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26 May 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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T H E W E E K I N B R I E F

PART I

OF IMMEDIATE INTEREST

FOUR-POWER CONFERENCE Page 1

The USSR continued last week to press for a relaxation of international tension through "businesslike" negotiations at the "summit" and stressed that the broad range of issues to be discussed could not adequately be covered in three or four days. At the same time, however, Moscow warned that the status of the Eastern European Satellites and the international Communist movement were not negotiable issues. [redacted]

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SOVIET-YUGOSLAV CONFERENCE Page 1

The Soviet-Yugoslav conference in Belgrade is unlikely to produce any major shift in Yugoslav policy. Soviet leaders Khrushchev and Bulganin would hardly have consented to the trip, however, if they were not reasonably certain that the two governments can announce substantial areas of agreement at the end of the visit. [redacted]

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SOUTH VIETNAM Page 2

The rapid reinforcement of Vietnam army troops in the Hoa Hao area in western Cochinchina is designed to force the rebels to accept government terms for the integration of their troops into the national army. Premier Diem continues to press for a high-level conference of French, British, American, and Vietnamese representatives. [redacted]

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PART II

NOTES AND COMMENTS

Satellite Reaction to Soviet Visit to Belgrade: Soviet overtures to Yugoslavia, the only independent Communist regime outside the Sino-Soviet bloc, may gradually strengthen independent nationalist sentiment among the Satellite populations and even within the Satellite Communist parties. [redacted] Page 1

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THE WEEK IN BRIEF

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Soviet-Japanese Negotiations: In the negotiations with Japan, scheduled to open in London in early June, the USSR's main objective will probably be to gain quick agreement to a resumption of diplomatic relations. The more troublesome territorial issues are likely to be left for future deliberation. [redacted] . . . Page 2

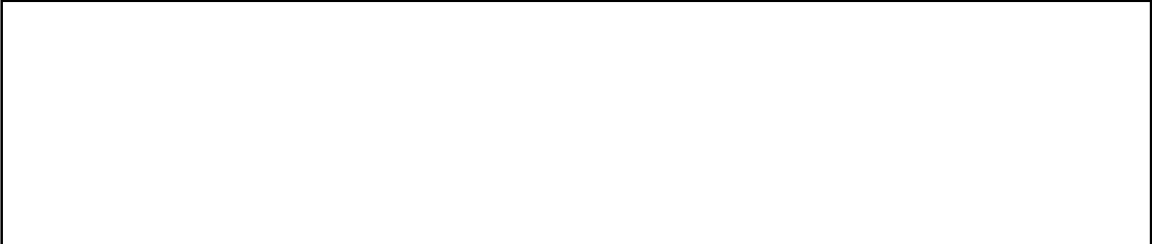
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East Germans Remain Firm on Toll Issue: East Germany, backed by the Soviet Union, is holding to its uncompromising position on the truck toll question and is threatening retaliatory measures against the selective West German embargo. Soviet ambassador Pushkin made clear at the high commissioners' meeting on 20 May, as have East German leaders, that the purpose of the truck toll is to force de facto recognition of East Germany by the Federal Republic. [redacted] Page 2

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Latest Communist Tactic Against German Rearmament: The French and East German Communist parties are actively assisting the feeble Communist Party of West Germany in trying to organize a broad antirearmament front in West Germany. The campaign is aimed chiefly at gaining the co-operation of the West German trade unions and the Social Democratic Party, both of which are staunchly anti-Communist but are opposed to Chancellor Adenauer's rearmament program. [redacted] . . . Page 3

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USSR Offers New Incentives for Corn Production: A recent Soviet decree indicates keen concern by the Soviet leadership over the lag in the corn expansion program. Party First Secretary Khrushchev has been the principal advocate of this program. [redacted] . . . Page 5

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Formosa Straits: There was no significant ground or air activity in the Formosa Straits area this week. Chinese Communist military training and construction work on airfields and artillery positions in the coastal region continues. [redacted] . . . Page 6

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Growing Diplomatic Isolation of Rhee Regime: The growing diplomatic isolation of the Rhee regime is highlighted by South Korea's refusal to attend a conference of the Asian People's Anti-Communist League because Nationalist China had invited Japanese observers. [redacted] Page 7

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North Vietnam: With Viet Minh control over North Vietnam complete, following the acquisition of the port of Haiphong on 13 May, French influence--except as represented by the Sainteny mission--has been virtually eliminated from north of the 17th parallel. Russians as well as Chinese have arrived in considerable numbers to help the Viet Minh regime. The country faces a severe food shortage and control measures over the population are being tightened. [redacted] Page 8

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Singapore Riots Indicative of Communist Strength: Communist influence has increased in Singapore's Chinese community as a result of the recent strikes and riots. The Communists are now in a position to create more serious trouble whenever they choose. British authorities are reluctant to take strong countermeasures for fear of undermining the efforts of the fledgling local government and alienating Britain's friends in Asia. [redacted] Page 10

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Afghan-Pakistani Situation: Since Pakistan rejected the terms of the Saudi Arabian "forgive and forget" mediation offer on 19 May, the activities of both Afghanistan and Pakistan, as well as would-be "mediators," have apparently centered around trying to decide what matters should be investigated by Egypt, Iraq, Iran, and Turkey and whether these matters should be studied by these nations jointly or separately. [redacted] Page 11

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Algeria: The security situation in eastern Algeria has deteriorated since a state of emergency was declared on 7 April. The French government has reinforced military and police forces assigned to the area. [redacted] Page 12

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Dutch Cabinet Crisis: There is little likelihood that another Dutch government can soon be formed to replace the Drees coalition cabinet which fell on 17 May over a bill on rent increases. [redacted] . Page 12

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Honduran-Nicaraguan Border Dispute: The border dispute between Honduras and Nicaragua, which erupted anew in early May, is aggravated by internal politics in Honduras. Serious violence is unlikely, though there may be minor border clashes. The issue may eventually be referred to the International Court of Justice or the Organization of American States. [redacted] Page 13

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PART III

PATTERNS AND PERSPECTIVES

PROGRAMS TO OVERCOME SATELLITE MILITARY DEFICIENCIES . . . Page 1

The formation of the Soviet-Satellite combined military command will probably be followed by continued efforts to improve the effectiveness of the East European armed forces. Increased military allocations in four of the five Satellite budgets thus far announced underline the importance the bloc attaches to this program.

