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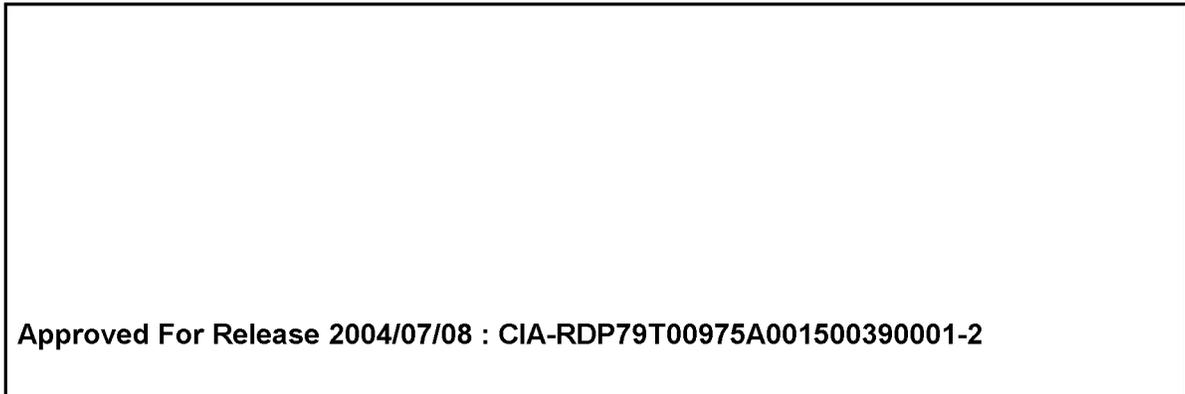
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GENERAL

1. Large-scale Chinese intervention in Indochina seen as future possibility:

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The Peiping People's Daily, in commenting on the Indochina situation on 21 April, said that Communist China "will not take it lying down if anyone else's armed aggression is directed against us." The American consul general at Hong Kong, in reporting this, recalls Chou En-lai's statement just before the Chinese intervention in Korea that "the Chinese people absolutely will not tolerate foreign aggression, nor will they tolerate seeing their neighbors savagely invaded by imperialists."

The consul general concludes that direct, large-scale Chinese intervention in Indochina seems very unlikely at this time, but that it "could not be completely ruled out if American participation were greatly increased."

Comment: There is an important difference between current Chinese Communist statements and those made in autumn 1950. At that time American "aggression" against China was regarded as under way, whereas the Communists currently charge that it is in the planning stage. Moreover, in October 1950 Chou En-lai followed up Peiping's propaganda with an explicit warning through the Indian ambassador.

All Communist comment on Indochina has suggested that the Orbit hopes to avoid internationalization of the war and to improve the position of the Viet Minh through maneuvers at the Geneva conference. At the same time Communist China appears to be preparing for possible failure on both counts, and thus for the possibility of an eventual large-scale commitment of Chinese Communist forces.

2. Ceylonese prime minister may support Nehru's Indochina peace plan:

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Prime Minister Kotelawala of Ceylon stated in an interview published on 25 April that fighting in Indochina could be ended and French "colonialism" terminated without

turning Vietnam over to the Communists, if the other Southeast Asian nations would jointly guarantee the security of an independent Indochina. This solution, according to Kotelawala, would remove Asian suspicion that the West is still clinging to colonialism.

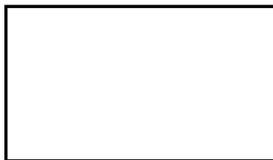
Comment: Kotelawala's statement implies qualified support for the Indochina peace plan offered by Prime Minister Nehru on 24 April, as well as for a more detailed Indian scheme published on 23 April. The latter envisages an agreement for an immediate cease-fire and for partition--probably on the 16th parallel--plus a five-year period during which the Colombo conference powers would enforce the agreement.

Pakistan, Burma and Indonesia--the other three conferees--might find it difficult to vote against such a plan. There has as yet been no reaction from them to these proposals.

### SOUTHEAST ASIA

#### 3. Viet Minh may incite demonstrations in Hanoi:

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The Viet Minh may be planning to stir up demonstrations in Hanoi on May Day or 19 May, Ho Chi Minh's birthday,

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The demonstration would not be a "permanent uprising" but would take the form of a "spontaneous public protest," possibly against the recent Vietnamese mobilization decree. It would be calculated to embarrass the Bao Dai government during the Geneva conference and to have a psychological impact on the local populace.

Comment: The French have been expecting an intensification of Viet Minh guerrilla activity in the delta, where the enemy's infiltrated forces have not exerted their full capabilities. Demonstrations and sabotage in Hanoi and Haiphong might be timed to coincide with such a Viet Minh effort.

