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~~TOP SECRET~~

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SUMMARY

GENERAL

1. Comment on Soviet proposal of 24 July (page 3).
2. Portugal will defend its territories against attack from Indian soil (page 4).

SOVIET UNION

3. Moscow embassy comments on execution of M. D. Ryumin (page 4).

SOUTHEAST ASIA

4. Communists pleased with "neutralization" campaign in Southeast Asia (page 5).
5. Growing threat of Vietnamese violence against Frenchmen noted (page 6).
6. Thailand may look to Communist China as market for surplus rice (page 6).

NEAR EAST - AFRICA

7.

WESTERN EUROPE

8. No change seen in French Communist support for Mendes-France (page 8).

LATIN AMERICA

9. Two Costa Rican towns reported raided by rebel band (page 8).

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~~TOP SECRET~~**GENERAL****1. Comment on Soviet proposal of 24 July:**

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The immediate objective of the Soviet proposal of 24 July appears to be to prevent French ratification of EDC. Its probable longer-term objectives are to encourage elements in the British Labor Party and in West Germany which oppose German rearmament, and to isolate the United States. The wording of the proposal suggests that even if the Western European nations reject the idea of an all-European conference on the question of collective security, the USSR will organize some form of meeting as a means of keeping the issue alive.

The notes to the Western big three, all temperate in tone, exploit the usual themes of the arms race, American bases, and "war propaganda." Moscow points to the Geneva conference as "proof" that negotiations can be successful. As an additional lure, a reference to economic co-operation is included.

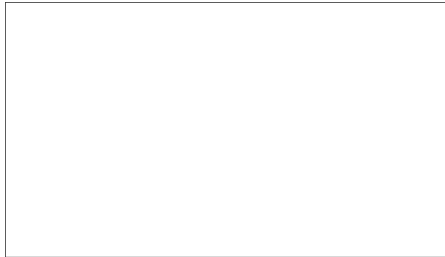
Ambassador Dillon has stated that the Indochina cease-fire "may well induce" a mood in France receptive to Soviet four-power conference proposals on European "security," and there is accumulating evidence that French public opinion is already favorably disposed. Although Mendes-France is believed to be pro-Western in orientation, his more neutralist-minded advisers can be expected to try to exploit the atmosphere resulting from the Indochina truce. Paris' final reaction to the present Soviet proposal may be largely determined by whether the French can avoid the appearance of being dictated to in replying to the overture.

Certain elements in West Germany are favorably disposed toward negotiations with Moscow, and at their recent convention the opposition Social Democrats made a European security system a condition for their approval of German rearmament. Despite the growing body of neutralist opinion, however, Chancellor Adenauer can be expected to hold his government coalition firmly in the Western camp.

The British public, especially left-wing Laborites and other elements who have growing doubts about rearming West Germany, will probably take to the Soviet note more kindly than the present Conservative government. Britain rejected the 31 March Soviet proposals to which the most recent statement appears to add little. The Soviet suggestions bear only a superficial resemblance to Churchill's "master thought" about Locarno-type pacts, and Churchill can hardly regard this as a call for "a meeting at the summit." [REDACTED]

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25 July 54

~~TOP SECRET~~**2. Portugal will defend its territories against attack from Indian soil:**

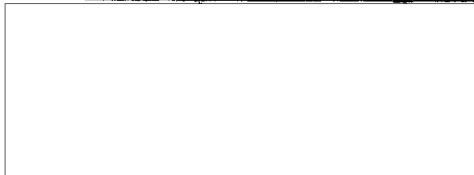
The Portuguese Foreign Ministry informed the American embassy on 23 July that Portugal would defend the immediate environs of the coastal cities of Goa, Damao, and Diu against attack by "volunteers" based in India. The ministry added, however, that Portugal could not offer effective resistance

in isolated enclaves separated by Indian territory from the main coastal cities.

The Indian government announced on 23 July that it had denied a Portuguese request for permission to move troops from Damao to the inland village of Dadra, which was occupied by "volunteers" on 22 July.

Comment: Armed clashes between Portuguese troops and India-based "volunteers" seem inevitable since India, encouraged by success against the French enclaves, has apparently decided to take over as much Portuguese territory as possible.

The 3,000-odd Portuguese troops on the sub-continent are probably capable of handling any situation in the immediate environs of Goa, Damao, and Diu unless Indian military forces become involved under the guise of "volunteers" or as part of a "police action." At the request of the Portuguese, an informal session of the North Atlantic Council has been scheduled for 26 July.

SOVIET UNION**3. Moscow embassy comments on execution of M. D. Ryumin:**

The trial and execution of M. D. Ryumin, former chief of the investigation section of the Soviet Ministry of State Security, who was denounced and arrested in April 1953

at the time of the repudiation of the doctors' plot, recalls that case to public attention more than a year after it appeared to be closed.