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IRAN'S STABILITY THREATENED BY RESURGENCE OF RELIGIOUS FANATICISM Page 4

The steps the Iranian government has taken against the Bahai religious sect indicate the government's susceptibility to pressure from the fanatic Moslem clergy which may attempt to regain its traditional influence in civil affairs. [redacted]

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JAPAN'S FOREIGN TRADE PROSPECTS IN 1955 Page 6

Japanese foreign trade may remain in the black during 1955, but by a small margin. A number of temporary factors, which helped Japan achieve a payments surplus equivalent to \$100,000,000 in 1954, will probably decline in importance, and a deficit may occur in the dollar accounts. This would intensify pressure in Japan for increasing trade with the Sino-Soviet bloc. [redacted]

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PART I

OF IMMEDIATE INTEREST

FOUR-POWER CONFERENCE

The USSR continued last week to press for a relaxation of international tension through "businesslike" negotiations at the "summit."

Soviet propaganda stressed the line that Moscow is the sincere champion of negotiations and peace while the Western powers are trying to prevent "honest negotiations" by raising "technical obstacles" regarding the place and duration of the conference.

Molotov's presence at the special session of the United Nations General Assembly in San Francisco in June may afford an occasion to work out final arrangements for the heads of government conference.

Moscow maintained its insistence that the conference should discuss a broad range of issues and stressed that consideration of urgent in-

ternational problems cannot be completed in three or four days.

The USSR made clear that neither the "Communist progressive movement" in capitalist countries nor the status of the Eastern European Satellites is a negotiable issue. A Pravda editorial on 21 May stated flatly that "there can be no question" of raising such subjects at a "businesslike" conference.

Moscow's sensitiveness on this subject was reflected by Pravda's charge that Dulles' description of the Austrian treaty as a victory for "policies of strength and firmness" was designed to prepare the ground for a "wild proposal" that the conference discuss the question of restoring the "old regimes in the People's Democracies" and banning the Communist movement in capitalist countries.

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SOVIET-YUGOSLAV CONFERENCE

The Yugoslav-Soviet conference in Belgrade is unlikely to produce any major shift in Yugoslav policy. Soviet leaders Khrushchev and Bulganin would hardly have consented to the trip, however, if they were not reasonably certain that the two governments can announce substantial areas of agreement at the end of the visit.

The leaders of the two countries can easily agree on

a joint statement renouncing aggression and endorsing peaceful coexistence.

There may also be some general statement urging consideration of the unification of Germany and the reduction of armaments. The Yugoslav foreign minister assured the French and British ambassadors this week, however, that his government would not join the USSR in endorsing the neutralization of Germany.

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Agreements expanding the present trade arrangement of \$10,000,000 each way annually and providing for the return of Yugoslav nationals held in the USSR are likely to be concluded.

Cultural exchanges and perhaps even economic and technical assistance agreements may be arranged. In particular, the USSR may extend to Yugoslavia its offer to share knowledge on peaceful uses of atomic energy. Reciprocal civil aviation privileges may also be discussed.

It is conceivable that the two countries might conclude a nonaggression pact which the Yugoslavs would feel they could rationalize to the satisfaction of their Balkan allies. Yugoslavia is unlikely, however, to join the Eastern European Defense Command or to take steps flatly inconsistent with its present Balkan commitments or strongly prejudicial to its continued receipt of Western aid.

Since First Secretary Khrushchev is heading the Soviet delegation, party relations are almost certain to be a subject for discussion despite the Yugo-

slavs' protestations that they do not wish to talk about them. While the Yugoslavs might agree to some party arrangements which would enhance the prestige of Yugoslav Communism, they would not agree to any relationship which would weaken the party's independent position.

There has been speculation that the Cominform, the instrument used to oust Tito from the bloc in 1948, might be abolished. The USSR may consider this gesture useful as an earnest of Soviet good intentions toward Yugoslavia, as well as another manifestation of Soviet desire to reduce international tensions. The Cominform's coordinating and informational functions would then, however, be continued under another guise.

The Yugoslavs probably will not be taken in by gestures of this kind and would consent to re-establish close Communist Party relations with the Soviet bloc only in the unlikely event that the USSR appeared thoroughly committed to the liberation of the Satellites and toleration of independent national Communism.

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SOUTH VIETNAM

The rapid reinforcement of Vietnam army troops in the Hoa Hao area in western Cochinchina during the past week is designed to force the rebels to accept government terms for the integration of their troops into the national army.

In a further effort to strengthen his position prior to consultations with the Viet Minh on the 1956 elections,

Premier Diem is pressing for a high-level conference of French, British, American, and Vietnamese representatives. The Geneva agreement stipulates that discussions on the elections are to take place by 20 July.

The Vietnamese army now has about 15,000 troops in the area of Hoa Hao influence. All major cities are under government control.

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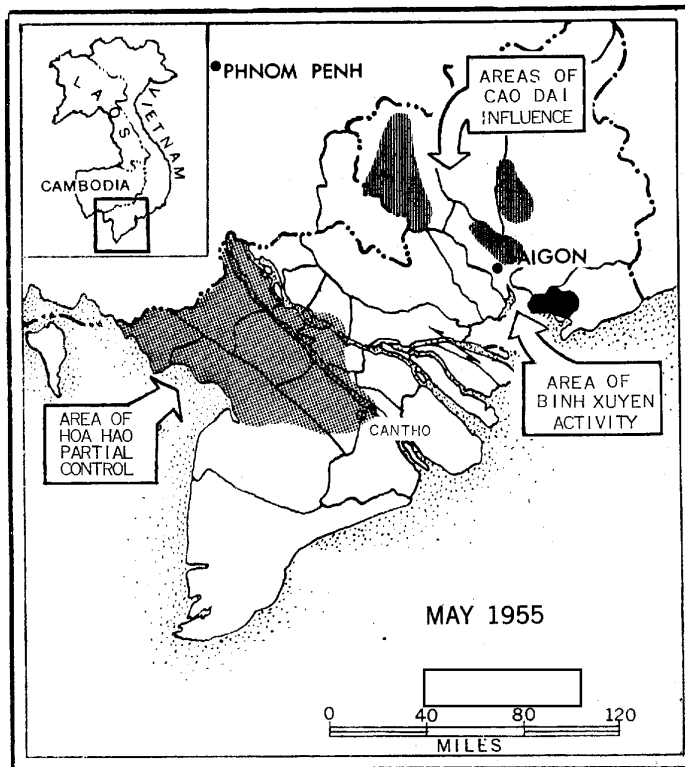
According to the American army attaché, troop strengths of the dissident Hoa Hao commanders are: General Soai, 7,500; Ba Cut, 3,300; Lam Thanh Nguyen, 4,000. National army units are vastly superior in firepower, and unity among the rebel commanders is by no means assured.

