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TOP SECRET

~~TOP SECRET~~**SUMMARY****GENERAL**

1. Comment on border agreement between Greece and Bulgaria (page 3).

FAR EAST

2. Yoshida recognizes need for austerity budget (page 3).

SOUTHEAST ASIA

3. Further development in Viet Minh "peace strategy" noted (page 4).
4. Viet Minh attack on Dien Bien Phu held almost certain (page 4).

SOUTH ASIA

5. India makes loan to Afghanistan (page 5).

NEAR EAST - AFRICA

6. Comment on proposed Israeli-Jordanian armistice talks (page 5).
7. Israel reportedly arming frontier settlements for attack on Arab states (page 6).
8. Shah allegedly tries to by-pass Zahedi in negotiations with British (page 7).

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- 2 -

~~TOP SECRET~~

1 Jan 54

~~TOP SECRET~~

GENERAL

1. Comment on border agreement between Greece and Bulgaria:

The border agreement signed by Greece and Bulgaria on 30 December settles a 33-year-old dispute and eliminates a major barrier to the re-establishment of diplomatic relations between the two countries. The agreement provides for the division of the disputed Evros River Islands, which have been the scene of recurring explosive incidents during the past two years and have been claimed in their entirety by both countries.

The question of re-establishing diplomatic relations has already been taken up by the Bulgarian and Greek ambassadors in Paris.

FAR EAST

2. Yoshida recognizes need for austerity budget:

The American embassy in Tokyo considers that Prime Minister Yoshida has finally realized his responsibility for decisions affecting the Japanese economy, and that the government is facing up to the deteriorating economic situation.

An austerity budget submitted for cabinet consideration was dramatically supported by Yoshida, who announced that the government was determined to reverse the current inflationary trend and unfavorable balance of payments situation by adopting a severe financial policy. Yoshida's stand has the support of powerful financial leaders both within and outside the Liberal Party.

Comment: The need for austerity in order to lower export prices and to discourage unnecessary imports has long been apparent. This situation has been allowed to drift, however, because of Yoshida's preoccupation with political maneuvers.

- 3 -

~~TOP SECRET~~

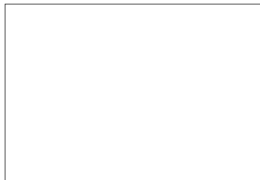
1 Jan 54

~~TOP SECRET~~

The original budget requests totaled almost 5.5 billion dollars, but the present draft is about one half this size. Expenditures for almost every item except defense were cut below those of last year.

SOUTHEAST ASIA

3. Further development in Viet Minh "peace strategy" noted:



American officials in Saigon believe that a meeting of the Viet Minh National Assembly shortly after Ho Chi Minh's interview on 29 November was an important move in the Viet Minh's over-all "peace strategy."

The meeting, the first in seven years, is believed to have been intended to give substance to claims that only the Viet Minh is qualified to represent the Vietnamese people in negotiations with France. Viet Minh broadcasts concerning the assembly present an effective picture of an energetic government with an elective base in contrast to the confusion in the Bao Dai government, in which the latest premier was unable to convoke a national assembly.

[redacted] the Laos campaign is part of a plan to strengthen the Viet Minh's position in possible talks with the French.

4. Viet Minh attack on Dien Bien Phu held almost certain:



[redacted] considers a major Viet Minh attack on Dien Bien Phu, the French strongpoint in northwest Tonkin, to be "almost certain" in view of the reported movement of enemy

artillery to the area. [redacted] is concerned about the expected use of artillery against Dien Bien Phu, where special terrain features make it impossible for the French completely to deny the enemy close-in observation.

[redacted] expects the enemy will be ready to attack Dien Bien Phu by 10 January.

1 Jan 54

~~TOP SECRET~~

~~TOP SECRET~~

Comment: The presence of two Viet Minh infantry divisions in northwest Tonkin is now confirmed. The bulk of an additional infantry division, two artillery regiments and two antiaircraft batteries are believed to be approaching the area. Current bad flying weather is expected to favor enemy operations.

