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CENTRAL INTELLIGENCE AGENCY

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SUMMARY

GENERAL

- ✓ 1. Chou En-lai opposed to transfer of prisoners to United Nations (page 3).
- ✓ 2. French Foreign Ministry disapproves Western initiative on East-West problems (page 3).
- ✓ 3. Soviet diplomat comments on East-West issues (page 4).

FAR EAST

- 4. Possible Chinese Communist invasion of Tachen Islands indicated (page 5).

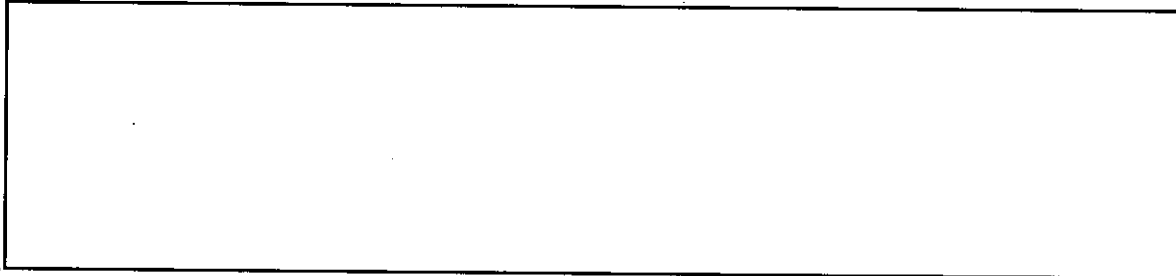
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SOUTHEAST ASIA

- 6. Bao Dai plans ultimatum to French on Vietnam army build-up (page 6).

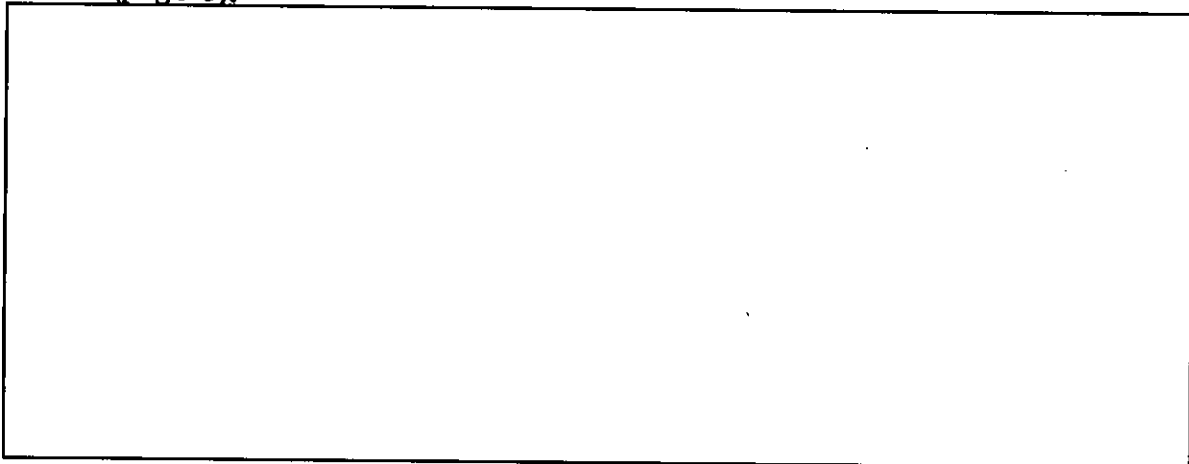
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WESTERN EUROPE

- 9. Preliminary Yugoslav-Italian talks on Trieste reportedly stalled (page 8).

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GENERAL

1. Chou En-lai opposed to transfer of prisoners to United Nations:

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After a two-hour conversation with Chou En-lai on 26 May, the Indian ambassador in Peiping informed his British colleague that the Chinese premier seemed genuinely interested in a peaceful solution but was "firmly opposed" to entrusting to the United Nations the fate of prisoners who remain unwilling to be repatriated. Chou was "obdurate" on the latter point and rejected the ambassador's counter-arguments.