A government spokesman has stated that no general offensive would be launched against the rebels unless they initiated hostilities. Tentative negotiations between the government and Hoa Hao leaders are under way, but the government is not likely to prove patient in the face of drawn-out haggling.

Premier Diem fears that unless centers of dissident activity such as that of the Hoa Hao can be promptly neutralized, the French will be tempted to connive to subvert his government. He points out that General Hinh, now at the headquarters of Hoa Hao general Tran Van Soai, has never renounced his French citizenship and is an officer in the French air force and that his present activities are therefore the responsibility of the French government.



Diem considers a purported Viet Minh plan to step up



activity in South Vietnam in July as justification for an energetic government security program. The security effort is being supplemented by the arrest and questioning of

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numerous persons who have been close to Bao Dai, dissident elements, or the French authorities. The reported house arrest of nationalist leader Phan Huy Quat suggests that the government may be pushing the principle of security to extremes.

The French government has responded favorably to the Vietnamese request for a conference in Saigon, but has demurred at the idea of a foreign ministers' meeting. It has suggested to the American embassy in Paris that a conference with Vietnam of the permanent representatives of the three Western powers

would be preferable and has stressed the importance of a joint French-British-American policy on the 1956 elections prior to a meeting with the Vietnamese.

This is contrary to the position of the Vietnamese government, which has recently hinted it would seek to avoid the elections. It presumably hopes to develop a Vietnam-American-British alignment against the French on behalf of such Vietnamese objectives as the withdrawal of the French Expeditionary Corps, at least from Saigon. [redacted]

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PART II

NOTES AND COMMENTS

Satellite Reaction To Soviet Visit to Belgrade

The visit of Soviet leaders Khrushchev and Bulganin to Belgrade climaxes a series of measures demonstrating the willingness of the USSR to reach an accommodation with an independent Communist regime outside the Sino-Soviet bloc and to deal with it on the basis of sovereignty and equality.

A Pravda editorial of 20 May was probably intended to satisfy Yugoslav demands for public recognition by the Kremlin of the validity of the Yugoslav brand of Communism.

While recognizing "fundamental differences in our understanding of a number of important problems of social development," the article called attention to such similarities between the two systems as national ownership of the means of production and the existence of societies based on the militant alliance of the "working class and the toiling peasantry."

Pravda also said that both states followed a policy of noninterference in the internal affairs of other countries. Soviet interference in Yugoslav affairs was a major cause of the Soviet-Yugoslav split in 1948.

Before going so far in recognizing Yugoslav Communism, the Kremlin must have considered the effects of this policy on Soviet relations with the European Satellites.

The Yugoslav minister to Budapest told the American minister on 20 May that "one of the most significant effects of the Soviet tour to Belgrade will be its negating influence on Cominform dogma." He said that he knew from his connections with second-level Hungarian party leaders that they already questioned the infallibility of the Cominform which ousted Tito, and that this doubt was bound to spread throughout the Satellites.

The Yugoslavs have also advanced the theory that a rapprochement with the USSR may result in the purge or demotion of Satellite leaders who had been active anti-Titoists. There is no evidence at present, however, that any of those leaders presently active are likely to be purged. For example, the position of Hungarian leader Rakosi, who played an important role in Tito's ouster, has only recently been strengthened.

The Kremlin's policy of rapprochement with a Communist regime that has openly and successfully defied Moscow's pressure may strengthen independent nationalist sentiment among the Satellite populations and even within the Satellite Communist parties. The Soviet overtures to Yugoslavia, however, will probably not result in a Titoist uprising in any Satellite in the foreseeable future, because of the effectiveness of the Kremlin's control mechanism.

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Soviet-Japanese Negotiations

In the negotiations scheduled to open in London in early June, Moscow will probably try to gain quick agreement to a resumption of diplomatic relations. Such an agreement is likely to include a token pledge that neither country will intervene in the other's internal affairs.

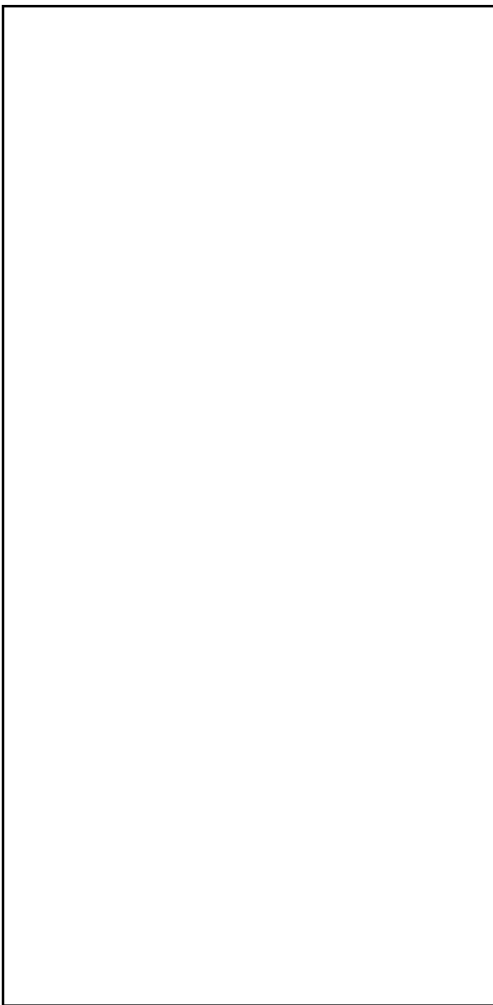
The more troublesome territorial issues will probably be left for future deliberation. The Soviet negotiators thus would avoid embarrassing sources of friction, and the USSR would retain territory for later concessions, particularly if neutralist sentiment should grow to a point where the Tokyo government would reconsider the granting of American base rights in Japan.

Soviet commentary since December, when the question of resuming relations with Japan became a real issue again, has hinted that Moscow will not demand renunciation by Japan of its security ties with the United States as a precondition to the establishment of normal diplomatic and trade relations.

If the issue of a neutrality pact is raised by the Kremlin representatives, they will probably be trying to exacerbate American-Japanese relations rather than to raise a serious condition for settlement.

If the question of the return of former Japanese

territory now held by the USSR should arise, the USSR would probably try to treat this problem as related to the withdrawal of American forces from bases in Japan and the Ryukyus.



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East Germans Remain Firm
On Toll Issue

East Germany, backed by the Soviet Union, is holding to its uncompromising position on the truck toll question

and threatening retaliatory measures against the selective West German embargo.

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Soviet ambassador Pushkin made clear at the high commissioners' meeting on 20 May, as have East German leaders, that the purpose of the truck toll is to force de facto recognition of East Germany by the Federal Republic.