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The Kremlin's action may, according to the American embassy in Moscow, be intended as reassurance to the public that the present committee on state security (KGB) will not have arbitrary power over the lives of Soviet citizens as did the former MGB. The action may also be intended as a warning to Soviet police officials that methods used under Stalin and Beria will no longer be tolerated.

Comment: While the embassy's interpretation appears to be the most plausible, it is also possible that Ryumin's execution is a move against the group within the party presidium that was behind the original plot. Of the present rulers, Malenkov was perhaps most closely identified with the plot, and it is possible that he is the ultimate target.

SOUTHEAST ASIA

4. Communists pleased with "neutralization" campaign in Southeast Asia:

A Chinese Communist journalist at Geneva is quoted [redacted] as declaring, "We have won the first campaign for the neutralization of all Southeast Asia."

Wilfred Burchett, correspondent for the London Daily Worker, is said to have added that neutralization of this area, where "only Thailand" can now be called "hostile" to Peiping, is "most important for continuing a kind of co-existence without war."

Comment: Communist propaganda in the past few days has emphasized that Indochina cannot now join any "aggressive grouping," and has suggested that further "defeats" are in store for American policy in the Far East.

The campaign for "neutralization" of Southeast Asia was actually well under way in 1951, and enjoyed several successes prior to Geneva. Chinese Communist propaganda regularly denounces the Philippines as well as Thailand, apparently in the belief that there is little neutralist sentiment in those governments to be exploited.

~~TOP SECRET~~

~~TOP SECRET~~**5. Growing threat of Vietnamese violence against Frenchmen noted:**

Many extreme nationalists are advocating a campaign of anti-French terrorism, a Vietnamese official in North Vietnam told the American consul on 22 July. The consul anticipates a sharp rise in anti-French sentiment and sees the possibility of attacks against individuals by Vietnamese nationalists or Viet Minh terrorists.

In southern Vietnam, there has as yet been no violent reaction to the Geneva settlement, but French officials are apprehensive and the American embassy believes Vietnamese attitudes toward the French may become progressively embittered.

Comment: Premier Mendes-France told the French National Assembly on 22 July that he had instructed the high commissioner in Vietnam to turn over all administrative functions to local authorities without delay. How this order is carried out locally will be of critical importance in determining not only the Vietnamese attitude toward local Frenchmen, but also the ability of southern Vietnam to develop political and military strength vis-a-vis the Viet Minh.

6. Thailand may look to Communist China as market for surplus rice:

Thailand's rice exports for the first half of 1954 were 481,000 tons as compared to 720,000 tons for the same period last year. The American embassy in Bangkok notes that

with the prospect of a very heavy carryover, the situation is becoming steadily more serious.

A Thai Foreign Ministry official has told an American embassy officer that he expects increased pressure on the government to permit resumption of nonstrategic trade with Communist China, particularly rice, as a result of the Indochina truce. The embassy doubts, however, that Thailand would resume this trade without at least tacit American approval.

