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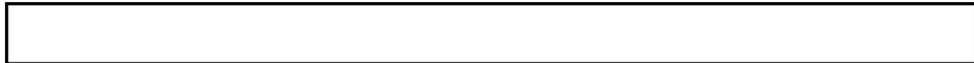
2 July 1954



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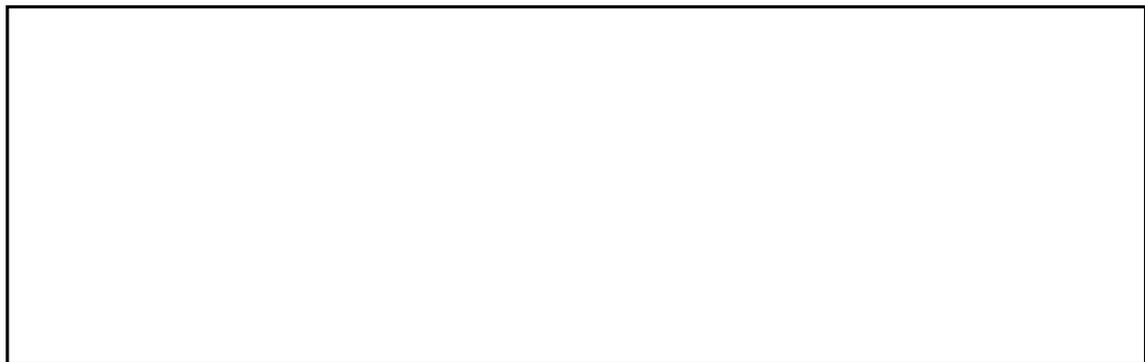
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STATE review completed
Army review(s) completed.

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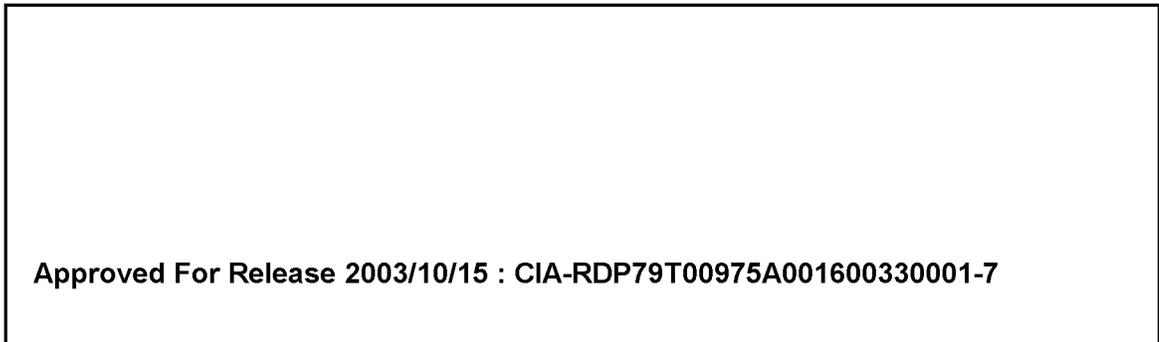
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GENERAL

1. France reported considering recognition of Communist China:
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Since the meeting of Mendes-France and Chou En-lai in Bern, the American embassy in Paris has gained the impression that France may be considering recognizing Communist China. High Foreign Ministry officials are reportedly being sounded out for the ambassadorial post, and Marc Jacquet, Laniel's secretary of state for the Associated States, is reported to be seeking the position.

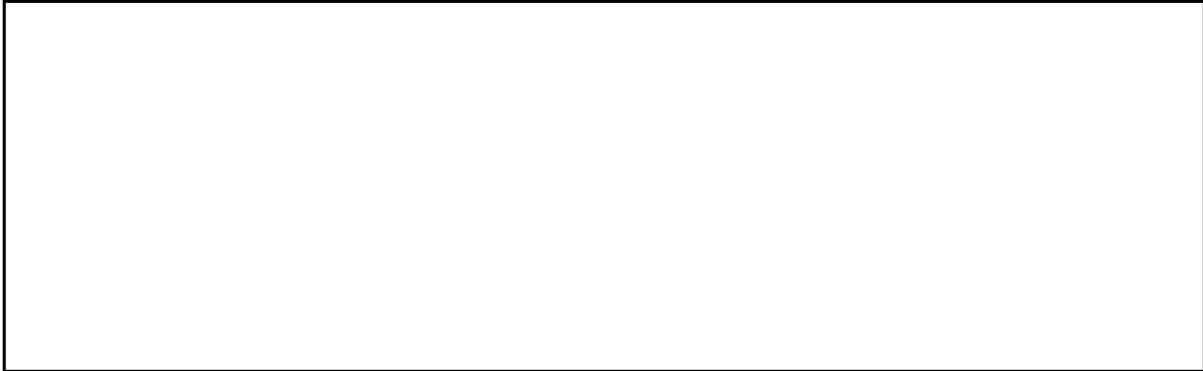
Comment: In early June, the assembly's Foreign Affairs Committee unanimously requested a meeting with the foreign minister to set a date for discussing a motion calling for recognition of Communist China. The committee requested that the discussion take place at the latest immediately after the Geneva conference. The French assembly is almost certain to consider recognition a necessary step in an over-all settlement in the Far East.