Pushkin declared that East Germany is "master of the roads" in its territory and reiterated his previous view that the toll question must be solved by direct negotiations between East and West German authorities. Following the Soviet declaration, the East German Transport Ministry promptly repeated its standing offer to negotiate with its West German counterpart.

West Germany has maintained its position that the truck toll question falls within the competence of the high commissioners and has steadfastly refused to negotiate on East German terms. Following the meeting of the ambassadors, West German deputy foreign minister Hallstein stated that he was prepared to support drastic economic measures against East Germany in spite of reprisals, provided he received the backing of the Western powers.

The East German representative at the regular fortnightly meeting of the interzonal trade

commission on 17 May threatened to retaliate against the selective West German embargo on shipments of Ruhr steel and machinery by curtailing the export of coal briquettes to West Germany. This move would strike at West Berlin, which depends on East German briquettes for heating. West Berlin has on hand, however, a year's supply of briquettes.

A number of new harassing measures against West Berlin have been put into effect during the past two weeks. Customs officials at Autobahn checkpoints began searching private travelers for the first time in over a year. East German authorities have provided arms for customs officials at all road and water checkpoints.

Twelve Western trucks seized earlier while carrying scrap have been confiscated. Two barges have been confiscated and 12 more detained with prospects that they will also be confiscated. Western barges have been barred from the Plauer Canal and forced to use the inconvenient Havel River, have been restricted to certain specified docking points, and their crews forced to remain on board during transit through East Germany.

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Latest Communist Tactic
Against German Rearmament

The French and East German Communist parties are actively assisting the feeble Communist Party of West Germany in trying to organize a broad antirearmament front in West Germany.

The campaign is aimed chiefly at gaining the cooperation of the Federation of

West German Trade Unions and the Social Democratic Party, both staunchly anti-Communist but opposed to Chancellor Adenauer's rearmament program.

Communist propaganda has pointed out that since the signing of the accords, a new situation exists in which the German working class is attacked

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by an economic conspiracy of the West.



New impetus was given the campaign in May during the Liberation Day celebrations in East Germany. Both Marshal Zhukov and East German Communist leader Walter Ulbricht reiterated the necessity of joint mass action against rearmament in West Germany.

Ulbricht stated bluntly that if the Social Democrats really believed in their professed goal of German reunification, the first thing they must do is collaborate with the Communists on this issue. Simultaneously, the West German Communists released general proposals for the reunification of Germany in connection with which they again stressed the necessity of collaboration with the Social Democrats.

The French Communist General Confederation of Trade Unions has followed the lead

of the East German federation, which has stepped up the exchange of labor delegations with West Germany at all levels since last fall. French Communist leader Jacques Duclos addressed a workers' rally at Dortmund in February.

The three Communist parties have made it quite clear that they would like a movement resting principally on West German labor, and directed jointly by the West German Communists and the Social Democrats. It would actually be controlled by the East German Communist Party and trade union organizations.

The French Communists would co-operate in the general development of the West German campaign, at the same time trying to create an interlocking relationship between Communist-dominated labor movements in all three areas.

Such a French-German working class relationship would not only have short-range value in harassing West German rearmament; it would also open up possibilities of a long-range influence on the future of Western Europe.

Even with the support of the French and East German parties, however, the West German Communists are not likely to have any appreciable success in gaining the collaboration of either the trade unions or the Social Democrats.



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USSR Offers New Incentives
For Corn Production

The Soviet agricultural press on 21 May published a decree of the party and government ordering a sharp increase in material incentives for raising corn production. According to the decree, farm workers will receive up to 15 percent of the corn crop harvested over and above the pay normally due them.

This action, by a government which has given material

incentives less attention in its propaganda than did the Malenkov regime, indicates keen concern by the Soviet leadership over the lag in the corn expansion program. Party First Secretary N. S. Khrushchev has been the principal advocate of this program as the solution to the USSR's agricultural problem. His personal prestige is involved in the success of the program.

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An obvious reluctance to expand corn acreage rapidly is caused by relatively high labor costs and unfamiliarity of the peasants with this crop. By 15 May, only 20,000,000 acres had been sown to corn, although the 1955 target calls for almost 40,000,000 acres. Long-range plans call for 70,000,000 acres by 1960.

The current emphasis on production of corn is reminiscent of the emphasis given in the past to the production of other crops or to special agricultural techniques publicized

as cure-alls for Soviet agriculture.

There is at present no major food crisis in the USSR, and the production of food was slightly larger in 1954 than in 1953. Output is still below the prewar level, however, and the population has increased by 13 percent since 1938.

The new corn program is one more effort to find a means of reversing these disquieting trends and thus prevent a possible future crisis. [redacted] (Prepared jointly with ORR)

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Formosa Straits

There was no significant ground or air activity in the Formosa Straits area this week. Chinese Communist military training and construction work on airfields and artillery positions in the coastal region continues.



Chinese Communist naval operations this week near the offshore islands were normal. There has, however, been an increase in the number of sightings of lightly armed Communist patrol craft in the area between Foochow and the Choushan Islands, 100 miles south of Shanghai. This suggests that

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there may be a build-up of these small craft, which are of minor importance, north of the Matsus.

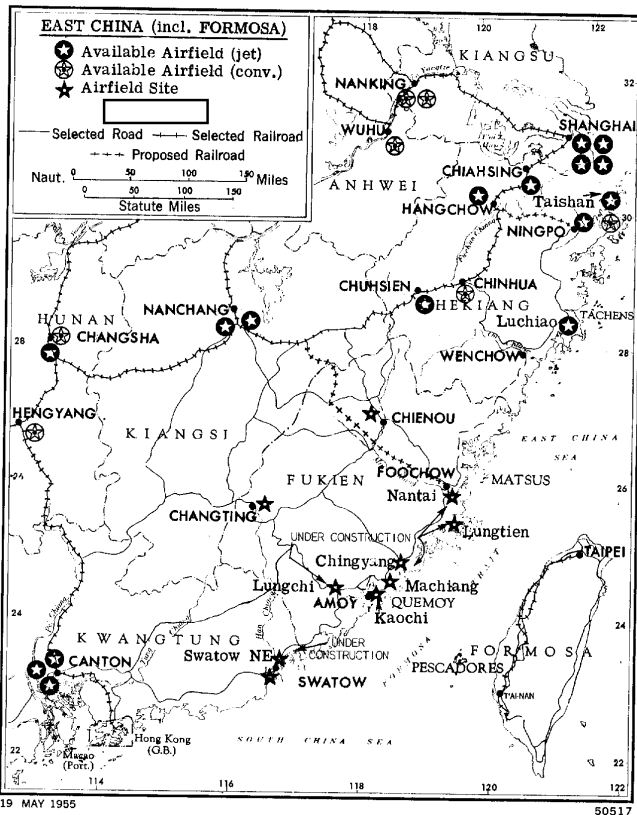
The Chinese Nationalists are preparing to increase their artillery strength in the Quemoy Islands in June. Artillery units

of five divisions there will be brought to full strength, and artillery weapons will be increased from 171 to 259 pieces.