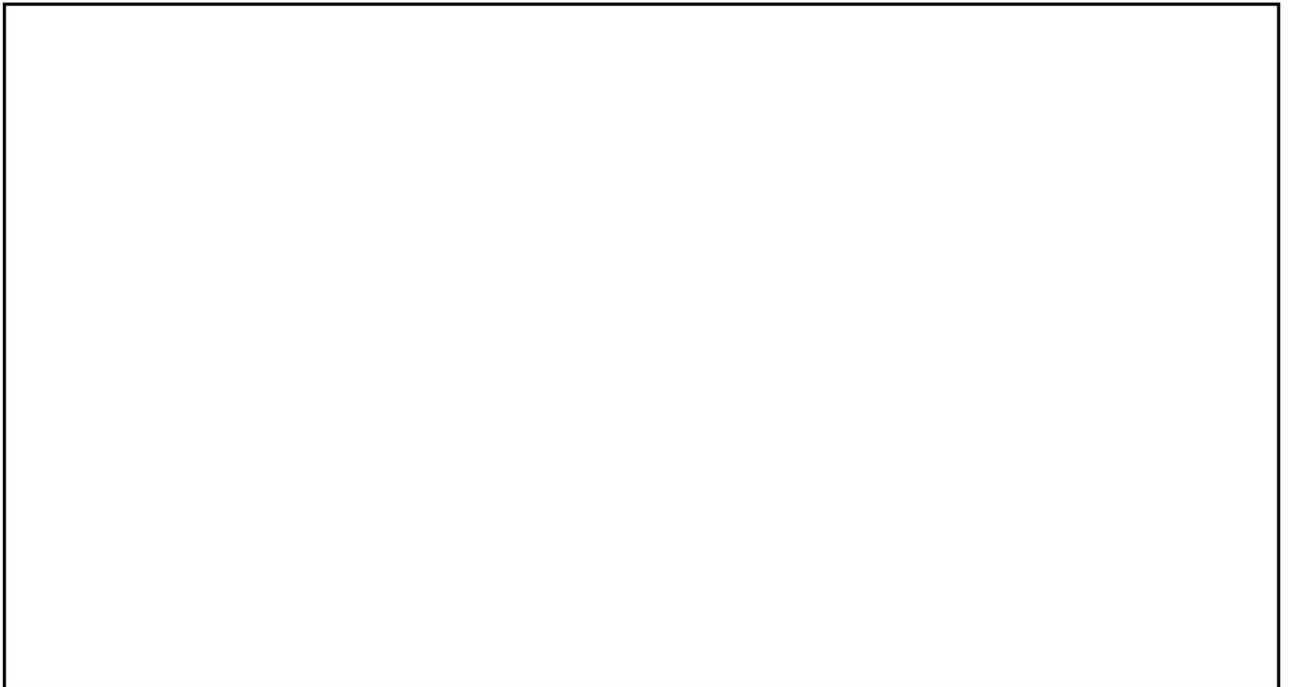
The Viet Minh has covert organizations in both Hanoi and Saigon but has engaged in virtually no direct action recently. Several years ago grenade-throwing, incitement of mob



action, and assassinations were not uncommon. The diminution of direct Viet Minh action reflects to some degree increased efficiency of the Vietnamese police. Viet Minh capabilities, however, are much greater than the absence of activity has indicated.

In view of the bitterness of Viet Minh propaganda against American activities in Indochina, it is probable that any demonstrations in the major cities would have a strong anti-American flavor.

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**NEAR EAST - AFRICA**

**5. Comment on reactions to American-Iraqi military aid agreement:**

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There has been little Arab reaction as yet to the American-Iraqi military grant aid agreement of 21 April. Anti-Western elements in Iraq may, however, use the 25 April public announcement to exploit the current government crisis on domestic issues. Iraq is the first Arab state to accept such assistance.

Israel's prompt denouncement of the agreement is in line with its usual strong opposition to the supplying of arms to any Arab country.

The Iraqi allegation that aid has been offered unconditionally may encourage Saudi Arabia, which has also requested aid from the United States, to press for similar terms. King Saud, who rejected a military aid draft last January on the grounds that it threatened Saudi sovereignty, told Ambassador Hildreth in Karachi on 23 April that Saudi Arabia would welcome American help if it did not infringe on Saudi sovereignty.

Iraq's acceptance of American aid is likely to be interpreted throughout the Middle East as an initial step toward joining the Turkish-Pakistani pact. Opponents of such participation--especially the Soviet Union, Egypt, Saudi Arabia, Israel, and Iraqi extremists--will probably renew their efforts to delay Iraq's adherence to that pact.

#### EASTERN EUROPE

##### 6. Admitted military outlays level off in 1954 Satellite budgets:

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The five Satellite annual budgets thus far announced reveal that acknowledged military expenditures are to level off in 1954 after the steady substantial increases of earlier years.

Expenditures for defense budgeted under the heading of "financing the national economy" are probably smaller in 1954 than in prior years. The appropriation for this whole category has increased less than usual, and within it much larger investments have been budgeted for agriculture, consumer goods industries, and fuel and power production.

These Satellites, having reached the approximate level of their estimated postwar expansion, are apparently foregoing further immediate military growth in order to focus

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on long-range economic development, with special emphasis on raising output of agricultural products and manufactured consumer goods.

The leveling off in the Satellite military allocations parallels the trend in the Soviet Union.

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### WESTERN EUROPE

7. Life of Laniel government seen dependent on American intervention in Indochina:

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Ambassador Dillon believes that the Laniel government will fall soon unless French requests for American armed intervention in Indochina are met. He thinks that Laniel's successor would be pledged to negotiate with Ho Chi Minh and to withdraw French forces from Indochina.

Dillon believes, however, that if American armed aid is provided--on the grounds that everything possible must be done "to save or assist" the garrison at Dien Bien Phu--France will continue the fight in Indochina regardless of the result of the Dien Bien Phu battle.

Comment: Laniel has a good chance of remaining in office while the Geneva conference is in session whether or not American aid is forthcoming. Nevertheless, he would probably respond to increased pressure for a settlement.

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