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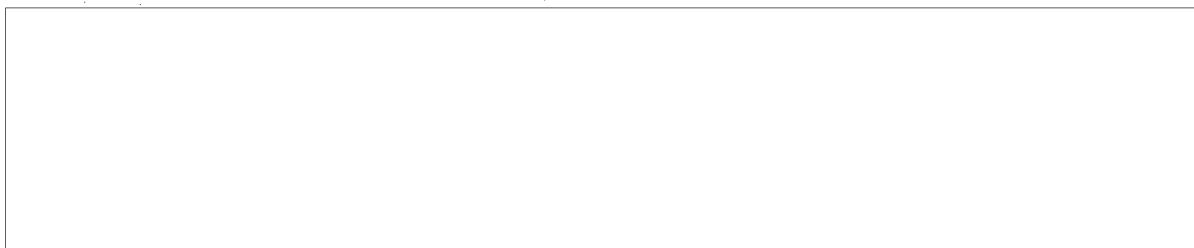
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GENERAL

1. COCOM quota system seen threatened:

The American delegate to COCOM believes that the "unsatisfactory" positions taken by other member countries on 1955 export quotas may destroy the effectiveness of the COCOM quota system. In the current discussions in Paris, the quotas requested for items on the new International List II have in every case been "substantially higher" than expected. Clear agreement on a quota has been reached for only one of the 14 items discussed thus far.

Comment: Of the 23 items on the new List II which went into effect on 16 August, nearly half were formerly embargoed. The American view that exports of these items to the Orbit should be limited is not shared by other COCOM countries, which in many cases had originally pressed for decontrol.

Unless quotas can be set by 1 October, exports of these items will be restricted only by the COCOM procedure requiring "adequate justification." This type of control has proved increasingly difficult to implement because there are no agreed criteria for determining what constitutes an "adequate" quid pro quo for a specific sale.

FAR EAST

2. Comment on Seoul's espionage charges against Communist members of Neutral Commission:

The Republic of Korea's charge on 14 September that Polish and Czech members of the inspection teams of the Neutral Nations Supervisory Commission have committed more than 200 "confirmed" acts of espionage in South Korea represents the initial citation of specific instances of spy activity.

The statement is a result of previous instructions to the National Police to collect evidence of hostile acts by

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Communist members of the teams. An early July report stated that South Korea lacked evidence of espionage by the Poles and Czechs and would assign intelligence personnel to obtain employment with the inspection teams in order to fabricate evidence of illegal activity. The Communists have undoubtedly engaged in espionage, however.

South Korea has insisted that the NNSC be terminated prior to the convening of the UN General Assembly on 21 September. General Hull's firm warning to South Korea should prevent overt Korean attempts to seize inspection team members. The South Korean government will probably use its "evidence" to demand that the UN Command arrest and deport the 46 Communist inspectors. Sporadic violence against the Communists by members of officially controlled patriotic organizations remains a South Korean capability against which the ~~UN Command would have difficulty providing absolute defense.~~

3. South Korea to commence campaign against US troop withdrawals:

The beginning of a nationwide campaign against the scheduled American troop withdrawal, to commence in Seoul and other cities on 16 September, was foreshadowed in the South Korean press on 13 September. The press declared at the same time that South Korea was neither adequately forewarned of the plans for withdrawal nor adequately compensated by increased military aid.

Comment: This official campaign will probably consist of demonstrations and protest meetings, to belittle American assistance and discredit American motives in redeployment of the troops. While Rhee's objective is to obtain increased military aid, his attempts to label the troop withdrawals as "abandonment" will create doubts among some Asians as to American intentions.

Rhee's campaign of abuse and misrepresentation against the redeployment program has already produced sufficient public uneasiness to cause a flight of capital and a further substantial depreciation of Korean currency.

4. Peiping "unable" to make advance shipments of rice to USSR:

Comment: Refusal to exceed scheduled deliveries to the USSR during August and September implies that the original third-quarter delivery quotas are being met. Despite the admitted shortage, Peiping probably feels compelled to meet its total annual export contract, which exceeds 200,000 tons this year, in order to pay for Soviet industrial and military equipment.

According to reports from Hong Kong, Ceylon, and Japan, Communist China has been exporting usual quantities of rice and other foodstuffs to non-Communist countries and making commitments for future deliveries, even though the continuance of food exports will heighten the famine expected in large areas of central China by next spring.

SOUTHEAST ASIA**5. Vietnamese government crisis still in balance:**

Ambassador Heath in Saigon reported on 13 September that tension between Premier Diem and General Hinh seemed to be relaxing and that the premier appeared to have won the first round. Diem's hand had been strengthened by a telegram from Bao Dai supporting the premier's order that Hinh "take leave." Moreover, General Ely told Heath that he agreed on the desirability of Hinh's departure for the time being.

