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22 June 1954

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3.5(c)

3.3(h)(2)

Copy No.

80

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 24
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 2/1/80 REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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FAR EAST

1. The 1954 Chinese Communist budget:

The budget for the calendar year 1954, belatedly adopted by the Peiping government on 17 June, provides for record expenditures of 249.5 trillion yuan, the equivalent of \$10.4 billion, and for revenues of 274.7 trillion yuan (\$11.4 billion). Estimated current expenditures are to exceed last year's by 16 percent, the increase to be entirely in nonmilitary fields. The military establishment is to cost \$2.2 billion this year, or 21 percent of the total budget.

Although expenditures as a whole last year were reportedly 8.4 percent under original estimates, last year's actual military outlays were "somewhat higher"--about \$0.3 billion higher--than the budgetary estimate of \$2.2 billion published in February 1953. The chief reason for this, according to Peiping's minister of finance, "was that in the first half of 1953, the United States attempted to enlarge the Korean war, and we had to adopt effective measures to deal with any situation that might arise."

Comment: The admission by Peiping that nonmilitary programs last year were cut back by a large amount, while military costs exceeded original estimates, strengthens other indications that an extensive shift in emphasis from economic to military programs occurred after the 1953 program was published in February.

The final figures for 1953 show a concealed surplus of \$0.6 billion more than was actually specified, thus suggesting that economic plans suffered more from technical and material difficulties than from financial stringency in their implementation.

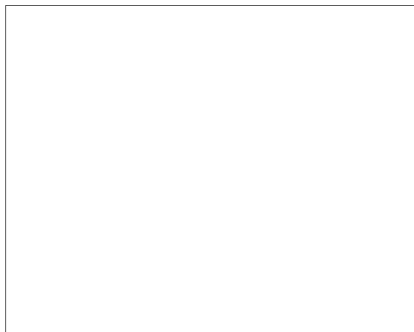
Despite the decline planned for military outlays this year, it is estimated that, with military expenditures concealed in other categories of the budget--such as those for arsenals--something more than \$3 billion a year is being expended on military items. This rate of expenditure is not expected to change substantially through 1957, the last year of Communist China's first Five-Year Plan.


2. Comment on Peiping's abolition of regional administrations:

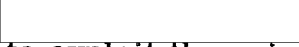
Peiping's decision on 19 June to abolish regional administrative committees and to control provincial governments directly is in line with the recent emphasis on the danger of private empires or "independent kingdoms." The elimination of these posts will restrict the authority of the six major regional leaders and their lieutenants, including many key party and military figures.

There have been indications for more than a year that the "reorganization" of the party, under way since 1951, would extend into its high command during 1954. Some of the regional leaders affected by the 19 June decision, such as Kao Kang in North-east China, have not appeared publicly for several months and may already have fallen from favor. The great majority of regional leaders, however, are expected to retain important positions.

On the provincial level, Peiping's decision provided among other things for the incorporation of Ningsia into Kansu and that of Sungkiang into Heilungkiang. It also reconstituted Liaoning by combining Liatung and Liaosi (see map, p. 5). Municipalities under the direct control of the central government will be returned to provincial administration except for Peiping, Tientsin, and Shanghai.

**SOUTHEAST ASIA****3. Recent coup attempt in Laos believed supported by Laotian Communists:**

The abortive coup in Laos on 16 June was attempted by "Free Laotians"--a term heretofore applied to the Communist movement in Laos--in addition to followers of Prince Petsarath, 

 The former were trying to exploit the prince's prestige to undermine

[Redacted]

the government during the Geneva conference. There was apparently no bloodshed and most of the rebels were arrested.

[Redacted]

believes that, provided no more French troops are withdrawn and the Tonkin delta is held, the military situation in Laos will remain static. If the delta falls, one Viet Minh division could conquer Laos at least as far south as Thakhek, the chargé states.

[Redacted]

reports "good" indications the Viet Minh is building and improving roads between Tonkin and the Viet Minh-controlled sector of Laos. The Viet Minh is apparently planning either a limited attack in Laos during the rainy season, or more probably, a full-scale invasion in the fall.

[Redacted]

4. Vietnamese officer foresees loss of five south Vietnamese provinces:

[Redacted]

[Redacted]

that security in five once-safe provinces in that area has deteriorated so markedly during the last half year that without immediate remedial action "all would be lost" within two or three months.

Among the causes cited were the poor pay and inadequate arms of the local militia and the corruption or incompetence of provincial governments. In addition, the Vietnamese army was "concerned much more with tailoring of uniform and unearned decorations than with its primary purpose of combating the Communist enemy."

[redacted] indications [redacted] support the probability of increased activity during the rainy season throughout most of the Tonkin delta. The greatest increase is expected in the southern sector. Intensified activity is to take the form of sabotage, ambushes, attacks on the Hanoi-Haiphong axis, and assaults on isolated posts.