Jacquet may be counting on a reward for helping Mendes-France become premier by leaking the secret military report on Indochina to the press last May and thereby embarrassing the Laniel government.

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FAR EAST

3. Chinese may be preparing to withdraw five more armies from Korea:
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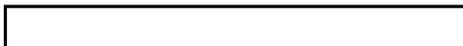


The US army reports that information from a usually reliable source indicates the possible withdrawal from Korea of all or part of five more Chinese Communist armies. Elements of the 21st, 23rd and 24th Armies have been reported in East China and elements of the 47th and 54th in Northeast China.

The army notes that even if these withdrawals are confirmed, the Chinese Communists would retain a high capability for reinforcing the Korean theater, since more than half of all the Chinese Communist armies are either still in Korea, or are in a position to return on relatively short notice from Manchuria or North China.

Comment: The withdrawal of these armies would reduce the number of Chinese armies in Korea to six, and would make a total of 14 withdrawn from Korea since or just prior to the armistice.

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SOUTHEAST ASIA

25X1A ⁴ French-Vietnamese clash over delta withdrawal may be imminent:

[REDACTED]

Pham Ngoc Chi, one of the two Vietnamese bishops of southern Tonkin, told the American consul in Hanoi the French have repudiated earlier assurances to him that they would defend his area. He reports that some Vietnamese troops have refused to obey orders to withdraw, and are branding as "traitors" Vietnamese officers who have transmitted French withdrawal orders.

It is his understanding that premier-designate Ngo Dinh Diem has threatened to declare Vietnam's independence outside the French Union if the withdrawal is not stopped. Chi contends that the time has come for the United States to deal directly with the Vietnamese, who are willing to use American arms and advice in resisting the Viet Minh.

Governor Tri of north Vietnam is taking steps to evacuate a maximum number of Vietnamese civilians from the southern delta to the Hanoi area, although Vietnamese officials are aware that the uncontrolled influx of refugees might infect Hanoi residents with the near-panic reported prevalent in the southern part of the delta. The American consul understands that the French military authorities are opposed to the quartering of more refugees in the Hanoi area, and may not know of Governor Tri's plans.

Comment: Vietnamese officials, knowing that French military support was indispensable, have for years held in check their bitterness toward the French. The withdrawal of this support in what the Vietnamese regard as an underhanded manner may crystallize sentiment among certain Vietnamese leaders in favor of a desperate, "go-it-alone" policy.

25X1A ⁵ French to begin withdrawal from northern Tonkin delta about 15 July:

[REDACTED]

The French will begin a withdrawal from the northern part of the Tonkin delta on or about 15 July, [REDACTED]

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[redacted] The new French perimeter in this area will generally follow the Canal des Rapides and will include the coastal region up to the China border (see map, p. 7). The southern perimeter, starting from the sea, will follow the Thai Binh River, the Canal des Bambous to the Red River, thence to Do Xai and across to Quang Nguyen.

[redacted] this line is in accord with a French-Viet Minh agreement reached by military missions in Geneva and Paris. Principal additional points in the agreement are: (1) there will be no attacks on convoys used to effect this withdrawal; (2) the Viet Minh will not undertake any sabotage operations in Hanoi or Haiphong; and (3) on withdrawal from an area, there will be no destruction of any economic assets.

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Comment: The French are now rapidly implementing their plan for evacuation of the southern Tonkin delta, particularly in the Nam Dinh, Ninh Binh, Phat Diem and Bui Chu areas. Reports of a heavy flow of tonnage from Hanoi to Haiphong suggest that the French may also be planning to abandon Hanoi itself.

SOUTH ASIA

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6. [redacted] comments on Nehru's Asian policy:

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[redacted]

[redacted]

believes Prime Minister Nehru has undertaken the "difficult task" of convincing small nations like Burma that Peiping is sincere in its declarations of nonintervention

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in the affairs of other countries [redacted]

