

This report consists of two parts. The first includes items on situations where serious developments may occur in the short-range future.

The second part consists of status reports on other critical areas where adverse developments are not expected immediately.

16 Dec 54

CRITICAL SITUATIONS

Page 2

ARMY review(s) completed.

State Dept. review completed

C O N T E N T S

Door May Be Open  
For "Deal" on US Airmen . . . . . Page 5

Chances are Peiping will agree to Ham-  
merskjold's visit to discuss the 11 American  
airmen. Prospects for an early release of the  
airmen are poor. The door apparently remains  
open for an eventual settlement, however.

Saar Issue Causes  
French-German Crisis. . . . . Page 6

Differing interpretations of the Saar  
agreement caused a crisis this week between  
Paris and Bonn. The Saar issue continues to  
be the principal threat to ratification of  
the Paris accords.

New Soviet Moves Possible  
Against Paris Agreements. . . . . Page 7

The USSR may employ a wide variety of  
tactics in an attempt to block ratification--  
and implementation--of the Paris agreements.

Indochina MAAG Personnel  
May Be Challenged . . . . . Page 9

The truce supervisory commission may  
soon investigate the arrival of American  
MAAG personnel to determine whether the new  
arrivals increase the American personnel  
over the number present when the cease-fire  
was signed.

"Reconciliation" Plan  
Seen Endangering Laos . . . . . Page 10

The new Laotian premier plans a recon-  
ciliation between the royal government and  
the Pathet Lao which might prove to be the  
opening wedge for Viet Minh penetration.

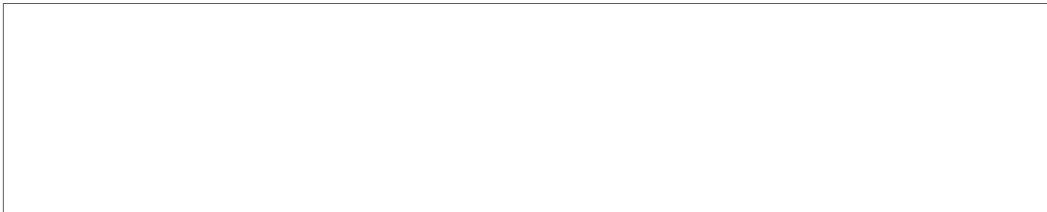


Communists May "Fake"  
An "All-Korean" Conference. . . . . Page 11

No official South Korean delegates are likely to attend the preliminary "unification" conference which North Korea has scheduled for 17 December.

Threat of Subversion  
Seen on Formosa . . . . . Page 12

There is some reason to question the general belief that subversion is not a serious danger in Formosa.

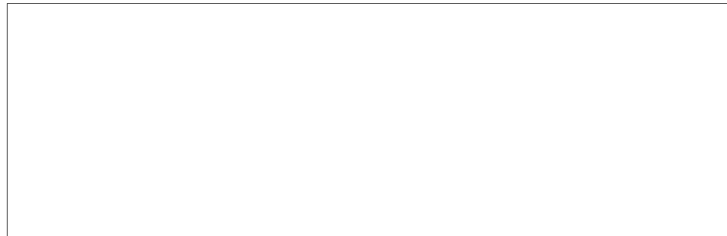


Nasr Regime Alienating  
Egyptian Masses . . . . . Page 13

The RCC is relying increasingly on police measures to maintain itself in power. Tension is mounting and public disorders are possible.

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Status Reports  
On Other Critical Areas . . . . . Page 15



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Door May be Open  
For "Deal" on US Airmen

Chances are that Peiping will agree to UN secretary general Hammerskjold's proposed trip to discuss the fate of the 11 American airmen sentenced as "spies" and other detained UN personnel. Peiping may be expected to try to exploit the visit to enhance its prestige, to make a more effective presentation of the "spy" case, and to air Communist China's other grievances.

Regardless of whether Hammerskjold goes to Peiping, all information on the Chinese Communist position suggests that prospects are poor for an early release of the airmen.

Peiping's prestige has been heavily committed in the "spy" case. The Communists have publicly stated that "the Chinese people are firmly resolved to punish the American spies regardless of UN action."

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At the same time, the door apparently remains open for an eventual settlement, presumably on a quid pro quo basis.

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Peiping could be expected to show Hammerskjold its exhibit of alleged American "espionage" equipment, and some of the airmen may have been sufficiently "brainwashed" for the Communists to risk displaying them. Should any American overflights take place during the visit, Peiping could be expected to make a strong effort to shoot down such a plane and produce another exhibit.