There has been no further clarification of the Chinese Communist position on negotiations with the United States.

The British officials who have talked with Chou En-lai during the past two weeks are reported to believe that Chou's promised position paper on Formosa will not differ appreciably from his report to the government on 13 May.

Chou in that report reiterated the regime's willingness to negotiate, but also reaffirmed Peiping's hard line on substantive matters. The Chinese Communists for the past month have consistently asserted that there is no need for a cease-fire, that Formosa's fate is a domestic Chinese affair, and that Sino-American negotiations can be concerned only with the American "occupation" of Formosa.



Growing Diplomatic Isolation Of Rhee Regime

South Korea's refusal to attend a conference of the Asian People's Anti-Communist League, because Nationalist China had invited Japanese observers, emphasizes the grow-

ing diplomatic isolation of the Rhee regime.

One of Rhee's motives in establishing the league in 1954 was to displace Japan as the

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main American bastion in the western Pacific and he now seems willing to dissolve the league rather than accept Japanese participation.

An immediate result of the South Korean boycott was an "indefinite" postponement of this second league conference, a considerable concession to President Rhee.

There has also been talk that South Korea would organize a new anti-Communist league, excluding Nationalist China. However, in virtually destroying the present organization, South Korea lost an opportunity to assume leadership of a group which might have included unofficial representatives from

Japan, India and Indonesia. Furthermore, the Rhee regime strained its relations with Nationalist China without noticeably affecting the Chinese Nationalist policy of friendship toward Japan.

The South Korean break with the league came on the heels of the Rhee regime's unsuccessful opposition to the Bandung conference, to which South Korea was not invited, and at a time when South Korean overtures to the Manila pact nations have brought forth little response. Simultaneously, South Korea's denunciation of Japan and demands for a preventive war against Communism have irritated nations anxious to minimize tensions in the Far East.

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North Vietnam

With Viet Minh control over North Vietnam complete, following the acquisition of the port of Haiphong on 13 May, French influence--except as represented by the Sainteny mission--has been virtually eliminated from north of the 17th parallel.

Sainteny has said it will be the Chinese who replace the French, but the size of the Soviet economic assistance program suggests that the Russians will at least be prominent.

With the exception of the Hanoi Tramways Company, all important French business interests in North Vietnam have been liquidated.

The Sainteny mission's efforts to ensure the survival of French cultural interests has shown negligible results and Sainteny intimated to the American consul at Hanoi on 17 May that his mission might soon leave Vietnam.

The Chinese Communists have technicians at Hanoi's civil airport. There also are reported to be Chinese advisers in Viet Minh ministries.

The Viet Minh announced on 14 May that it planned to open consulates at Kunming and Nanning, and the Chinese Communists are to establish one at

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Haiphong, probably in anticipation of increased Sino-Vietnamese trade.

Direct Soviet participation in Viet Minh affairs has increased since the fall of 1954, when a Soviet diplomatic mission arrived.

The rice harvest in the Viet Minh zone during 1954 was 22 to 30 percent below that of an average year. If the rice crop now being harvested is poor, the Viet Minh will be dependent on Orbit shipments to cope with famine conditions for the next six months.

The cost of living of an average working-class family has risen 25 percent since last October. Rice now costs twice as much as it did last September.

The Viet Minh has instituted a series of police-state measures designed to consolidate its control over the population. Hanoi residents must report immediately to the police the presence of temporary lodgers or any change in family status. "Self-criticism" meetings between businessmen and government tax collectors and a number of public trials in April and May are other instances of

widening use of Communist control techniques.

The American consul in Hanoi reports that the people there appear to submit readily to regimentation. He also reports that the regime is proceeding skillfully with "carrot and stick" tactics against the Catholic community and there are indications that a few soft spots may appear in that group.

An indication that the Viet Minh will "purify" administrative organs in rural areas was contained in a 9 May broadcast that noted that "feudalists" had crept into village organizations during the period since 1945 in order to defend their own interests.

A reorganization of local government organs and the extension of the regime's control apparatus in rural areas serve the added function of preparing for the 1956 elections for the unification of Vietnam. The Viet Minh has consistently affirmed its desire to participate in the elections and to that end has expanded its united front organization, the Lien Viet, to include groups not previously a part of the front.

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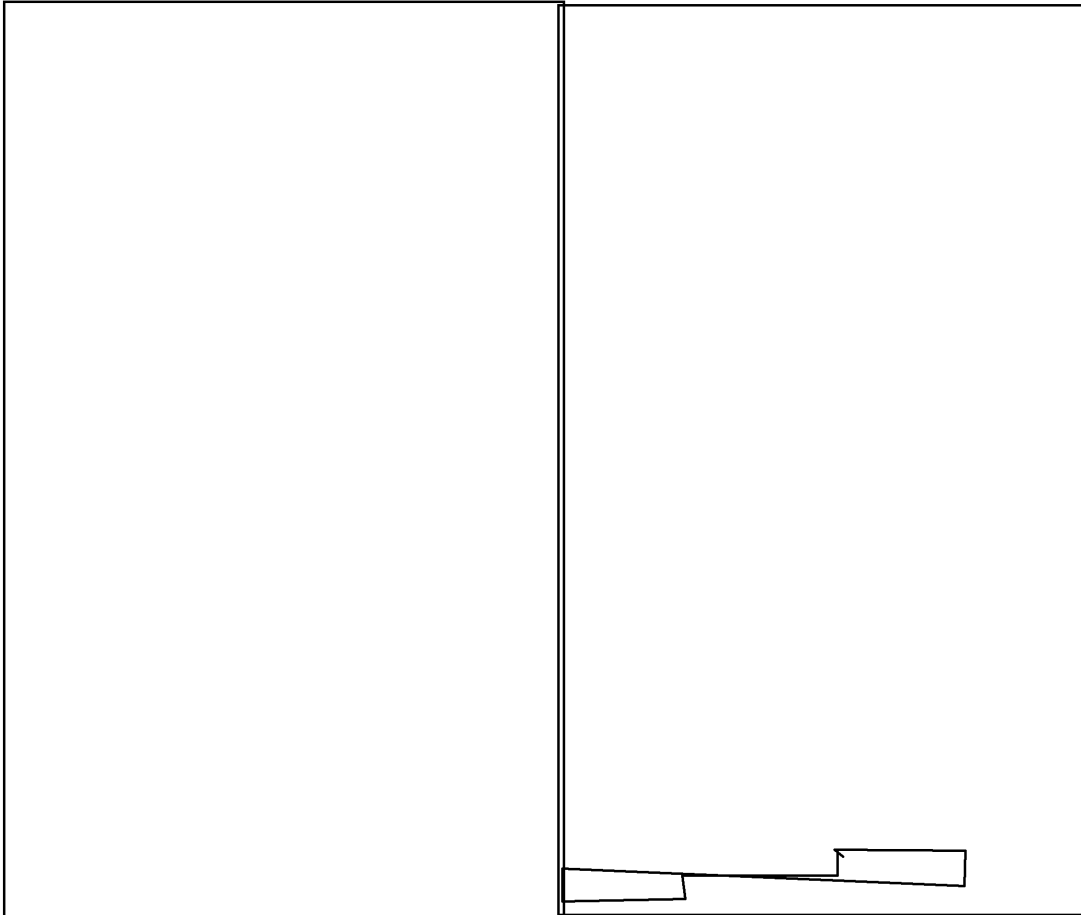
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Singapore Riots Indicative
of Communist Strength

