

This report is divided into two parts:

The first consists of items on situations where developments may occur in the near future.

The second part consists of status reports on other important situations where critical developments are not expected immediately.

DIA review(s) completed.

ARMY review(s) completed.

State Dept. review completed

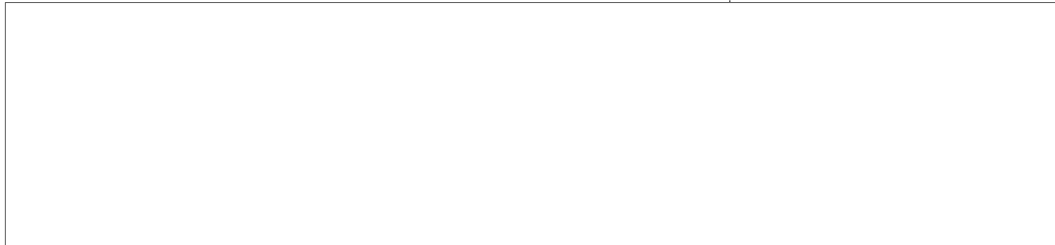
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PART I



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The Costa Rican rebels are believed to have suffered a serious blow with the recapture of the town and airstrip at Villa Quesada by government forces on 12 January.

HAMMARSKJOLD REPORTED "MODERATELY OPTIMISTIC" Page 7

The UN secretary general is reliably reported to be "moderately optimistic" about a favorable outcome in the American airmen's case.

PARIS ACCORDS STILL FACE MAJOR DIFFICULTIES Page 8

Approval of the Paris accords still faces two major difficulties: Mendes-France's desire for talks with the USSR and WEU opposition to his plan for an arms pool.

FRENCH PLANNING ANEW TO OUST PREMIER DIEM Page 9

The French apparently intend to reopen their campaign to get rid of Premier Diem.

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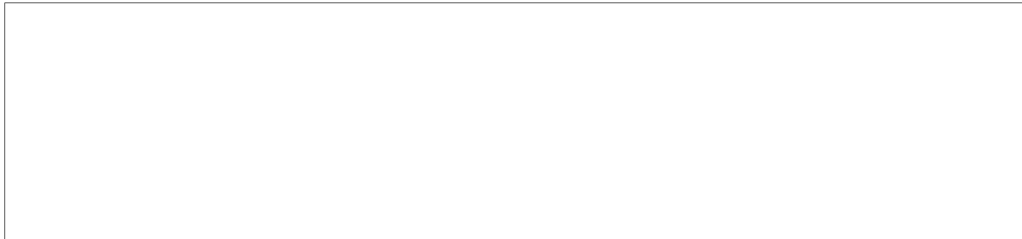
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COSTA RICAN REBELS FACE
DETERMINED RESISTANCE

The Costa Rican rebels who began action against the government of José Figueres early on 11 January are believed to have suffered a serious blow with the recapture of the town and airstrip at Villa Quesada by government forces the next day. Rebel forces, however, have made new incursions along the Nicaraguan border, in the extreme northwest of the country, and the government had not gained control of the situation early on 13 January.

The American army attaché noted in December that a revolutionary movement beginning in the northwest would be unfeasible and that the terrain between there and the capital was easily defensible.



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The Venezuelan and Nicaraguan governments-- from which the rebels are believed to have obtained material support--are unlikely to commit their own forces openly.

The arrival of the special investigating committee of the Organization of American States in Costa Rica on 13 January may cause the rebels to be denied their air bases in Nicaragua and prevented from using bases elsewhere outside Costa Rica. This would make it impossible for the rebels to use planes unless and until they could capture a base in Costa Rica itself and would deprive them of a major psychological as well as military advantage.

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HAMMARSKJOLD REPORTED
"MODERATELY OPTIMISTIC"

First reports on the results of the Hammarskjold mission support earlier indications that Peiping intends to hold for some time the 11 American airmen imprisoned as "spies," but that the door remains open for a settlement.

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several Chinese Communist statements that Peiping could not be "intimidated" into releasing the airmen but that their cases might be "reviewed."

There is a conflict between reports on the relationship of the case to other questions. Hammarskjold's aide has said that Chou was tying the airmen's case to a "whole complex of questions at issue." Officials in Tokyo report, on the other hand, that Chou did not relate the case to any other issue.