Saar Issue Causes  
French-German Crisis

Differing interpretations of the text of the Saar agreement continue to be the sticking point for ratification of the Paris accords, which, except for this essential element, seem basically acceptable to both parliaments.

The tactics agreed on by Chancellor Adenauer and Premier Mendes-France on 23 October, according to which each would interpret the text differently to his people and parliament, failed to accomplish their purpose. The "preamble" to the German bill ratifying the Saar agreement roused too much opposition in the French Assembly and the corresponding "brief" then attached to the French bill so incensed Adenauer that he threatened on 13 December to withdraw the Saar bill from the general ratification debate scheduled for two days later.

The main point at issue remained the question of whether the agreement would be subject to revision in a peace treaty, as the Germans wish.

Failure of the methods used originally to rally maximum legislative support does not necessarily mean the agreement will be defeated.

In any event, the chances for ratification of the agreement have rested primarily since October on

the recognition by both parliaments that the Paris accords, as a matter of practical international politics, represent a single "package."

New Soviet Moves Possible  
Against Paris Agreements

The USSR will intensify its attacks on the Paris agreements as the date--20 December--approaches when the French assembly opens its debate on ratification. Moscow's principal purpose will be to convince the French that their national interests will be best served by rejecting the agreements.

Possible Soviet pressure tactics could include the following courses of action:

1. A note to the Western powers accepting the "Eden plan" of the Berlin conference as a "basis for discussion" for a German settlement.
2. A note restating the Soviet position on Germany, Austria, and European security, but with the introduction of a new element in the form of a proposal to conduct German elections on the "Indo-china formula" provided for in the Geneva agreement.
3. An expression of willingness to resume negotiations on Austria, possibly with acceptance of time limits for troop withdrawal as recently suggested by Mendes-France.

The USSR might also resort to tougher actions--although this is less likely--such as the following:

1. An announcement that French ratification of the Paris agreements would be regarded as abrogation of the French-Soviet treaty of 1944.

2. Harassment in Berlin designed to generate Western fear that ratification would lead to a Communist attempt to force a Western withdrawal from Berlin.

3. Announcement that the USSR and the Satellites are going ahead with the military defense measures outlined at the recent Moscow conference.

4. East German moves toward establishing "national armed forces."

5. An all-out drive by French Communists to upset ratification through an attempt to defeat Mendes-France by calling a political strike and demonstrations to produce a state of general chaos and breakdown of civil order.

6. Increased Soviet support of Chinese Communist belligerent threats and actions in the Far East to generate Western fears of general war and to inject a divisive issue within the Western coalition.

7. Threat to break off disarmament negotiations.

8. Heavy increase in "atomic scare" propaganda.

There are no clear signs that the USSR plans to make any substantial concession or threat in a last-minute attempt to head off ratification in Paris.

It is likely that Premier Mendes-France will make further demarches to Moscow similar to his recent one on Austria in an attempt to gain some assurance that further talks on European issues will be possible after ratification. This is precisely the assurance that Moscow intends to avoid, because it realizes Mendes-France would use it to further his campaign for ratification by the assembly.

Indochina MAAG Personnel  
May be Challenged

The truce supervisory commission in Indochina may soon investigate the arrival of American MAAG personnel.

The articles of the cease-fire agreement relating to the rotation of military personnel are subject to varying interpretations. General Collins believes they do not restrict American personnel to the number present on the date the agreement was signed.

The commission is undertaking closer supervision of the China border, however, and to balance this may strictly interpret the cease-fire as regards American military personnel.

The French, meanwhile, are continuing efforts to establish relations with the Viet Minh of a sort to make possible the preservation of French interests in Indochina, whatever its ultimate fate. This program includes pressure on the United States to approve shipment of strategic materials on behalf of a French-owned transportation company in Hanoi. One French official is even suggesting the possibility of French air and naval bases within a completely Communized Vietnam.