Singapore has been outwardly calm since the Communist-inspired riots of 12-13 May, but the situation remains uneasy. The Communists successfully demonstrated that they are capable of creating serious trouble whenever they desire.

The riots, which were precipitated by striking Communist-dominated unions and supported by several thousand

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pro-Communist students, did not lead to a final showdown. The situation remained a police problem throughout; army units were not used to restore order.

Several sources regard this limited uprising as a Communist effort to embarrass Singapore's left-of-center government which the Communists fear may capture the popular imagination. The recent installation of this government under the terms of a new constitution was an important step in the direction of local self-government.

The Communists achieved a number of objectives. They enhanced their power position in the Chinese community of over 800,000 persons since anti-Communist elements have--at least for the present--been thoroughly intimidated.

The fact that the striking unions gained most of their demands is already being

exploited by the Communists to encourage other unions to use forceful means to wring concessions from employers. The government's backdown from its announced intention to eliminate subversion in Chinese schools has been interpreted by the students as a sign of weakness.

Moreover, the government's inclination to temporize, despite a strong vote of confidence on 16 May with regard to its handling of the riots, is not likely to stimulate much confidence among the Chinese.

This attitude is apparently condoned by British officials who, while recognizing that the situation is deteriorating, feel that it is preferable to make concessions rather than resort to force. They believe that use of force would end the movement toward self-government and alienate British friends in Asia. [redacted]

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Afghan-Pakistani Situation

There has been no significant development in the Afghan-Pakistani dispute during the past week.

Since Pakistan rejected the terms of the Saudi Arabian "forgive and forget" mediation offer on 19 May, the activities of both Afghanistan and Pakistan, as well as would-be "mediators," have apparently centered around trying to decide what matters should be investigated by Egypt, Iraq, Iran, and Turkey and whether these matters should be studied by these nations jointly or separately.

Meanwhile, agricultural activities, economic development

projects, and government administration in Afghanistan have been disrupted by the departure of men called up by the military mobilization order of 4 May.

Disruption of normal trade and traffic across the Afghan-Pakistani border is also producing shortages of a few essential commodities in Afghanistan.

This raises the problem of Afghanistan's turning toward the USSR to ease critical shortages. Prime Minister Daud is not likely to request any considerable increase in Soviet aid unless or until he is certain that the current "mediation" efforts are likely to fail. [redacted]

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Algeria

The security situation in eastern Algeria has deteriorated so greatly since a state of emergency was declared on 7 April that the French government has substantially reinforced military and police forces assigned to the area.

Reinforcements and the activation of reserves bring army strength from 90,000 to more than 100,000 men and should provide sufficient forces for the authorities to break up the operations of an estimated 1,500 armed dissidents.

Evidence of sympathy for the dissidents by some of the 35,000 North African Moslem troops in the French army in Algeria poses an additional problem and has resulted in a decision to rotate some of these units to Germany.

The American consul in Algiers reports, after a visit to eastern Algeria, that measures taken thus far have proved inept and unsuccessful. In many instances, French settlers have abandoned their holdings for the security of the cities; some of them, armed by the authorities, seem determined to take countermeasures.

The Moslems, on the other hand, generally are sullen and resentful. They claim that security precautions are designed to protect the Europeans, while they are without protection.

The American consul feels that the atmosphere is gloomy and that antagonisms between the French and Moslems are increasing steadily.

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25X1Dutch Cabinet Crisis

There is little likelihood that another Dutch government can be formed soon to replace the Drees coalition cabinet which fell on 17 May over a bill on rent increases. Several weeks may elapse, however, before a decision is reached to dissolve the lower house and schedule new elections.

A leader of one of the smaller parties, such as Defense Minister Cornelis Staf, may be called upon to attempt to resolve the crisis.

In any case, Dutch foreign and defense policies will not be at issue. Premier Drees, an able compromiser who is respected by all the non-Communist political parties, is apparently anxious to re-

tire from active political life.

Although Labor deputies precipitated the crisis by voting against the rent bill, the Labor Party council recently reiterated its willingness to resume governmental responsibility and may be agreeable to reconstituting the Labor-Catholic People's coalition without elections.

On the other hand, some elements in both the Labor and Catholic People's Party, the two leading political parties, favor elections instead of waiting until next year and meanwhile continuing present compromises. Tension between these two parties has heightened over the past year, and

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the usual difficulties of forming a cabinet will be complicated by the need to reach agreement on the rent bill.

The formation of a business, or nonpolitical cabinet, as has been proposed in some quarters, would be only a temporary solution. A coalition of the Catholic Party and the other confessional parties

without Labor Party participation would likely alienate Catholic trade union elements.

The Catholic People's and Labor Parties each hold nearly one third of the seats in parliament. Little or no change in the political lineup is expected whenever new elections are held. [redacted]

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Honduran-Nicaraguan
Border Dispute

The century-old border dispute between Honduras and Nicaragua, which erupted anew in early May, probably cannot be settled bilaterally. The issue may eventually be referred to the International Court of Justice or to the Organization of American States.