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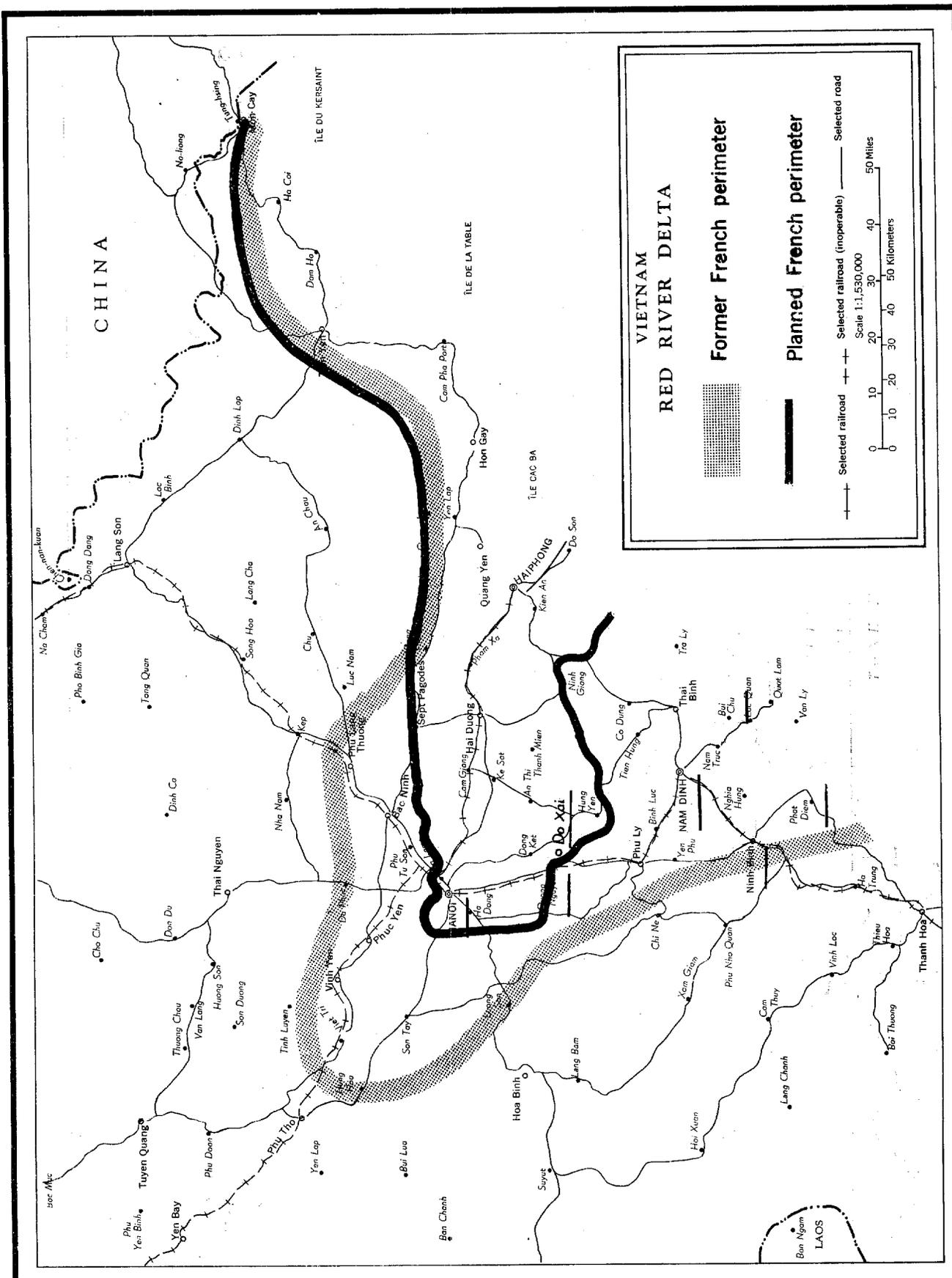
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[redacted] Nehru feels any resistance by force to Peiping would bring disastrous results, "as it did in Korea and Indochina," and that an attempt must therefore be made to obtain "acceptable conditions," stressing an "Asia for the Asians" theme.

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[redacted]



Comment: Nehru probably does not believe in Peiping's "sincerity," and is acutely conscious of India's weak position relative to China. He cannot face the prospect, however, of playing second fiddle to the West. No other Asian state, except possibly Indonesia, fully shares his views, and it is unlikely that his effort will be successful unless the Asians are left with no alternative.

From India's standpoint, outward reliance by other Asian states on the sincerity of Peiping's promises would serve two purposes: (1) it would give India a moral basis for protesting against further Chinese expansion; and (2) it would eliminate, at least in Indian reasoning, the need for Asian states to participate in Western-sponsored defense plans.

NEAR EAST - AFRICA

25X1A⁷ Iranian-British differences on compensation threaten oil settlement:



A critical issue between Iran and Britain over the amount of compensation Iran will be required to pay AIOC for losses stemming from nationalization

threatens a breakdown of the negotiations in Tehran, according to Herbert Hoover, Jr. The negotiations were proceeding favorably until the British served an "ultimatum" that Iran must pay \$280,000,000 as compensation.

Because of the Iranian belief that AIOC "shortchanged" Iran for years, any settlement which contained such high compensation provisions would "cast a shadow of the most critical nature" on its durability. Iranian officials state that if forced to accept British compensation views, they will merely present the proposals to the Majlis as the best terms available. Hoover predicts that the results of such a step would be "explosive."

In the opinion of Hoover and Ambassador Henderson, any Iranian compensation to AIOC in excess of \$42,000,000 would provoke serious repercussions in Iran.