Until these contradictory reports are clarified, it will remain uncertain whether Peiping hopes to bargain with the United States on the case. Peiping's propaganda has consistently suggested that a settlement might be sought on the basis of American compromises on such issues as China's seat in the UN, American-Nationalist operations, Chinese prisoners of the Korean war, and Chinese students in the United States.

In any case these larger questions may arise in any future negotiations on the airmen. Meanwhile, Peiping might seek to stimulate negotiations by soon freeing some American citizens not charged with espionage.

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PARIS ACCORDS STILL FACE
MAJOR DIFFICULTIES

Prospects for approval of the Paris agreements by the French Council of the Republic are worsening but chances of a favorable vote are still at least slightly better than even.

Two major obstacles are apparent: Mendes-France's desire for talks with the USSR and opposition to his plan for an arms pool.

If Mendes-France goes ahead with his plan to invite the Soviet Union in the near future to a conference to follow ratification of the Paris agreements, the USSR will skillfully exploit the invitation to delay or complicate the completion of French ratification.

The French Council of the Republic may throw the accords back into the National Assembly unless agreement assuring strong controls over West German rearmament--an uncertain prospect at present--is in the offing by late February.

The idea of strong controls over West German rearmament is politically popular in France. Premier Mendes-France hopes to ensure council approval of the accords by winning assent from his Western European Union partners--which now have many objections--for an arms pool plan which would place all Western European Union arms production under supranational regulations.

Though enough progress will probably be made by the WEU working group to convince the senators that further delay is unwarranted, time is running against the Paris accords--as well as against Mendes-France's tenure in office. If the council refuses to approve the accords because of qualms over the arms production pool, reapproval by the assembly in new balloting would be doubtful.

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FRENCH PLANNING ANEW
TO OUST PREMIER DIEM

The French apparently intend to reopen their campaign to get rid of Premier Diem.

In Paris, the minister for the Associated States said last week that Bao Dai's immediate return seemed to offer the only workable solution. He also said the French were thinking in terms of Tran Van Huu as premier and Nguyen Van Tam as interior minister.

Bao Dai's prestige in Vietnam is, however, at an all-time low. Moreover, neither Huu, an advocate of "coalition" with the Communists, nor Tam, a French stooge, has any popular support.

A recent tour of the provinces by Diem which brought a strongly favorable popular reaction was unreported in the French press.

A minute of understanding agreed to by General Collins and General Ely on the training of Vietnamese forces was, after considerable delay, virtually rewritten in Paris. General Collins recommends against accepting it in its present version. He thinks the French are deliberately stalling in approving the points he and Ely had agreed on.

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PART II

STATUS REPORTS
ON OTHER SITUATIONS

Threat to Tachen Islands: Chinese Communist air and sea attacks on Nationalist naval vessels in the Tachens on 10 and 11 January were the heaviest yet staged. At least two ships were lost and four others damaged. All of the Nationalist vessels assigned to the Tachens were forced to withdraw. Lacking air and naval support, and with newly arrived troops garrisoning the islands, the Tachens were left wide open to a Communist attack.

There are two deterrents to an early Communist assault on the Tachens, however. Major naval forces of the US Seventh Fleet have been ordered to the area; past appearances of the fleet have quieted Communist activity along the island front. Moreover, high winds are reported in the Tachens area, and the heavy seas now running would make an amphibious operation very difficult.

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Indonesia: The Indonesian government will try to make political capital in the coming months out of what they call the "Dutch-sponsored" security problem in the South Moluccas. By claiming Dutch interference in an area not far from Netherlands New Guinea, Indonesia hopes to demonstrate the necessity for transferring New Guinea to Indonesian sovereignty.

The extent of chronic dissidence in the South Moluccas is small but increased enough to lead to the reimposition of a state of emergency on 5 January. The government has approximately 2,600 troops and police in the area and is sending no troop reinforcements.

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In Djakarta, meanwhile, President Sukarno's presence and speech at a completely Communist-dominated function on 9 January points toward an ever increasing tolerance of Communist activity between now and elections in late 1955. Sukarno spoke at a reception which opened the second national conference of SOBSI, Indonesia's largest labor federation. The chairman of SOBSI is a member of the Communist Party Central Committee.

