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SOUTHEAST ASIA

1. Bao Dai extends authority of quasi-gangster group:

An examination of Bao Dai's recently published decrees of 30 May on municipal reorganization in Vietnam reveals that the underworld Binh Xuyen organization already in control of the national police, has been given a tight grip on the administration of the major urban centers of Vietnam, according to the American chargé in Saigon.

The net effect of these decrees is to vitiate the so-called "full powers" which Bao Dai is reported to have given his premier-designate, Ngo Dinh Diem. The honest but naive Diem, the chargé states, will be helpless against corruption which he cannot touch, since the Binh Xuyen will be beyond his control. He suggests that Bao Dai's motive may have been the familiar one of discrediting the prime minister in order to demonstrate his own indispensability.

Comment: Bao Dai's authorization for overt manipulation by the Binh Xuyen of all municipal affairs is certain to further the disillusionment and embitterment of capable Vietnamese whose support the Vietnamese regime so sorely needs.

2. Two Viet Minh divisions alleged alerted for possible move against delta:

The American army attaché in Saigon states the French have information from what they term a very poor source that the Viet Minh 308th and 312th Divisions, located to the north and west of the Tonkin delta perimeter, have been alerted for a possible move against the delta.

The attaché also reports that "important" Chinese aid is now entering Tonkin, according to the French, and border depots are at a high level. In addition to the shipments of recoilless guns and rocket launchers previously reported, recent aid has included mortar ammunition in quantities termed "enormous."

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Comment: While the Viet Minh battle corps' capability to mount attacks on the delta with virtually no notice is generally accepted, elements of its 304th Division appear to be the only units being introduced into the delta. The major reason for committing the battle corps at this time would be to threaten the French expeditionary force, thereby hastening French capitulation at Geneva. The delta, except for the Haiphong beachhead, may well fall into Viet Minh hands within a relatively short period through a process of piecemeal strangulation abetted by French withdrawals.

WESTERN EUROPE

3. Widening American-British rift over trade controls foreseen:



Ambassador Hughes in Paris concludes from the negative results of the American-British-French strategic controls review of the past week that "we seem to be heading for failure at the 8-9 July Consultative Group meeting." He comments that, regardless of how such failure may be glossed over, the British-American rift will have a "demoralizing impact" on the COCOM working level, already shaken by its own inability to reach agreement in the important fields of shipping and transit trade controls.

The British delegates have revealed privately to the American delegation that, in view of the rigidity of the United States position, the full flexibility of their own instructions had been nowhere near disclosed. London had finally instructed them in effect to discontinue the review. The American delegation reports its position was received with some bitterness by the British, though with sympathy by the French.

Comment: The United States delegation reported on 23 June that the British had entered the talks on 21 June with confidence that Washington wished to negotiate a "package" settlement, but had reacted sharply against the American "freeze" on further relaxation of trade controls.

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LATIN AMERICA

4. Demoralization reported in Guatemalan government and army:

Foreign Minister Toriello and other government officials were reported on 24 June by businessmen in Guatemala City to be losing confidence in the government's ability to defeat Castillo Armas. In contrast to their previous attitudes, they were showing fear and nervousness.

Colonel Carlos Aldana Sandoval, minister of communications, spoke despairingly of the situation [redacted]

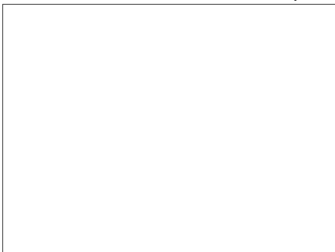
[redacted] He said the government was rapidly disintegrating into mutually hostile factions, each attempting to absolve itself before the government collapsed. The American embassy comments that Aldana is not among Arbenz' close advisers, may be embittered, and obviously fears designs on his life from both Communists and anti-Communists.

Guatemalan army officers are reported by other sources to be "slowly realizing" the extreme gravity of the situation and are becoming convinced that getting rid of President Arbenz and the Communists would be "an easy way out." A group of high-ranking officers are said to be waiting orders from their unidentified leader to oust Arbenz. The American air and army attachés in Guatemala report, however, they could see no evidence of defections from the Guatemalan army up to 25 June, although reports of high-level personal frictions are increasing.

Comment: Refusal of the United Nations on 25 June to consider the Guatemalan appeal until the OAS makes its own report will probably further weaken the confidence of government and army leaders.

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LATE ITEM

5. Guatemalan Army takes over Government from Arbenz:


On 27 June pressure from Guatemalan army leaders forced President Arbenz' resignation and Chief of the Armed Forces Colonel Carlos Enrique Diaz assumed control of the government.

During the afternoon of 27 June Colonel Diaz requested two meetings with Ambassador Peurifoy. In the first meeting, Diaz informed the ambassador that in order to bring the fighting to an end he was prepared to take over the presidency and clean out the Communists from the government. He asked that the United States use its good offices to stop the fighting. In the second meeting, Diaz informed the ambassador that he had just told President Arbenz of the army's unanimous desire for Arbenz' removal from office. Arbenz had replied that he would not try to continue without army support. Diaz gave his word of honor, at Arbenz' demand, not to enter into negotiations with the rebel leader Castillo Armas.

In a ten minute radio speech that evening, Arbenz announced the transfer of power to Diaz. He condemned the United Fruit Company and "U. S. ruling circles" for unleashing the "cruel war against Guatemala" on the "pretext of Communism," but declared that "unless we do away with our powerful enemies' pretext, Guatemala might be destroyed." He promised, however, that under Colonel Diaz "all social conquests will be kept" and asked "all democratic political and popular" organizations to give Diaz their full support. He then expressed the opinion that "the military situation is not difficult, not at all," and that the "enemy, commanding barbarous mercenaries, is incompetent, cowardly."

Following Arbenz on the radio, Diaz appealed for popular support while assuring his Guatemalan listeners that the "struggle against the invaders will continue implacably" and that the "acquisitions of democracy" will be maintained.

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