Comment: When the new UN truce proposals were presented on 25 May, the senior Communist negotiator stated that the proposals for the ultimate disposition of prisoners unwilling to return-- either to release them in Korea or to transfer the issue to the UN General Assembly--"could not be agreed to."

At the 1 June meeting in Panmunjom, the Communists are expected to reject officially this critical point in the UN proposals and to reaffirm their demand for indefinite consideration of the prisoners issue by a political conference where the prisoners' release could be blocked. In view of Nehru's recent public endorsement of the UN's proposals, the Communists may no longer regard favorably a possible alternative proposal for disposition of the prisoners by majority vote of the five-nation custodial commission.

2. French Foreign Ministry disapproves Western initiative on East-West problems:

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French Foreign Ministry experts on the Soviet Union, including Ambassador Joxe, think that the present Western "impatience" for talks with the USSR is "most unfortunate." They feel Moscow should be forced to take the lead in any overtures.

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The Foreign Ministry spokesman who relayed these views to Ambassador Dillon believes that there will be leaks of any disagreements at the forthcoming Bermuda talks. Although a final agreement to make concessions to the Russians would be "ill advised," the absence of one would be condemned by Western public opinion as "intransigence."

The French official agrees that it would be desirable to avoid any linking of the three-power talks to four-power talks, but believes that this connection would be impossible to avoid.

3. Soviet diplomat comments on East-West issues:

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 The first secretary of the Soviet embassy in London told an American embassy officer that the Austrian question must be settled in connection with the German problem. He said that Secretary Dulles had overemphasized the Austrian treaty as evidence of the USSR's peaceful intentions.

He personally saw no reason why Germany could not be unified on the basis of the Oder-Neisse frontier and with general elections on a proportional basis for East and West Germany, without outside influence.

The secretary also said he was convinced that there would be an armistice in Korea. He pointed out that the hostilities in Korea had been a severe drain on the USSR and China as well as the US.

Comment: The secretary's remarks suggest that the USSR is trying to create the impression that it is still willing to settle outstanding East-West issues despite recent difficulties over Austria and Korea.

- 4 -


25X1A

FAR EAST

4. Possible Chinese Communist invasion of Tachen Islands indicated:

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 indications of an imminent Chinese Communist operation against the Tachen Islands. Transport planes have appeared in the nearby Choushan Islands, Communist naval units in the Choushans have been strengthened and are more aggressive, and Ningpo airfield on the mainland opposite the Tachens is now operational.

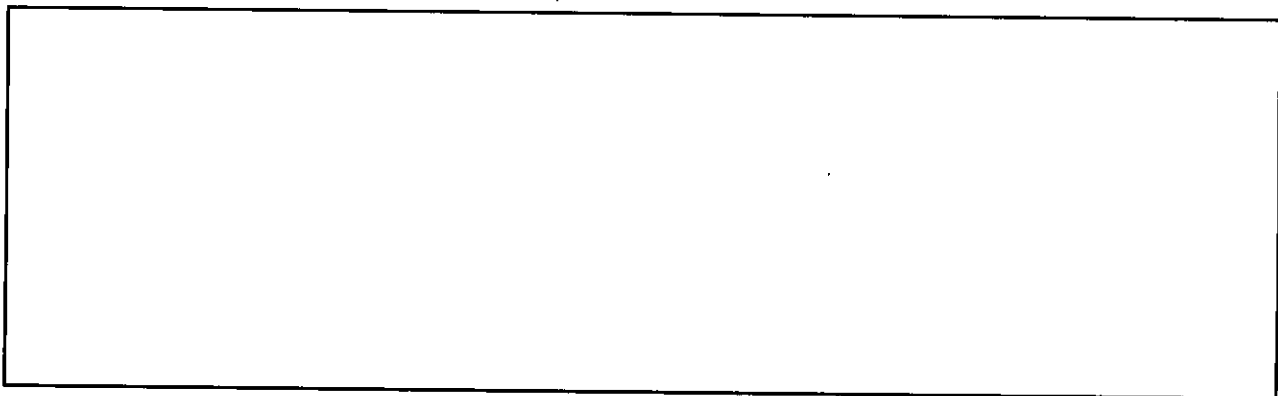
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In addition, an individual arrested in the Tachens recently allegedly carried documents describing landing sites in the islands.