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The Afro-Asian Conference: Communist China and the Colombo powers--India, Pakistan, Ceylon, Burma, and Indonesia--are still the only countries which have committed themselves to attend the Afro-Asian conference in Indonesia next April. It is quite possible all other invitees will ultimately decide to attend. Even Thailand, the only country thus far to register a definitely negative reaction, is having afterthoughts and may well change its mind.

No agenda has been adopted for the conference. Under these circumstances the Bandung gathering will offer a sounding board for any nation with a grievance to air. The Arab states may sound off on the Palestine issue and North African problems, Afghanistan on Pushtoonistan, India on racialism in South Africa, and Indonesia on its claim to Dutch New Guinea. The neutral countries--India, Burma and Indonesia--may be expected to promote the idea of "peaceful coexistence," particularly as between Communist China and the West.

Peiping is claiming for its part that colonialism will be the main issue at the conference and that the chief purpose of the meeting is to expand the "peace area." The Chinese Communist delegation can be expected to exploit these issues and may make an effort to bring North Korea and perhaps the Soviet Union into the conference.

The anti-Communist states will have to consult closely if they are to prevent China's Chou or India's Nehru from dominating the proceedings and associating the conference results with their objectives.

The anti-Communist delegations will be better able to do this if Chou and Nehru become rivals in efforts to dominate the meeting. Chou, however, is likely to try to attune his approach as closely as possible to that of India and Burma so as not to arouse these two countries' antipathy or to give grounds for hostility among the other representatives.

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French North Africa: Armed attacks by terrorists and "counterterrorists" in French Morocco continue at a high rate, [redacted]

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French indecision or inability to deal with the Moroccan problem, except by police reorganization, is gradually turning the area into a "political jungle," according to the American consul general in Rabat.

The consul general says that the situation provides fertile ground for Communist propaganda, --for example, the argument recently advanced that independence can only be acquired by fighting the French and that "unconditional assistance" will be provided by the "partisans of peace and liberty," headed by the USSR.

Premier Mendes-France considers conclusion of current French-Tunisian negotiations essential before France's Moroccan policy can be reviewed. The Tunisian negotiations appear to be stalled once again. The premier has shown no signs that

he envisages any substantial changes in policy for Morocco.

Despite the increasing tensions, French security forces in the area should be sufficient to contain demonstrations, but further isolated incidents are likely to occur.

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Yugoslav-Viet Minh Relations: The Viet Minh may now try to establish relations with Yugoslavia. Belgrade will undoubtedly expect the Viet Minh to take the initiative, as Peiping recently did, so as to compensate for its sharp rebuff of Yugoslavia's offer to establish relations with the Ho Chi Minh regime in 1950.

The Soviet-directed campaign for "normalization" of Orbit relations with Belgrade made a major advance with the joint announcement on 9 January that Communist China and Yugoslavia had agreed to establish diplomatic relations.

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Panama: While the situation in Panama appears quiet, differences within President Guizado's political coalition are already evident, and the coalition may eventually dissolve into personal factions. Continued support of Guizado by the National Guard, Panama's only armed force, is problematical, and rivalry may be developing between the two top commandants of the guard.

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Laos: During the next several weeks, the Communist-backed Pathet Lao organization will probably exert increasing pressure on the royal government to accept the principle of a special status for Pathet Lao armed forces and officials.

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[redacted]

[redacted] open clashes with government forces are frequent. Faced with the threat of an extension of guerrilla warfare, the government may feel obliged to conclude a hasty political settlement.

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US Consulate in Hanoi: The American consulate in Hanoi is under constant surveillance by the Viet Minh and written notes are taken on the comings and goings of all personnel. The Viet Minh's differing attitudes toward the Americans and the other diplomatic and consular representatives in Hanoi are resulting in the increasing isolation of the American representatives.

Viet Minh authorities insist on dealing with consulate personnel as unofficial foreign residents, but have made no move to prevent the consulate from flying the American flag [redacted]

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It is possible that the Viet Minh, at least for the time being, intends to avoid action against our consulate which would provide the United States with grounds for a public complaint or which might cause the International Control Commission to raise its eyebrows.

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Note: There are no significant new developments to report this week on the following situations:

Arab-Israeli Dispute

Possible Schism in Egypt's RCC

British-Arab Oil Dispute

Greece

"Liberation" of Formosa Plans

Egypt and the Sudan

Syria

Burma

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