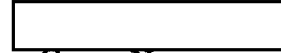


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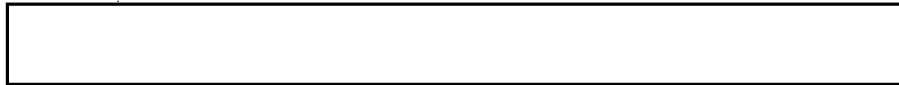
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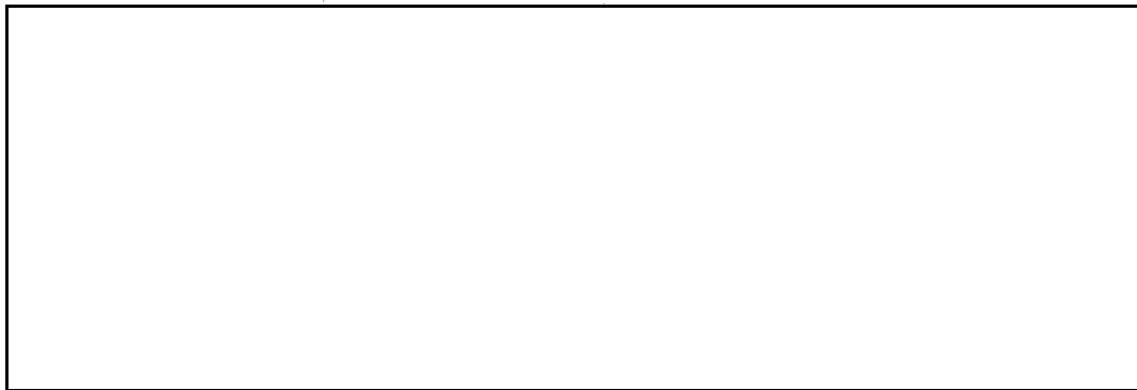
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GENERAL

1. Eden believes Chou En-lai would accept Indochina cease-fire before political settlement:

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Foreign Secretary Eden informed Under Secretary Smith on 20 May that in a conversation with Chou En-lai that day the Chinese premier had agreed the military and political aspects of any Indochinese settlement must be dealt with separately, with a priority for a cease-fire. Chou felt that the cease-fire should take effect in the three states on the same date and said there might be three different political settlements for Vietnam, Laos, and Cambodia. Eden's advisers who accompanied him felt Chou wanted an early agreement for a cease-fire.

The foreign secretary also reported that in response to his warning that the Indochina situation might lead to unpredictable and serious results, Chou said he was counting on Britain to prevent this from happening. Eden warned Chou not to do so, for in a showdown Britain would stand with the United States.