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Comment: Hinh's ambitions to become a dictator probably have little future if General Ely does, in fact, support Diem in the present crisis. However, even if Hinh can be induced to leave the country, Diem will still face the formidable task of establishing a satisfactory civil-military relationship while simultaneously asserting the supremacy of the government over the Cochinchina war lords.

NEAR EAST - AFRICA

6. Postponements of Iranian oil agreement strengthen opposition:

The Shah and Prime Minister Zahedi recently told Ambassador Henderson that successive postponements in presenting the oil agreement to the Majlis are steadily strengthening its opponents. They hoped steps could be taken to speed the agreement's consideration by the consortium members.

The tentative date for submission of the agreement to the Majlis is 19 September. The Senate has been called into session for 18 September.

Comment: The agreement's present ratification timetable sets a 25 September deadline for final Majlis action. This provides a narrow margin if the agreement is to go into effect by 1 October, the date on which the consortium's production guarantees depend. Further delay would materially strengthen the opponents of the agreement and add to the possibility of its defeat by the Majlis.

7.

8. Nasr reported opposed to Arab participation in any new defense system:

[redacted] [redacted] Egypt will not discuss with either the American or British ambassadors the revision and implementation of the Arab Collective Security Pact proposed by Iraqi premier Nuri Said during his August talks with Minister of National Guidance Salim.

Nasr feels there are still too many unsettled intra-Arab issues to permit the Arabs to negotiate effectively with outside powers, including Turkey and Pakistan as well as Britain and the United States.

Comment: Nasr's refusal to consider any regional defense system, even further implementation of the Arab pact, seems to leave Nuri Said free to propose--if he still wants to--a defense arrangement with Pakistan, Lebanon, Syria, Britain and the United States.

WESTERN EUROPE

9. France may favor West German membership in Brussels Pact:



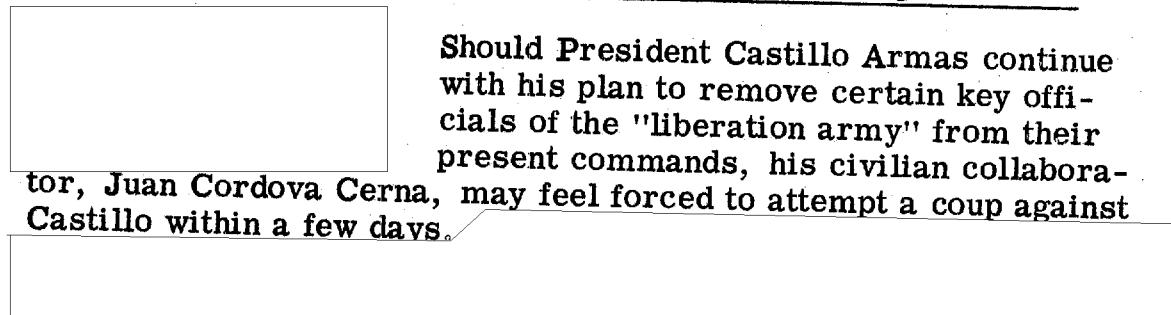
Ambassador Dillon reports that on 13 September, Georges Boris, said to be one of Premier Mendes-France's closest advisers, expressed considerable interest in strengthening the Brussels Pact as a means of linking Britain with the Continent and providing sufficient controls to assure French assembly support for West German rearmament. He suggested that all German forces be assigned to SHAPE, and that SHAPE be granted "some control" over all forces assigned to it.

Comment: Britain is also interested in expanding the membership of the 1948 Brussels Pact pledging Britain, France, and Benelux to resist any "armed attack" in Europe.

Boris' proposal is similar to Mendes-France's "little NATO" solution, and still does not include the additional British proposal for German membership in NATO. Britain and West Germany have not been receptive to the "little NATO" idea.

LATIN AMERICA

10. Castillo collaborator plans overthrow of Guatemalan government:



Should President Castillo Armas continue with his plan to remove certain key officials of the "liberation army" from their present commands, his civilian collaborator, Juan Cordova Cerna, may feel forced to attempt a coup against Castillo within a few days.

Several army and air force officers were arrested as implicated in a 12 September plot against Castillo.

Comment: Although Castillo retains his popular prestige, he has no organized support of unquestioned loyalty.

Cordova Cerna, one of Castillo's close advisers at the time of the June revolution, represents a well-organized, strongly conservative, proclerical faction which wants to use the "liberation army" as its instrument of policy while emasculating the regular army.

Contributing to the current instability is the return to Guatemala of General Miguel Ydigoras Fuentes, anti-Communist presidential candidate in 1950, who has considerable prestige among some anti-Communist elements and perhaps within the army.