- 6 -

~~TOP SECRET~~

25 July 54

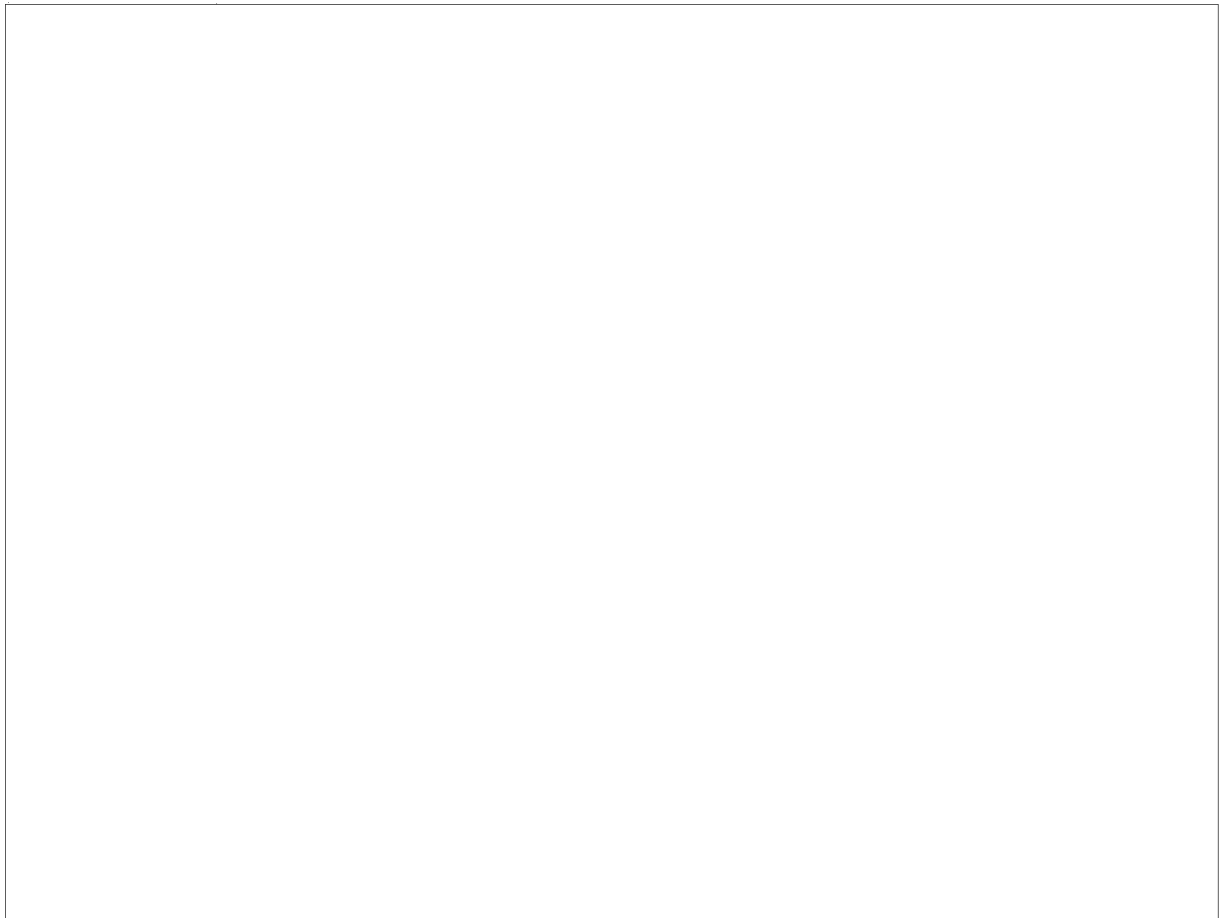
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Comment: Declining rice exports during the past year have presented both Thailand and Burma with serious economic problems. These were largely responsible for Burma's decision to open negotiations for trade agreements with Moscow and Peiping last year. A Burmese agreement with Peiping was concluded this spring but it has not yet resulted in any trade.

Communist China at present exports rice and would be unlikely to purchase rice from Thailand except for political reasons.

NEAR EAST - AFRICA

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7 -

~~TOP SECRET~~

25 July 54

~~TOP SECRET~~

WESTERN EUROPE

8. No change seen in French Communist support for Mendes-France:



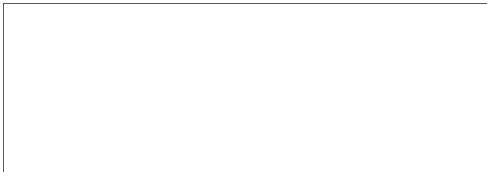
No clear indication of a possible breaking point in Communist support of Premier Mendes-France was evident in the 22 July speech in Paris by French Communist

leader Jacques Duclos, according to Ambassador Dillon. Dillon believes that the major objective of Communist policy is still to wreck Western unity, and that French Communists "may go some distance" before risking the return to power of political elements regarded as subservient to the United States.

Dillon doubts that the Communists will make a crucial issue of the North African situation despite Duclos' call for ending "colonial terrorism." Duclos also called for popular economic reforms, to be financed by savings from a proposed cut in the military service term.


LATIN AMERICA

9. Two Costa Rican towns reported raided by rebel band:



Followers of former Costa Rican president Calderon Guardia reportedly attacked the Costa Rican towns of Vara Blanca and Cariblanco early on 23 July, cut telegraph

lines at two points, and stole a number of trucks.

On 24 July the Costa Rican vice minister of public security stated,  that no further outbreaks had occurred, but that Costa Ricans who had witnessed the attacks quoted the raiders as stating 2,000 additional men would come from Nicaragua to join them.

The attackers, estimated by witnesses to number about 25 poorly armed men, were reported early on 24 July to be moving north toward the Nicaraguan border with elements of the Costa Rican civil guard in pursuit.

- 8 -

~~TOP SECRET~~

25 July 54

~~TOP SECRET~~

Comment: These raids, though by an apparently small and isolated group, could be the prelude to a long-rumored attempt to overthrow the Figueres administration of Costa Rica by Nicaragua and Venezuela operating through followers of Calderon Guardia. About 40 miles of underpopulated and underdeveloped territory lie between the Nicaraguan border and the two towns reportedly attacked, which are on the fringes of Costa Rica's populous central plateau.

- 9 -

~~TOP SECRET~~

25 July 54