The area in dispute is relatively large but consists mainly of jungle and swamps. It is sparsely populated and has not been under the effective control of either country. An arbitral award by the king of Spain in 1906 favored the Honduran claim, but this has never been recognized by Nicaragua.

The current controversy began early in May when, according to Honduran reports, Nicaraguan troops guarding a road gang penetrated territory claimed by Honduras. The Honduran government sent a strong note to Nicaragua on 10 May, and the next day dispatched 200 armed volunteers to the border area. The general commanding this force, however, was cautioned against hostile action.

These moves by the Lozano government came at a time when its popular support appeared to be weakening. They brought out the strongest and most enthusiastic domestic backing the government has enjoyed since it came to power six months ago.

The initial reaction in Nicaragua was to play down the dispute. President Somoza denied the Honduran charge, attributed the entire affair to internal Honduran politics, and said he could see no reason for border trouble "unless Honduras provokes it."

Soon, however, the issue aroused political pressures, and on 18 May the congress passed a motion urging Somoza to send troops to the border. Even the bitterly anti-Somoza Conservative party deputies backed the motion.

It is unlikely that the dispute can be settled bilaterally. Honduras, standing firm on the 1906 award, has already rejected a Nicaraguan suggestion that the disputed area be equally divided. No

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Honduran government could compromise on this dispute without risking serious internal political repercussions. The issue will probably be eventually referred to the International Court of Justice or the Organization of American States.

Serious violence is unlikely, since both sides appear anxious to avoid intensifying the conflict. The presence of troops of both countries in or near disputed territory, however, might lead to incidents.



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PART III

PATTERNS AND PERSPECTIVESPROGRAMS TO OVERCOME SATELLITE MILITARY DEFICIENCIES

The formation of the Soviet-Satellite combined military command will probably be followed by continued efforts to improve the effectiveness of the East European armed forces. Increased military allocations in four of the five Satellite budgets thus far announced--Albania, Czechoslovakia, Hungary, and Poland--underline the importance the bloc attaches to this program.

The emphasis this year will probably be on augmenting and modernizing equipment holdings.

Programs to accomplish these aims will result in increased purchases of new and used military equipment from the USSR, and, to a limited extent, expanded Satellite arms production.

The USSR apparently considers that first priority should be given to improving and modernizing units which contribute significantly to defensive capabilities such as anti-aircraft, electronics and modern communications.

In Budapest, for example, large numbers of AA guns are apparently being modified for use with fire-control radar. The numbers involved appear to be in excess of immediate Hungarian needs and some radar-equipped batteries could be for distribution to other Satellite countries..

Ground Force Programs

In line with the continuing Sovietization of Satellite ground forces, steps are being taken to improve the balance between Satellite infantry and armored formations. This requires conversion of a number of rifle divisions to tank or

mechanized divisions, and there has already been evidence that the Hungarian 5th Rifle Division is being mechanized.

There has also been evidence of the formation of new units in some Satellite armies.

In April, a new unidentified mechanized division was accepted in Rumania. In the same month, an additional anti-aircraft division was accepted in Hungary.

In East Germany during May, there were indications of the formation of a third corps, which would probably have an organization, consisting of one mechanized and two rifle divisions, similar to that of the two existing KVP (Garrisoned Peoples Police) corps.

To accomplish these changes, considerable amounts of material are required. Second-hand Soviet equipment in significant quantities may be available to the Satellite armies this year because of the extensive equipment modernization program for Soviet forces in Eastern Europe which has been in progress for several years.

These improvements in Satellite ground force capabilities can be effected without personnel increases, and normal registration, call-ups and releases in the fall of 1954 and the spring of 1955 suggest that no increase in personnel strength is likely this year.

Air Force Programs

The light bomber aircraft re-equipment program which started in the Polish air force as early as 1953 is now being extended to the other Satellites.

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The Czech, Hungarian and Rumanian air forces have received a few BUTCHER (IL-28) jet light bombers this year, and will probably receive more.

Operational fighter units of Poland, Czechoslovakia, and Hungary are equipped with modern jet fighters. Bulgaria and Rumania still have some of the older jet fighters in operational units, but are being re-equipped with jet fighters of a MIG type. East Germany

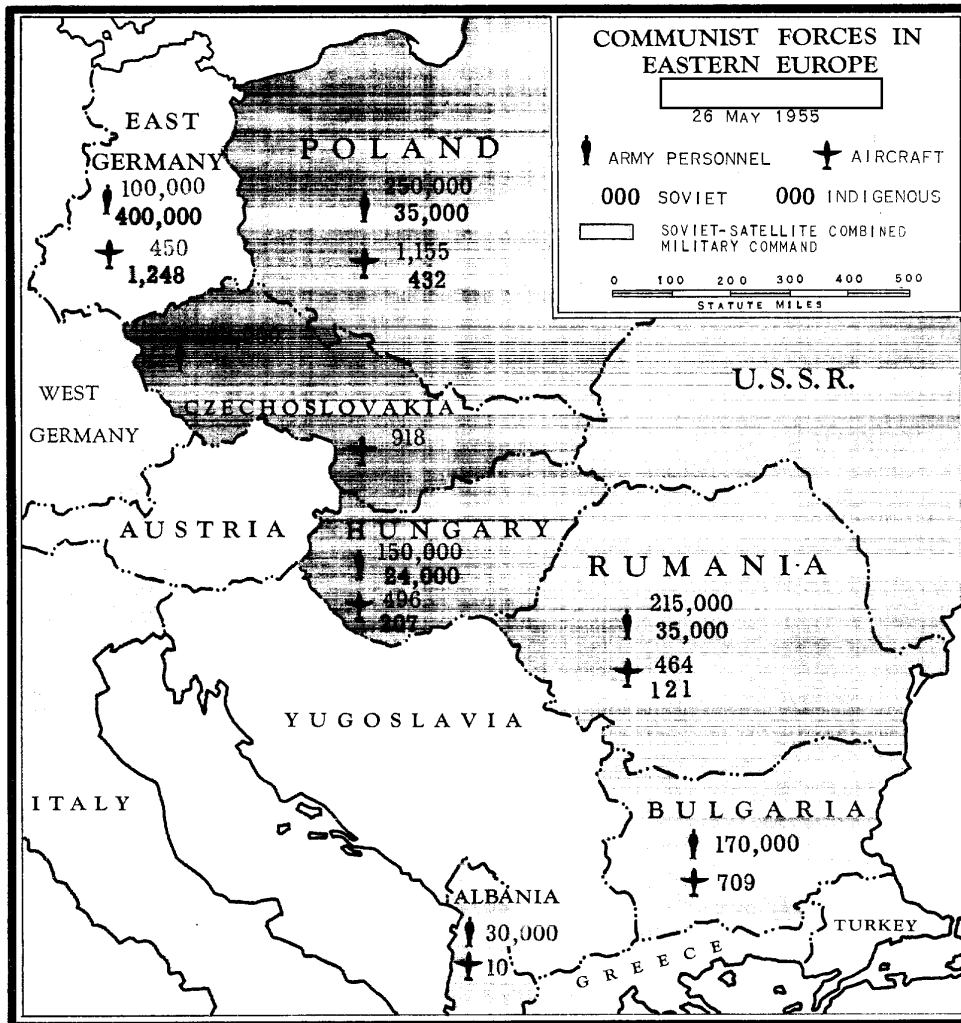
has piston trainer aircraft. The presence of jet fighters in Albania has not been confirmed.

