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CURRENT INTELLIGENCE WEEKLY SUMMARY

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Among these lieutenants, Liu Shao-chi's hand is expected to show most clearly in the selection of new central committee members from the committee's present apparatus. In the selection of new members from persons important primarily as government officials, Chou En-lai's influence will probably be most apparent. The military group to be named will probably reflect most sharply the rise in recent years of Peng Tehuai, who has been surrounding himself at the top of the

military establishment with his earlier deputies.

Few of the party leaders outside Peiping can be plausibly aligned with any one of the top handful, although some of them may have been appointed by Liu. Those elected to the central committee will probably have had substantial association with the onetime regional leaders now just below the top level of power, such as Teng Hsiao-ping, Lin Piao, Chen I Teng Tzu-hui, Li Fu-chun and Po I-po.

* * *

SOUTH VIETNAM FEARS NEW COMMUNIST PRESSURE

The government of South Vietnam, having achieved a measure of internal stability and security, is increasingly concerned over what President Diem calls the "rampant growth of neutralism" in Asia, particularly in Laos and Cambodia.

Threat From Laos and Cambodia

South Vietnam fears that the Laotian government's rapprochement with the Pathet Lao foreshadows an anti-Western administration in Laos, which would undermine its own efforts to resist Communism. With Cambodia already strongly neutralist and antagonistic toward Saigon, such a development in Laos would complete South Vietnam's physical isolation from sympathetic allies and further expose it to Communist encroachment.

More immediately, the Diem government fears that the settlement in Laos will provide the Communists with fresh propaganda to revitalize their long-standing, but lagging, campaign

to develop international pressure on South Vietnam to accede to unification elections. Saigon feels that British support of, and India's acquiescence to, Diem's anti-Geneva stand will be adversely affected, since both these countries have tended to consider that a settlement in Vietnam would be dependent on Communist willingness to come to terms in Laos.

Cambodia and Laos, moreover, have both recently signed joint communiqués with bloc nations formally endorsing the full implementation of the Geneva accords in Vietnam, whereas previously they had refused to become involved in Vietnamese affairs. Hanoi radio has already noted Saigon's concern over developments in Laos, and pointedly predicted that "the success of the Vietnamese talks has heightened the confidence and spirit of struggle of the Vietnamese people for the peaceful reunification of their country."

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South Vietnam's Tactics

To protect its position externally, Saigon has rushed an envoy to Laos to counteract the arrival of any Communist representation in Vientiane that seems likely to result from Laotian premier Souvanna Phouma's visit to Peiping and Hanoi. The envoy's thinly veiled threat to Laotian leaders prior to their departure for Peiping, however, to the effect that Laos' outlets through South Vietnam might be closed unless Vientiane abandoned its neutralism, appears only to have irritated the Laotians.

Similarly, the South Vietnamese representative in Cambodia has been instructed to "stand and fight it out" in the event Viet Minh diplomats show up in Phnom Penh. In addition, Saigon has decided to continue its disadvantageous trade and payments agreement with Cambodia in order not to push the Cambodians toward closer relations with the Communists.

Saigon is also attempting to convince New Delhi that Indian interests can best be served in Indochina by keeping South Vietnam independent. To this end, the influential secretary of state for the presidency, Nguyen Huu Chau, went to New Delhi with a trade delegation for talks with Prime Minister Nehru and other Indian officials. Chau appears to have had some success, as he has quoted Nehru as saying, "The Red Chinese--they must not absorb Vietnam," an indication that India is becoming apprehensive of growing Chinese Communist influence in the

Indochinese peninsula, despite its official position that the early unification of Vietnam would help relax international tensions.

Internal Situation

Meanwhile, Diem is continuing efforts to shore up South Vietnam's internal defenses against Communism. Constant military and police pressure is being maintained on Viet Minh cadres. Army units are also conducting a major security sweep to eliminate all significant Viet Minh paramilitary forces in the southern part of the country. As part of the antisubversive program, Diem issued a tough antiespionage and treason decree on 21 August establishing the death penalty for any Vietnamese taking up arms against the state.

Diem recognizes that although the danger of overt Viet Minh aggression seems to have receded for the present, he will have to deal with the more subtle long-range problem of political and economic subversion. Spiraling living costs, periodic shortages of commodities and labor agitation are sources of potentially serious unrest. In addition, travelers on the highways have been subjected to lengthy harangues by Communist agents concerning the South's impoverishment and lack of hope for the future, an indication that the Viet Minh is actively exploiting economic conditions in South Vietnam.

Diem blames much of the recent labor trouble and food shortages on corrupt administrators. Accordingly, he has

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served notice that now that a measure of stability has come to South Vietnam, he intends to concentrate on rooting out venal elements in the government. Stiff punishment has already been meted out to high-ranking officials convicted in the black-market sales of government-distributed rice, while the "brains" of this swindle--a former cabinet member--faces a possible death sentence under last October's antispeculation decree. Despite the involvement of high officials, the full publicity given these trials will probably enhance the government's prestige.

Diem is convinced South Vietnam must expand its economy,

both agriculturally and industrially, if it is to compete successfully with North Vietnam in the long run. Efforts for a large-scale expansion of the South Vietnamese economy, however, are still largely in the planning stage, although there are some signs of progress, such as the prospects for a modest resumption of rice exports next year. During 1957, the South Vietnamese plan to give top attention to agricultural projects promising quick results for large numbers of people, but the establishment of certain light industries such as textile, glassware, sugar and jute will also have a high priority.

* * *

GRANTS UNDER THE SOVIET FOREIGN AID PROGRAM

The USSR has granted countries outside the Sino-Soviet bloc loans and credits totaling at least \$500,000,000 for economic purposes since launching its "trade and aid" campaign early in 1955. In the same period, credits for the purchase of military equipment extended indirectly by the USSR to the Middle Eastern nations totaled \$300,000,000. In contrast, countries belonging to the bloc have received only \$100,000,000* for economic purposes since early 1955, while \$500,000,000 was granted in military credits--all to Communist China. From 1946 through 1954, the USSR had advanced \$4.7 billion to Communist controlled countries for all purposes, and made no significant loans to other countries.

billion. Of this, over \$2 billion has been granted for economic development and for foodstuffs and raw materials. The major beneficiaries of this part of the program have been Poland, East Germany, China, North Korea and North Vietnam. A like amount of Soviet credits has been extended for the purchase of Soviet-owned properties in East Germany, Rumania, Hungary, Bulgaria and Communist China. These so-called "joint stock companies" were largely composed of Soviet-seized assets of Nazi Germany and Japan.

Military aid, totaling \$1.2 billion, accounts for the remainder of Soviet financial assistance to the Sino-Soviet bloc since 1946.

Credits to Sino-Soviet Bloc

Soviet aid to bloc countries since 1946 totals \$5.3

Of the \$5.3 billion total, only \$600,000,000 has been granted since January 1955: Communist China received a military credit of \$500,000,000 for the purchase of Soviet-held equipment and installation in Manchuria, and Bulgaria received about \$100,000,000 worth of economic

*The USSR has recently offered economic aid to East Germany, including a loan of unknown amount, but apparently less than \$250,000,000.

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