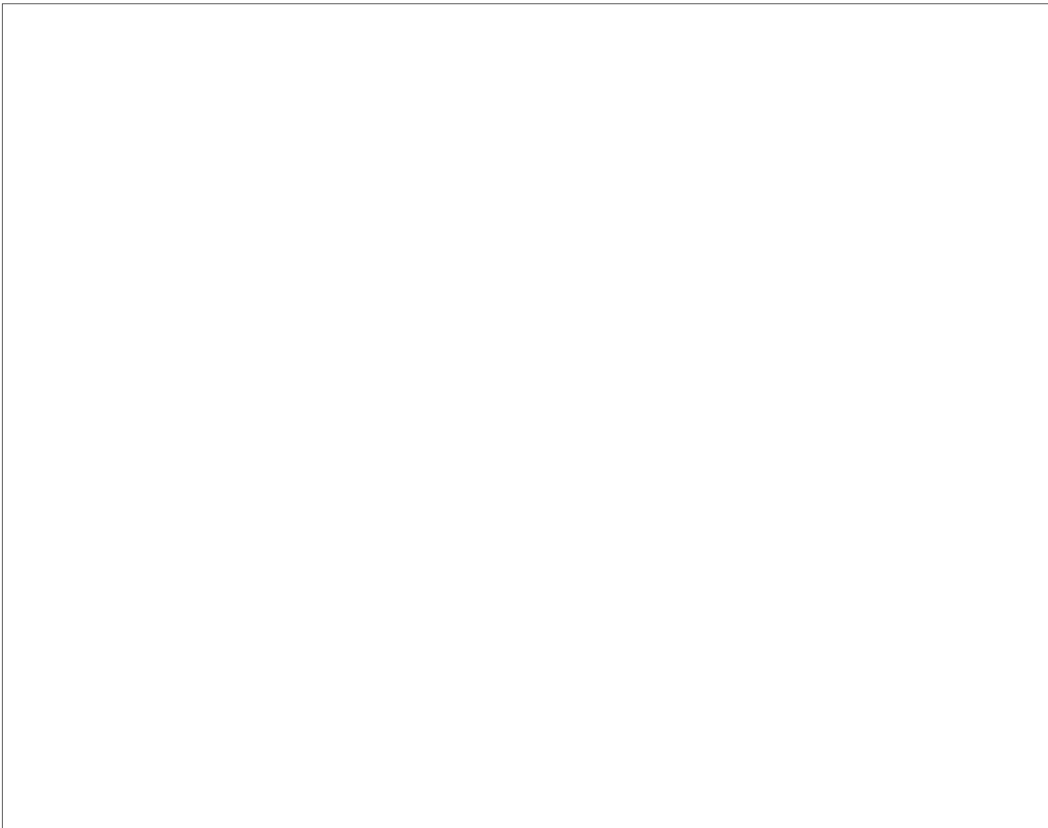
Hopes have drastically declined that Diem will prove capable of providing the sort of leadership the situation in Vietnam requires. His frustration of Phan Huy Quat's desire to head the Defense Ministry is forestalling army reorganization and an improved pacification program.

The Viet Minh's freedom to conduct subversive activity in the south is practically unchallenged in many areas.



"Reconciliation" Plan  
Seen Endangering Laos

The new Laotian premier, Katay Sasorith, is planning to effect a reconciliation between the royal government and the Communist-backed Pathet Lao organization. In view of the conviction of most Laotian officials that the Pathet Lao are "not really Communists," such a reconciliation might prove the entering wedge for Viet Minh penetration of the Laotian government.



Communists May "Fake"  
An "All-Korean" Conference

No official South Korean delegates are likely to attend the preliminary "unification" conference which North Korea has scheduled for 17 December at Kaesong. It is possible that renegade South Koreans who have fled to the north will "represent" the south.

The conference, which has been called to discuss the restoration of mail and other communications between the north and south, is part of

Pyongyang's current intensive drive for new talks on unification. Pyongyang's objectives are to capitalize on Korean desires for a unified nation by demonstrating its willingness to hold talks, to convince the world that South Korean stubbornness is responsible for the continued division, and to open the borders for political subversion.

Rhee has often threatened to hold such talks with the Communists, as a means of exerting pressure on the United States, but he is not likely to do so unless his relations with Washington deteriorate further.

Threat of Subversion  
Seen on Formosa

There is some reason to question the general belief that subversion is not a serious threat in Nationalist China currently or in the foreseeable future.

Peiping's propaganda has continued to suggest that further preparations are necessary before a full-scale amphibious assault on Formosa can be launched. In the meantime, there has been a great increase in propaganda aimed at inducing defections from the Nationalist ranks.

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Factors tending to depress Nationalist morale include: (1) the dimming of hopes for an early return to the mainland; (2) continued inaction by many once important political and military leaders; (3) prolonged austerity with no prospect of relief; and (4) a continuing divergence in goals between the Nationalist government and the native Formosans.

Certain actions within Communist capabilities, short of an invasion, might seriously aggravate Nationalist morale problems. These include: (1) Communist capture of offshore islands; (2) air attacks on Formosa; and (3) an assassination attempt against Chiang Kai-shek or other Nationalist leaders.