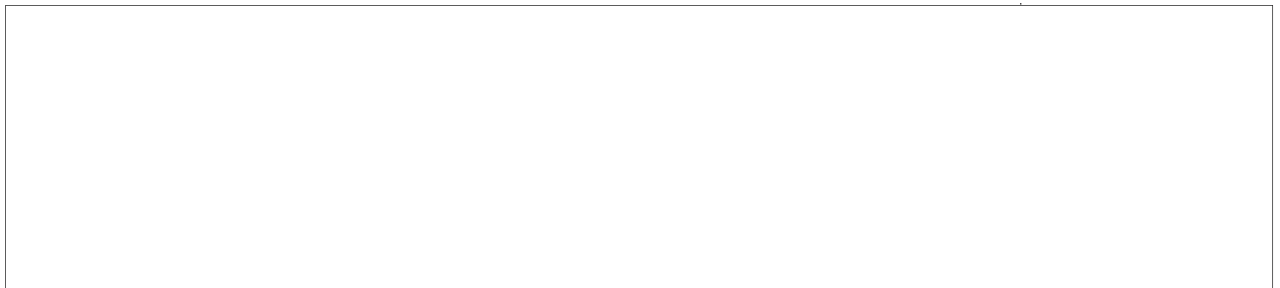
It is still possible that the main force will by-pass Dien Bien Phu and occupy northern Laos. The artillery regiments might remain behind with a smaller force to contain and harass the strong French garrison at Dien Bien Phu.

SOUTH ASIA

5. India makes loan to Afghanistan:



The Indian deputy finance minister told the upper house of parliament on 21 December that India had made a loan of 10,000,000 rupees (or about \$2,000,000) to Afghanistan for the purchase of Indian goods.



It would be consistent with the past pattern of Afghan-Indian diplomacy if India's new "loan" were designed to assure Afghan support against American military aid to Pakistan.

NEAR EAST - AFRICA

6. Comment on proposed Israeli-Jordanian armistice talks:

Israel's good faith in proposing armistice talks with Jordan will be put to the test by Jordan's expected agreement to confer. The Jordanian agreement is limited, however, to discussion of local problems under the aegis of the UN Mixed Armistice Commission.

~~TOP SECRET~~

1 Jan 54

~~TOP SECRET~~

Jordan will probably refuse to discuss an over-all revision of the armistice agreement as requested by Israel. Discussion within the commission would help to dispel Arab fears that Israel's talk of peace is insincere.

Israeli statements on the matter, however, suggest that the Sharett government will probably bring the issue before the Security Council. Such action would provide Israel with a propaganda forum, but would also promote continued Arab-Israeli bitterness.

7. Israel reportedly arming frontier settlements for attack on Arab states:

On 28 December the American embassy in Amman reported that both the Arab Legion and UN observers had received information that Israel was planning to raid Jordanian frontier villages with commando-trained soldiers dressed in civilian clothes. Both sources believed that the Israeli attacks on 21 December in the Hebron area were the first example of these new Israeli tactics.

Comment: Large-scale Israeli attacks on Arab countries are not anticipated. Nevertheless, the recurrence of Israeli frontier raids since the Qibya incident in October suggests that the present government is continuing former premier Ben-Gurion's "active defense" policy, which has been largely responsible for the present Arab-Israeli tension.

~~TOP SECRET~~

~~TOP SECRET~~

8. Shah allegedly tries to by-pass Zahedi in negotiations with British:

[REDACTED]

The shah may be trying to negotiate with the British without the knowledge of Prime Minister Zahedi or Foreign Minister Entezam, Ambassador Henderson reported on 30 December.

[REDACTED]

Wright said that he had rejected this approach, but that he had indicated willingness to talk to the shah with the knowledge of the Iranian government.

Comment: The shah's apparent attempt to reach a secret understanding with the British prior to the opening of official negotiations will not be well received by either Zahedi or the foreign minister. Since this action follows intervention by the shah in the army and in the Mossadeq case, it may renew friction between the prime minister and the throne. Wholehearted cooperation between them is necessary for success in the approaching elections.

~~TOP SECRET~~