Comment: The Tachens, the northernmost of the Nationalist-held islands on the China coast, lie about 200 miles south of Shanghai. About 6,000 Nationalist troops, 2,000 marines and 10,000 guerrillas are available for their defense.

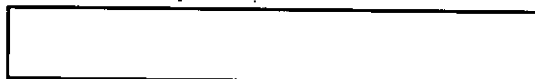
A Chinese Communist invasion of the islands was reported as imminent at this time a year ago and has been reported four times since February. Chinese Communist forces along the Chekiang coast now number at least 70,000 men and could capture the islands whenever they care to make the effort.

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- 5 -

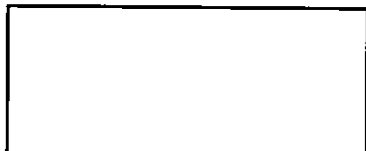
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SOUTHEAST ASIA

6. Bao Dai plans ultimatum to French on Vietnam army build-up:

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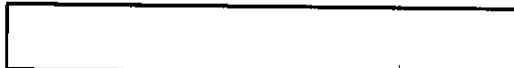
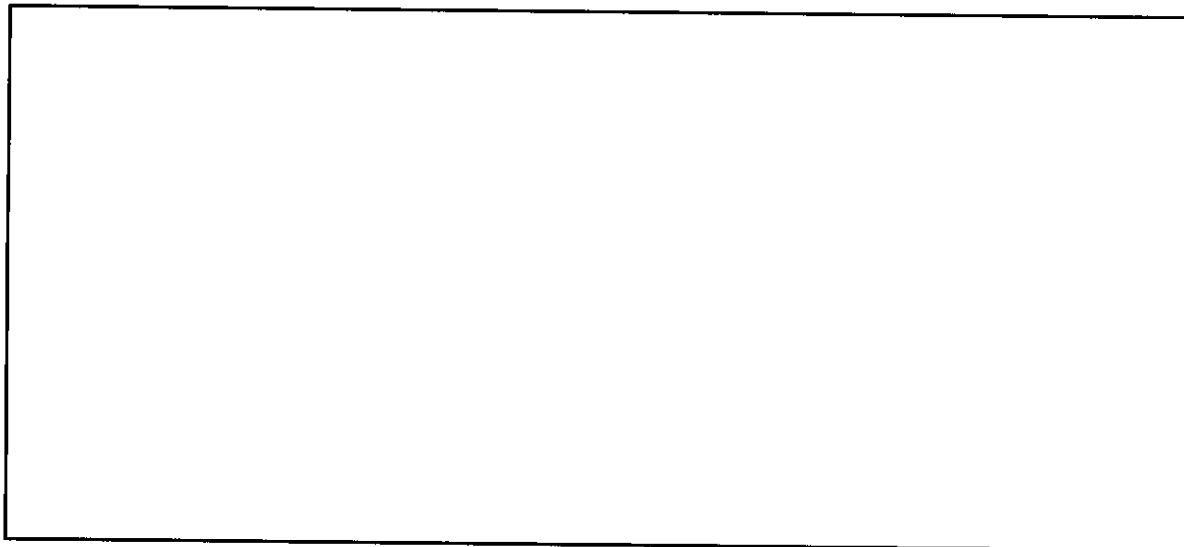
Vietnam's new defense minister has informed the American consul in Hanoi that Bao Dai is currently working on a plan for a Vietnamese army of 500,000 within the next three years.

Bao Dai reportedly stated that the present Vietnamese military establishment is stagnating and that the time has come to make a "last offer" to the French, indicating that unless they support his army plan, he will turn to the United States.

Comment: The French-Vietnamese program for the build-up of the Vietnam army is considerably behind schedule. Bao Dai's principal purpose in making demands on the French is probably to strengthen his political position in Vietnam.