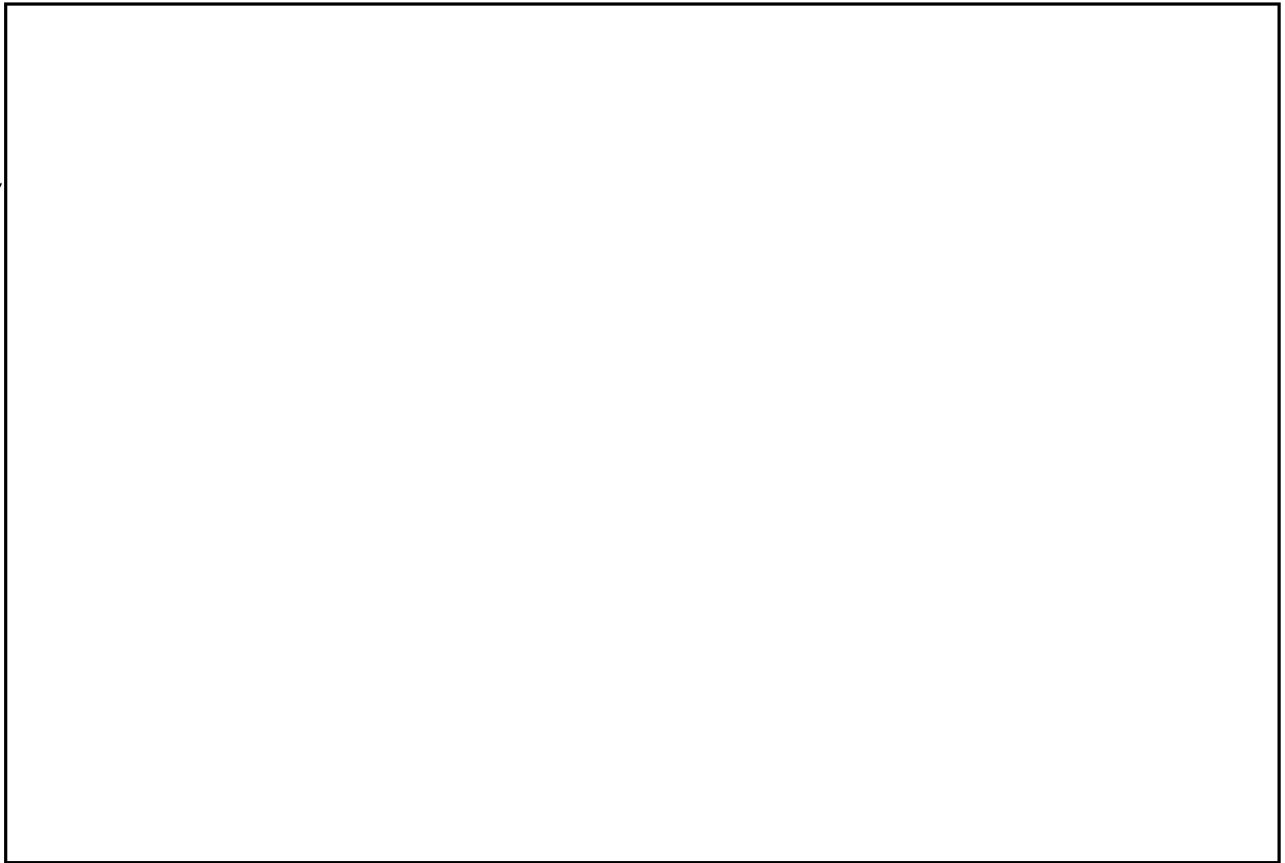
Comment: This would suggest a further retreat by the Communists from their original position that a cease-fire and a political settlement were inseparable. Molotov in his 14 May speech demanded that "at least some" political problems be solved before an armistice--a formulation which left room for cease-fire negotiations without complete agreement on a political settlement.

Agreement to the French demand for separate settlements in Laos, Cambodia, and Vietnam would remove one of the immediate obstacles to progress in the Indochina talks.

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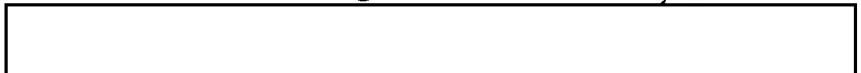
3. Reported Indian attempt to obtain nonaggression pact with Peiping:

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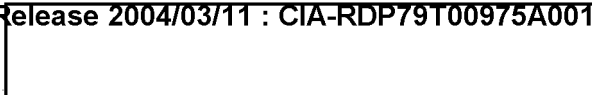
India tried but failed to obtain a nonaggression pact with Communist China during the four-month Sino-Indian negotiations on Tibet, ac-

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This official believes Nehru is publicizing the Tibet agreement of 29 April as a virtual pledge of nonaggression in the hope that the Chinese will consider it in the same light.

Comment: According to its preamble, the Sino-Indian agreement is based on principles of mutual nonaggression and peaceful coexistence. Both New Delhi and Peiping have in their public announcements emphasized this preamble rather than the operative sections dealing with Tibetan trade and travel.



