, has been granted an indefinite leave of absence and is being replaced as minister of national guidance suggests that Colonel Nasr has again resorted to dismissal as a means of resolving dissension within the ruling clique.

Salam's removal follows indications of dissatisfaction with Salam's handling of recent defense talks with Iraqi premier Nuri Said. If Salam is formally dropped from the council, he will be the fourth member to be removed.

Nasr's continued success in eliminating troublesome members of the council suggests that he is moving closer toward one-man rule in Egypt. Despite Nasr's apparent strengthening of his position, his maneuvers may lead to the eventual downfall of the regime by antagonizing the army officer group upon which it depends.

WESTERN EUROPE

7. USSR seeking to encourage independent French policy on Germany:

Comment: Despite its evident receptiveness to the idea of new East-West talks on Germany, the French government has dismissed several recent Soviet overtures as offering nothing essentially new. However, an 8 September press report that Premier Mendes-France was considering a plan for a European arms pool to which even Orbit countries might adhere may indicate willingness to enter disarmament discussions.

8. Eden says German problem requires "European" solution:

Foreign Secretary Eden told Senator Wiley on 8 September that the questions of German sovereignty and rearmament are "essentially European" and call for European initiative to solve them.

The American charge in London understands that the purpose of Eden's impending tour of the European capitals is to lay the foundations for an agreement. The foreign secretary wants particularly to find a firm basis among a majority of French deputies for an acceptable solution.

Eden holds that German admission to NATO is still the best solution to the military problem, and that Adenauer should undertake to abide by certain self-imposed restraints on German rearmament. He said that the 1948 Brussels Pact might be revised to make it more palatable to France, and that in this connection Britain would undertake to maintain certain forces in Germany for a specific length of time.

Comment: The Brussels Pact set up the so-called "Western Union" defense organization of Britain, France and the Benelux countries.

This is the first time Britain has been willing to consider committing a specific number of troops on the Continent for a specific length of time. Such a commitment is considered by the French as prerequisite for agreement on German rearmament. Much of what Eden states is also in accord with Adenauer's views on the problem.

9. Unqualified endorsement of German rearmament by British Labor Party seen unlikely:

[Redacted]

Because of the narrow victory at the Trades Union Congress for a resolution reaffirming British Labor support for German rearmament, the American embassy in London believes that a similar resolution would be defeated at the annual Labor Party conference beginning on 27 September. The embassy considers it possible that, as a compromise, the party leadership may make continued support for German rearmament contingent on a new Big Four meeting.

Comment: Labor Party and union leaders belatedly recognized early this summer the highly emotional opposition among the rank and file to German rearmament. By the time they had launched a campaign to gain support for the official policy, unions had already gone on record as opposing it.

Since France's rejection of EDC, both the left-wing British press and the Daily Herald, spokesman for the party leadership, have urged another Big Four meeting to precede negotiations on any Western alternative to EDC.

LATIN AMERICA**10. Guatemalan president may call for election of a constituent assembly:**

President Castillo Armas will announce on 13 September that elections for a constituent assembly will be held on 3 October,

Voting will be oral to discourage antigovernment votes. Castillo's advisers believe that this will ensure the election of an official slate of candidates. [redacted] the constituent assembly will elect Castillo president for a fixed period, possibly four years, and then adjourn.

The American embassy in Guatemala believes that the plan has "a reasonable chance of success."

Comment: This maneuver would strengthen Castillo for the present. The lack of a constitution and a freely elected national assembly, however, would probably recall both to the Guatemalans and to other Latin Americans the strict dictatorships obtaining in Guatemala prior to the 1944 revolution. The situation would lend itself to Communist propaganda exploitation.