Assuming adequate foreign aid, a Vietnam army of 500,000 is conceivable, but unless the government gains greater popularity the reliability of such an army would be questionable.

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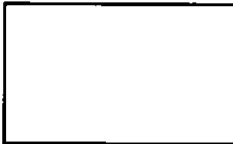
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WESTERN EUROPE

9. Preliminary Yugoslav-Italian talks on Trieste reportedly stalled:

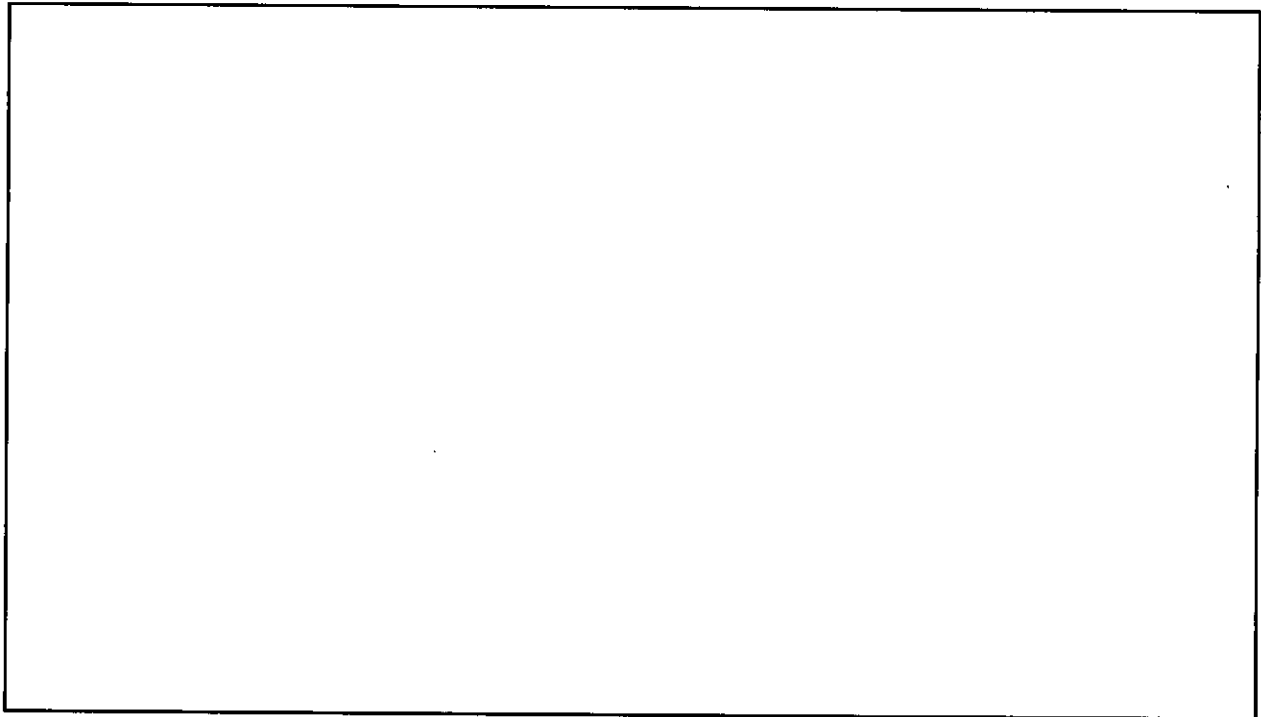
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In reply to a Yugoslav approach to Italy offering a settlement of the Trieste question along the present zonal boundaries, the Italian Foreign Office countered with a plan which would cede Zone A and the coastal strip of Zone B to Italy. Following this meeting on 22 May, the Yugoslav negotiator reported that nothing had been accomplished and that previous progress was jeopardized.

Comment: Italian officials view the Yugoslav approach as a maneuver to relieve American pressure on Tito for concessions on Trieste before the Italian elections. In the light of Yugoslavia's previous conditions and its obvious apprehension over assumed Western plans for a solution favorable to Italy, the sincerity of the Yugoslav approach is questionable.

25X6



- 8 -

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