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Nasr Regime Alienating  
Egyptian Masses

The recent execution of six Moslem Brotherhood members and the continuing trials of others are strengthening the opposition to Prime Minister Nasr and his regime. Although this opposition is not yet organized, tension has increased with the dissemination of propaganda attacks on the regime

by the Brotherhood, by the former Wafd party, and by the Communists, and public disorders are possible.

The Revolutionary Command Council's reprisals against the Brotherhood have left the regime little choice but to rely increasingly on police measures-- which threaten further to alienate the Egyptian people.

The American embassy reports that Colonel Nasr himself has increasingly withdrawn from public appearances since the attempt to assassinate him on 26 October. This contrasts significantly with the RCC members' previous practice of making themselves accessible to an unprecedented number of Egyptians.

Status Report  
On Other Critical Areas

Chinese Offshore Islands: The situation in the Chinese offshore islands has been quiet for the past three weeks but heavy shellings and bombardments of any or all of the islands and amphibious assaults on one or more of them are possible at any time.

There will be a continuing Chinese Communist submarine threat against the American Seventh Fleet, and more particularly against the Nationalist navy.

Korea: President Rhee hopes to evade or renegotiate the provisions of the American-South Korean aid agreement. Recent statements and actions by South Korean leaders make it clear that Rhee signed the agreement merely as a tactic to get the \$700,000,000 aid program under way.

French North Africa: The French program for inducing the Tunisian fellagha (quasi-military outlaw bands) to surrender has apparently succeeded in large measure but has not solved the greater problem of North African dissident activity.

U Nu Visit to China: The American embassy in Rangoon describes Burmese premier U Nu's visit to Communist China as a propaganda victory for Peiping. The embassy observes that Nu's praise of the Mao regime went "far beyond the demands of either courtesy or coexistence."

The Burmese leader repeatedly assured the Chinese of his country's good will, stressing Burma's inability to interfere in China's affairs. Such action, he said, would be like that of "a small goat wandering aimlessly among elephants."

The total effect of Nu's trip will be to raise hopes for coexistence and to encourage complacency toward the threat of Communist aggression--a complacency which the Burmese had been in the process of shaking off.

Chile: The prolonged government crisis continues. The press predicts that the Senate will act on 22 December on the legality of President Ibanez' decree of 20 September establishing a state of siege.

Syria: Syria is "the most worrisome spot in the confused Middle East," in the opinion of responsible British observers in the area. A Communist takeover is not imminent but the overthrow of Prime Minister Faris al Khouri's weak government might, if it did not provoke a rightist military coup, bring to power a coalition in which the Communists would play a powerful part.

Indonesia: Moscow continues to cultivate Indonesia as a "neutralist" friend.

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16 December 1954



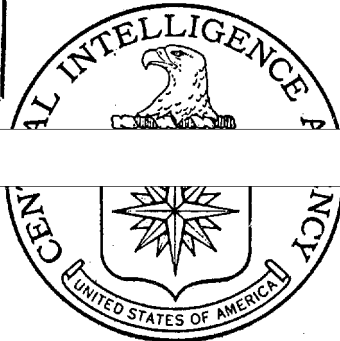
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**CRITICAL SITUATIONS**

A Weekly Report

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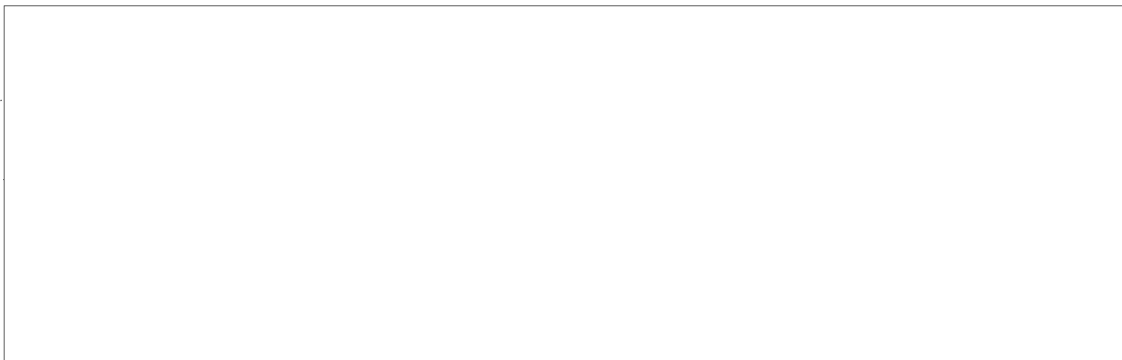


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