This is the first reliable report that India has been seeking a firmer nonaggression declaration from Peiping. However, press reports that the Indonesian government is interested in a multilateral nonaggression pact with India, Burma, and Communist China have received a very favorable response from leading Indian newspapers.

SOUTHEAST ASIA

4. Civil war threatened in Saigon:

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[REDACTED]

[REDACTED]

There is a definite danger that fighting may break out between rival war lord groups and it is not clear what position the Vietnamese army might take. The American chargé, moreover, has information which suggests that antiwhite rioting may occur.

Meanwhile, the Vietnamese labor minister told the American chargé in Saigon that morale in the army was "practically nonexistent" and that the Viet Minh would win any elections which might be agreed on at Geneva. He said many youths were fleeing from the city to the country to evade conscription.

Comment: Outbreaks in Saigon would greatly aggravate the weakening French military and political position in the rest of Indochina.

Two legionnaire battalions from Africa are due to arrive in Saigon within two weeks, however, and would add to the French capability for maintaining over-all control even though internecine fighting or antiforeign rioting occurs.

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5. Security situation in Annam called precarious:

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An American economic aid official in central Vietnam reports the security situation there is precarious and the general outlook discouraging.

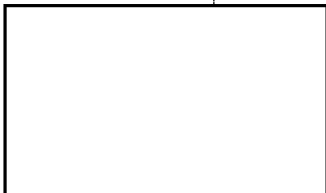
Large numbers of Vietnamese are moving into the capital of Annam at Hué from the hinterland and many of these are probably Viet Minh agents.

The only bright spot in the picture is in the south, where an able colonel and provincial chief are maintaining a disciplined and effective militia.

The American chargé in Saigon describes one of the two generals in Annam as "an incompetent whose mouth is as wide as his fundament," the other as a "bungler." Their headquarters, he says, is "the burial ground of elephants."

6. French may be considering regroupment in Tonkin:

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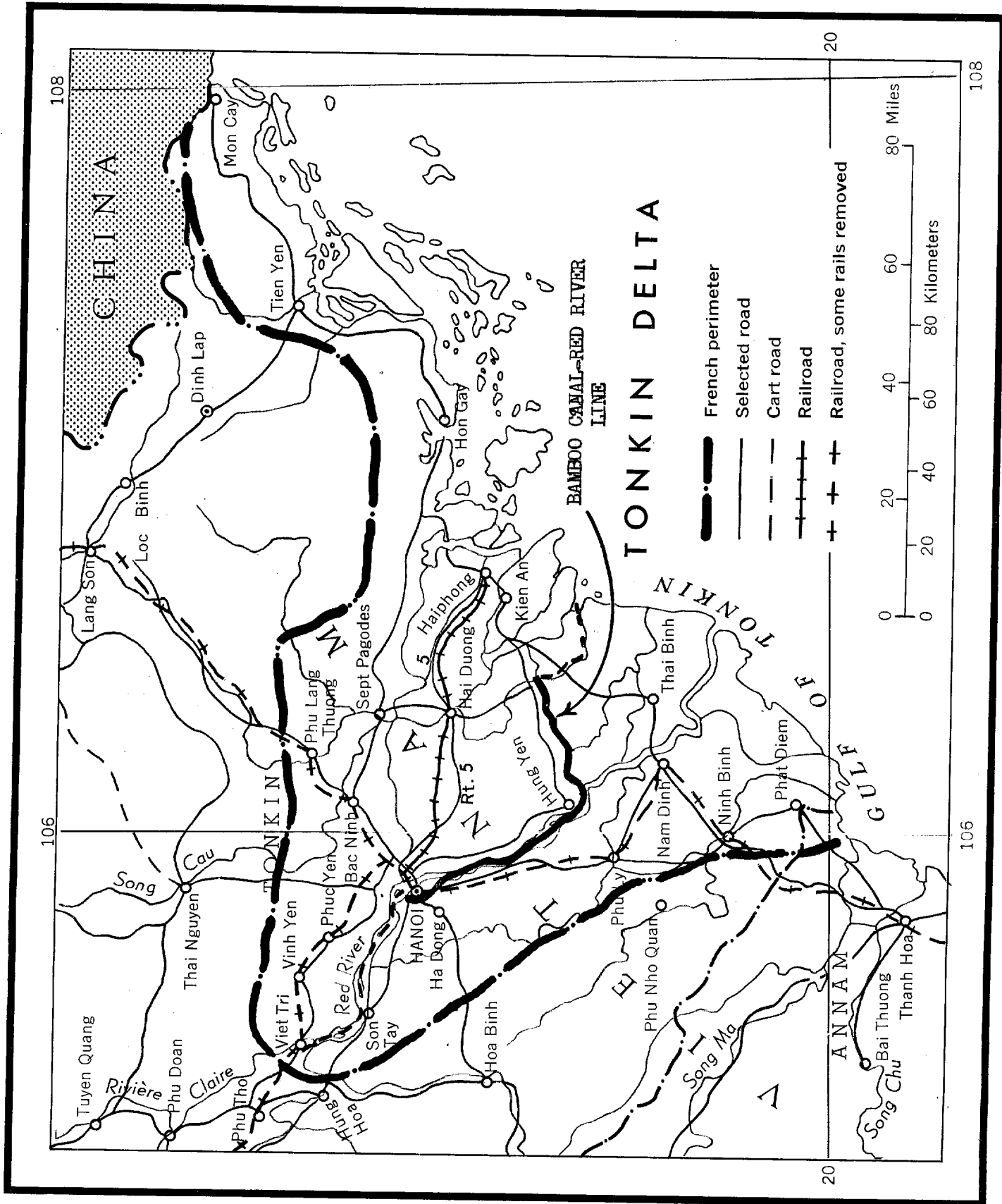


