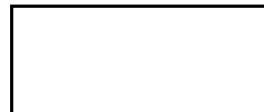


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25 March 1955

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Copy No. 88



CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 57  
NO CHANGE IN CLASS   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: 2010  
AUTH: HR 70-2  
DATE: 4 Jan 80 REVIEWER: 



Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY



OSD, State Dept. reviews completed

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2. Danger of incident involving neutrals in South Korea seen increasing:

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[REDACTED]

The action of the South Korean National Assembly on 23 March in calling on the government to oust the Czech and Polish members of the Neutral Nations Inspection Teams has increased the danger of an incident, according to Ambassador Briggs. He notes that such an incident would involve the American troops which guard the five neutral teams now operating in the south.

Briggs reports that the government may have sponsored the assembly's action as a means of obtaining a "legal" mandate to act unilaterally in ejecting the Communists from South Korea. He states that the government's impatience is steadily mounting and that its restraint of the past few months is now ended.

Comment: The assembly's action, probably government-inspired, may be the first step in carrying out Foreign Minister Pyun's threat of 19 March to try South Korea's "own legal means of throwing the Communists out."

The intensified campaign of the South Korean government to abolish the teams, which has the additional aim of buttressing its demands for a military build-up, may make the Swiss and Swedes more reluctant to take positive action to eliminate the teams or reduce their personnel. They have previously indicated their unwillingness to act under pressure.

## SOUTHEAST ASIA

25X1A 3. Bao Dai intervention in Vietnam sect problem urged by French:

[REDACTED]

French officials in Paris, including General Ely, contend that Bao Dai's immediate intervention in the dispute between Premier Diem and the sects

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[redacted] is desirable in view of the "united front" which the sects have achieved. Bao Dai's intervention might take the form of his returning to Saigon within a few days, or summoning Diem and the sect leaders to Cannes, with a view to forming a 'national union' government.

In Saigon, Deputy Commissioner General Jean Daridan is taking the line that Diem should yield to the sects' demand for a reshuffle of his government. Daridan says that Le Van Vien, leader of the Binh Xuyen, is determined 'to act' and cannot be bought off. General Jacquot, acting commander in chief, criticized Diem's policy toward the sects but doubted that an armed attack by the sects was likely.

General Collins believes there is not much unity among the sects, and that Bao Dai's return to Vietnam would cut the ground from under Diem by encouraging new political maneuvering.

Comment: Bao Dai and the sects have been drawn closer together by their reluctance to see Diem emerge as the undisputed leader of South Vietnam. Diem, on the other hand, is unlikely to yield his position of leadership so long as he retains American support. He believes that with adequate secret funds he can buy off sect leaders and eventually cripple the sects militarily.

To circumvent the deadline of 25 March set by the sects for a reshuffle of the government, Diem proposes to enter negotiations but to avoid any retreat.

According to press reports, the sects on 24 March ordered a "general strike" and a blockade of Saigon starting Sunday. Earlier the French commander in South Vietnam had informed the American embassy that he would not tolerate such a blockade.

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## EASTERN EUROPE

6. Comment on 34-percent increase in defense allocation in Czech budget:

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[Redacted]

The Czechoslovak budget for 1955, although providing for total expenditures slightly below the 1954 level, calls for a defense expenditure approximately 34 percent higher than last year's figure. According to the official announcement of 22 March, the 1955 defense expenditure represents 12.1 percent of the total budget, compared with 8.9 percent in 1954.

This increase is consistent with the Orbit's public emphasis on the need for an increase in military power to counteract "threats from the West," but percentagewise is considerably higher than the 12-percent rises in absolute expenditures announced for 1955 in the USSR and Poland.

A large portion of the Czech increase may be devoted to the procurement of new and improved military

equipment, as suggested by initial Czech receipt this year of Soviet IL-28 aircraft. Some of the increase, however, may reflect a change in budgeting procedures, i.e., some items used by the military which were formerly included within the national economy sector may have been transferred to the defense allocation.

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WESTERN EUROPE

7. French government brings court action against Poujade tax-protest movement:

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The French government on 22 March instructed the Seine court to issue a warrant and open an inquiry into the so-called "Poujade movement" protest taxes. The court action is to be taken under the 'injury to the prestige of the nation' clause of the 1935 general tax code.

The American embassy in Paris has been informed that the inquiry will aim at obtaining sufficient evidence to issue a search warrant covering Poujade's headquarters and the residences of the movement's leaders. Labor unions are reported to have complained bitterly to the government about its failure to move against Poujade and his supporters.

Comment: Premier Faure was forced to make concessions to the Poujade movement to avoid delaying action on the Paris agreements by the Council of the Republic. The Paris press was extremely critical of Poujade's antics in the National Assembly gallery during the budget debate on 19 March, and the present legal action is probably the beginning of a stronger government campaign against Poujade.

During the assembly debate on Faure's request for decree powers, scheduled for 28 March, Poujade's supporters in the coalition will probably join the opposition in an attempt to bring down the premier.

25X1A 8. Comment on latest Austrian treaty developments:

Chancellor Raab will probably find it difficult to refuse the Soviet invitation of 24 March to visit Moscow to discuss the Austrian treaty question. Raab has already stated that he would go to Moscow if he thought it would result in progress toward a treaty.

The Soviet invitation comes just four days after a radio speech by Raab in which he seemed to go a long way toward meeting Soviet requirements for Austrian

neutrality as stated by Molotov at the Berlin conference in January 1954. The USSR has also agreed to Vienna's proposal that the Austrian treaty question be discussed separately from the German question at a conference of the four occupation powers and Austria.

American officials in Vienna believe the Austrian government is "nervous and worried" by its recent discussions with the USSR and would like to shift the responsibility for negotiations to the Western powers.

Allied officials in Europe have expressed concern that the Vienna government is becoming increasingly receptive to the idea of some form of Austrian neutralization, which is opposed by the three Western occupation powers, in exchange for a treaty. The French Foreign Ministry told the American embassy in Paris that recently Austrian officials had implied that Vienna was discussing with Moscow the possibility of "complete neutrality, such as that of Switzerland."

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