WESTERN EUROPE

5. Triestines may demonstrate to block any partition agreement:

[redacted] The local political parties in Trieste may organize popular demonstrations in an attempt to keep the Italian government from agreeing to a Trieste settlement based on partition of the Free Territory, according to American political adviser Higgs.

While the Trieste population is remaining outwardly calm, Higgs believes there is deep concern over press reports that a settlement dividing the Free Territory may be imminent. Party leaders of all shades are showing signs of planning an active campaign against partition.

Higgs notes that in the past the effectiveness of pro-Italian "popular demonstrations" has been dependent upon the degree of support received from Rome.

Comment: While the moderate pro-Italian center parties in Trieste oppose partition and would probably demonstrate in protest following any announcement to this effect, this is the first report that they might do so in advance. Rioting--the normal outgrowth of "demonstrations" in Trieste--at this time would seriously jeopardize current efforts to conclude a Trieste settlement.

An official of the Italian Foreign Ministry informed the American embassy on 18 June that the Italian political adviser in Trieste would try to convince the Trieste parties that demonstrations would be harmful. Rome will probably discourage demonstrations as long as it sees any possibility of finding a Trieste settlement satisfactory to Italy.

6. Bonn adopts "wait and see" attitude toward Mendes-France:

[REDACTED] Bundestag deputies of the West German government parties now appear to be adopting a "wait and see" attitude toward the investiture of Mendes-France as French premier, according to American officials in Bonn. The majority Christian Democrats have no plans at present for formally requesting that the Bonn and Paris treaties be separated in order to facilitate the end of the occupation.

All coalition deputies canvassed by the American officials stressed that if France has not ratified the treaties by October, Chancellor Adenauer will be forced to take the initiative in breaking the deadlock on West German sovereignty and rearmament.

Comment: The 27 June state elections in North Rhine-Westphalia may have considerable influence on the attitude of the coalition parties on Adenauer's EDC policies. If the outcome is fairly favorable for Adenauer's party, his parliamentary support will tend to wait for him to set his own pace in considering alternatives to EDC.

7. Mendes-France's views on Indochina and EDC:

[REDACTED] French premier Mendes-France told Under Secretary Smith on 20 June that it was essential to end the Indochina war promptly. He added, however, that he would not under any circumstances accept a settlement which constituted a surrender to the Viet Minh.

The premier said he planned to confer with Chinese Communist foreign minister Chou En-Lai, at Chou's suggestion. He would try to arrange the meeting for some place other than Paris or Geneva, Mendes-France said, in order to reduce Communist propaganda exploitation of the encounter to a minimum and to avoid giving the impression that the meeting was a step toward French recognition of Communist China.

The premier said he expects to have considerable difficulty in getting the new Vietnamese government to accept any agreement he reaches with the Viet Minh on Indochina.

The premier argued that an Indochina settlement would greatly help in obtaining ratification of EDC, since the return of the French expeditionary force would make more Frenchmen willing to agree to German rearmament as provided for in EDC. Moreover, an Indochina settlement would greatly enhance his prestige and thus enable him to ask the National Assembly to take a decision which it might otherwise be unwilling to do.

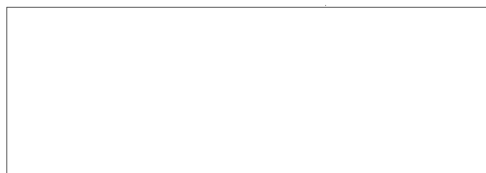
Mendes-France said that he strongly favors the movement for European unity in every field. He feels, however, that it would be unfortunate if the assembly voted for EDC by a narrow majority and over the opposition of an embittered minority. He therefore intends, he said, to try to form a large majority for the treaty by uniting those who believe in European unification and those who are prepared to accept German rearmament.

Such a majority could be formed, he believes, if certain changes were made in EDC. If he could obtain French ratification by a large majority, he would then feel that he was entitled to ask France's partners to accept the changes, since France's wholehearted and enthusiastic support for EDC would be guaranteed.

The premier said he would hope to put the treaty to a vote before the summer recess.

LATIN AMERICA

8. The situation in Guatemala:



The American embassy in Guatemala reported at 4:00 p. m. on 20 June that "rebel forces" were operating in eastern and northeastern Guatemala, in some cases near the Honduran frontier, but that they were not known to hold any important towns. The embassy could not substantiate

reports that an "invasion" had occurred or that uprisings had taken place. The embassy said that both the Guatemalan government and Castillo Armas' "Radio Liberation" were disseminating highly exaggerated rumors.

The embassy was informed that two troop trains had left Guatemala City in the direction of Zacapa on 19 June.

Comment: To date there is no information on the stands taken by top Guatemalan army officers, and there is no reliable evidence that any major armed clashes have occurred between the opposing forces.

A government radio broadcast late on 20 June called on all labor unions to submit membership lists so that "a civilian army can be organized to defend the capital."

Further defections among air force officers have been reliably reported.