General Cogny recently told the British army attaché that a regroupment of his forces behind the Bamboo Canal-Red River line (see map, page 7) was tactically advisable under present circumstances. Cogny said, however, that he would not take such action "now" because of the adverse effect it would have on civilian morale. He also pointed out that the southern part of the delta, which would be abandoned by the move, was heavily Catholic and the source of the strongest support the French had in Tonkin.

Comment: The American army attaché reported on 20 May rumors that Generals Ely, Salan, Navarre, Pelissier and Hinh have been discussing the advisability of a similar regroupment. Such a step would be tantamount to abandonment of almost half the delta.

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NEAR EAST - AFRICA

7. Turkey declines invitation to Moslem conference on Palestine:

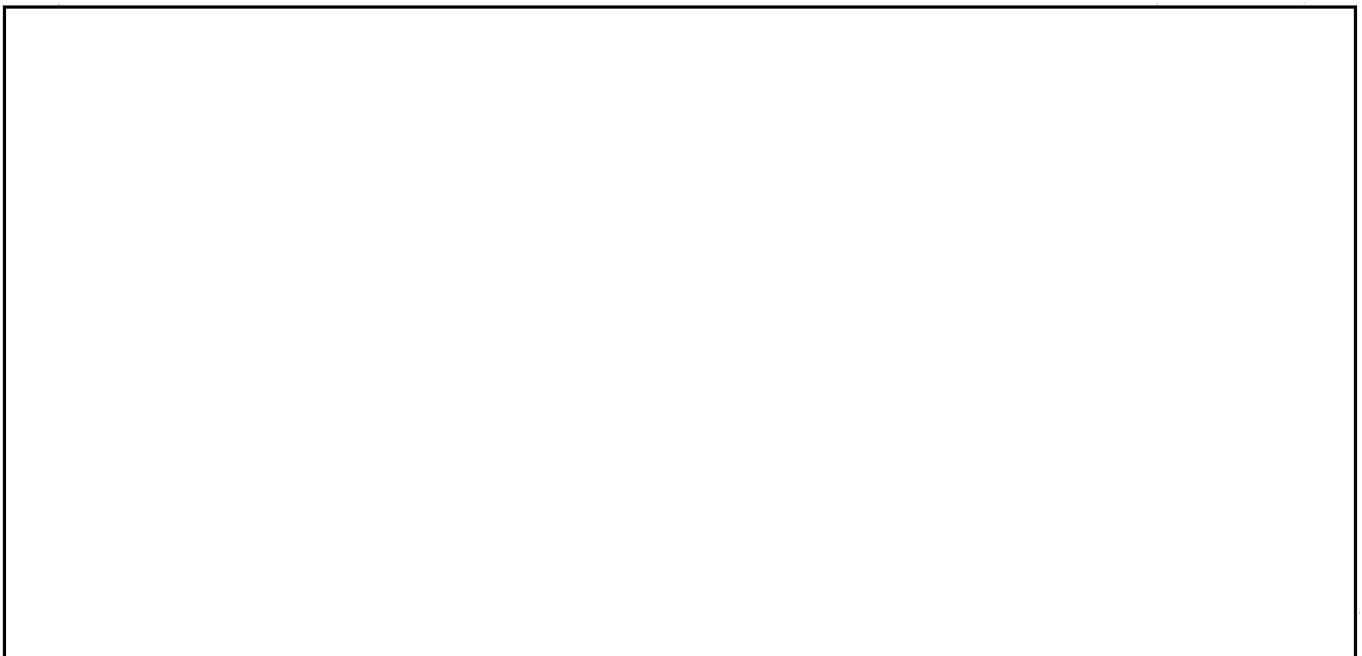
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Turkey is declining Jordan's recent invitation to participate in the proposed Jerusalem conference of all Moslem states--including Afghanistan and Indonesia--on the Palestine issue, according to the under secretary of the Turkish Foreign Ministry. Ankara is notifying Jordan, and informing all the Moslem governments that it opposes such a meeting and believes it would only increase Arab-Israeli tension.

The Turkish notification specifies that means are already available to maintain the Arab-Israeli status quo and expresses willingness to join the American-British-French declaration of 1950 designed to enforce it.

Comment: Turkey decided immediately upon receipt of the invitation not to attend the conference but has been seeking constructive suggestions to include in its answer. Because of Turkish-Pakistani treaty obligations, Ankara has been in a dilemma over Pakistan's suggestion that such a conference be held.



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9. British officials in Egypt urge London to resume Suez talks:

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According to the British minister at Cairo, both the embassy and British military leaders at Fayid recently advised London to resume negotiations with Egypt without further delay.

The embassy believes the Revolutionary Command Council has strengthened its position recently and has shown it can maintain order in the canal zone.

The British Defense Co-ordinating Committee at Fayid recently commented to the War Office that time is running against Britain, and that further delay would generate more opposition to any agreement.

Comment: Despite this strong advice, a decision to resume the Suez talks still appears unlikely as long as Geneva and the Indochina crisis claim the attention of the highest levels of the British government.


EASTERN EUROPE

10. East Germans plan to transport 500,000 to Berlin youth rally:

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25X1A



 the East German railways plan to transport about 500,000 people to the East Berlin youth rally on 4-7 June. For this purpose they will use 200 trains, including 4,410 converted box-cars and 300 passenger cars.

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- 9 -

Comment: Initial estimates of 400,000 participants were lowered when the Free German Youth (FDJ) announced that political reliability would be the criterion for selecting delegates and some FDJ groups were told that because of the lack of reliability of their membership, few, if any, delegates would be sent to Berlin.

The railroad plans now suggest that the rally will rival in size that of 1950, which was attended by about 440,000 delegates, and that the FDJ's criterion of "political reliability" will be loosely applied. [REDACTED]

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WESTERN EUROPE

11. French and West German negotiators agree on new Saar statute:

25X1A

[REDACTED] The Saar agreement which West German chancellor Adenauer and French vice premier Teitgen reached on 20 May provides for Europeanization of the Saar in three stages on the basis of the van Naters plan.

Stage one would put the Saar under the control of the Council of Europe; stage two under the popularly elected European assembly; and stage three under the European Political Community (EPC). Each stage reached is to be irrevocable, and France and West Germany guarantee the settlement pending conclusion of a German peace treaty.

In the economic field, the objective is a gradual grant to West Germany of rights similar to those of France, without jeopardizing economic co-operation between France and the Saar.

Comment: Adenauer may encounter some cabinet opposition to this agreement but there is little doubt that he will be able to get Bundestag support.

Teitgen, although given full powers to negotiate by the French cabinet, is reported "very nervous" as to whether the cabinet will accept this Saar settlement. Now that he has committed the

- 10 -

25X1A

Popular Republicans, the Gaullist ministers may decide to have their major showdown with pro-EDC elements when the Saar agreement is presented rather than later. On similar occasions in the past, however, the Laniel government has not allowed the Gaullists' threats of resignation to deter its progress toward EDC ratification.

12. Virtual accord reached in US-Icelandic talks:

25X1A



The American minister at Reykjavik reports that virtually complete accord has been reached with Iceland on revising the terms of carrying out the bilateral defense agreement of 1951.

The American contractors will be removed this year if possible, and steps will be taken to reduce contacts between Americans and the local population.

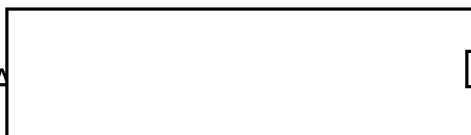
In return, the Icelanders will permit the entry of about 2,000 more American troops, the establishment of two permanent anti-aircraft units, and additional port construction.

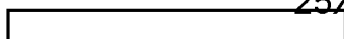
Comment: This understanding eliminates for the time being Iceland's threat to demand a basic revision or termination of the agreement. It does not appear to enhance prospects for the United States' obtaining a second air base. Moreover, difficulties are likely to arise should local firms prove incapable of carrying out defense construction contracts.

LATIN AMERICA

13. Guatemala may request "European technicians" for advice on new arms:

25X1A



President Arbenz is quoted  as stating that he plans to replace the United States military mission in Guatemala with "European technicians and/or pilots," since the Americans "know nothing about the arms now arriving."

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25X1

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Many Guatemalan army officers are said to have "grave misgivings" over the arrival of arms on the Alfhem and to fear that a "large group of Soviet or Satellite instructors" may take over some of their positions. Many officers seem to feel that they should now take a stronger anti-Communist stand.

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The new arms are being divided equally between the two military garrisons in Guatemala City, [redacted]

25X1

Comment: Guatemala has not asked for extension of the United States army and air mission agreements which lapsed over a year ago. Both missions are still in Guatemala and enjoy cordial relations with Guatemalan officers.

The equal division of the new equipment, the type of which is still unknown, between the two regiments in the capital appears designed to prevent either from gaining preponderant strength. It indicates awareness of the decisive role key commanders could play in any attempt to overthrow the government.

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15. United Fruit strike in Guatemala believed linked to strike in Honduras:


25X1A



Ambassador Peurifoy believes that the strike begun on 20 May among United Fruit Company workers on Guatemala's Caribbean coast was called to coincide with labor disturbances in neighboring Honduras. The company's manager earlier expressed fear that a strike might spread to his firm's subsidiary on the Guatemalan Pacific coast. Communist leader Pellecer appears to have instigated the walkout.

On 15 May the workers asked the Guatemalan army to guard the Honduran frontier during the impending strike "to avoid any provocation from abroad."

Comment: This strike, coinciding with the walkouts in Honduras since early this month, confronts United Fruit with its greatest labor tie-up in history. It appears designed to force a general settlement in Honduras on terms favorable to labor.

Most of the north coast region of Honduras remains paralyzed, although settlement was reported in one area on 20 May. No violence has been reported, but the situation is tense. 

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