Navy Programs

[redacted] the Poles will receive a Soviet cruiser which presumably would be assigned to a new "cruiser/destroyer force."

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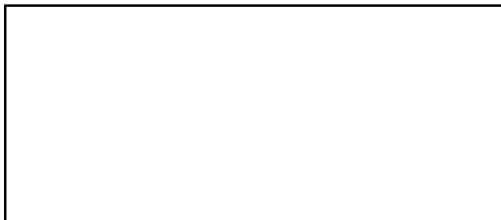
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Satellite Production Problems

[redacted] the Satellite defense industries are to be more closely co-ordinated as a part of the effort to integrate the Soviet bloc's 1956-60 Five-Year Plans.

Nearly all of the Satellites have the capacity to increase their defense output, but any sharp increase would require major readjustments in their present economic programs.

A decision to utilize East German capacity would bring about the largest increase in production, but so far the special status of the country has caused the USSR to limit defense production to a very small proportion of the potential output. Therefore, Satellite forces continue to be dependent on the USSR for much of their heavy equipment and logistical support.

Armor: While none of the Satellites produce the most modern medium or heavy tanks, both Poland and Czechoslovakia are currently producing the T-34/85, the Soviet medium tank of World War II design. The yearly output of the Polish plant is estimated, to be 350 to 750 units, and the annual output of the Czech plant at around 600 units, making a combined output of 950 to 1,350 tanks.

Approximately 6,500 medium tanks would be required if all existing Satellite units were to reach full Soviet tables of organization and equipment.

Slightly over half this number are now estimated to be in Satellite units.

The present level of production would theoretically enable the Satellites to reach full Soviet tables of organization and equipment in three to five years. East Germany and Hungary have tank repair facilities which could be converted to tank production.

Other types of armored vehicles are being produced in East Germany and probably in Czechoslovakia and Poland.

Satellite truck production was approximately 40,000 units in 1953, but a large number of these were for civilian use. Thus far the Satellites have not been able to supply their military forces with the number of truck called for by their present tables of equipment.

Weapons: The output of small arms in the Satellites during the 1954 fiscal year was estimated at approximately 400,000 units, an amount sufficient to meet current requirements and export commitments, and to increase reserves. Production of explosives was also sufficient for Satellite requirements.

During the same period an estimated 1,700 mortars were produced, enough to cover losses by attrition and to build up reserves.

Artillery output was far below current table of equipment requirements, and nearly all field artillery was and is being imported from the USSR.

Czechoslovakia, Hungary and Poland together produced over 90 percent of the small arms and nearly all of the mortars, while almost all of the artillery came from Czechoslovakia. East Germany

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presently accounts for only about 5 percent of the small arms output.

Aircraft: Production of aircraft in the Satellites increased to an estimated 1,000 in 1954--MIG-15 jet fighters, IL-10 ground attack aircraft, U-MIG-15 jet trainers, reciprocating trainers, and their engines--or about 11 percent of Soviet production.

The eventual Soviet goal in fostering the Satellite aircraft industry appears to be to make the area as a whole self-sufficient in aircraft production.

Czechoslovakia, which produces jet fighters, trainers, and ground attack aircraft, accounts for 83 percent of Satellite output, and reportedly supplies several other Satellites. Poland, which produces only MIG-15's, accounts for

about 6 percent, and Hungarian and Rumanian trainers comprise the remainder.

Czechoslovakia is phasing out production of the IL-10 and may begin production of a jet light bomber; it will probably also shift from MIG-15 to MIG-17 production in the near future.

East Germany, which ceased preparations to produce aircraft after the riots in June 1953, now appears to be reorganizing its aircraft industry to make IL-14 transports, probably beginning in 1956.

Under full mobilization, the considerable aircraft production potential, primarily in East Germany, could in about three years increase Satellite capacity to about 40 percent of mobilized Soviet capacity. (Concurred in by ORR)

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IRAN'S STABILITY THREATENED BY RESURGENCE OF RELIGIOUS FANATICISM

The steps the Iranian government has taken against the Bahai religious sect indicate the government's susceptibility to pressure from the fanatic Moslem clergy, which may attempt to regain its traditional influence in civil affairs.

The pacifist Bahais teach universal brotherhood and recognize the founders and prophets of all religions as propagators of the divine truth.

There are several thousand active in Iran. They have only started in recent years to emerge from the semi-secret existence forced on them by 125 years of Moslem

persecution. As the one religious minority unprotected by law, they are an easy target for the mullahs.

The attack on the Bahais, who are considered heretics by the Shia Moslems dominating Iran, was launched on 5 May by the country's top preacher, Mullah Falsafi, in a series of radio sermons celebrating the fasting month of Ramazan. He asserted that the Bahais were "traitors and agents of a foreign power," and demanded that the government disarm and "put an end to them." There is no evidence of subversive or anti-state activities by the sect, but Falsafi's appeal to religious bigotry immediately sparked widespread demonstrations against it.

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The government's reaction to the outburst was confused. Troops were moved into the Bahai temple in Tehran, allegedly to protect it against violence, an act which Falsafi and the mullahs quickly interpreted as seizure of Bahai property and as support for the persecution. The military governor's communiqué, catering to the mood of the crowd, stated that the "manifestations and propaganda of the Bahai sect were a provocation to the sentiments of the populace."

Interior Alam issued instructions to "dissolve the centers of any societies which relate to religion and may cause public disturbances."

Destruction of the Bahai temple in Tehran was begun on 22 May on orders of the military governor and under supervision of soldiers and police.

Majlis deputy Safai, a mullah and spokesman for Aytollah Borujerdi, informed parliament and the government on 19 May that the "Muslims of Iran" were not satisfied with the extent of the government action against the Bahais. He demanded early government action specifically declaring Bahaiism illegal and dismissing Bahai civil servants. He threatened to introduce a private bill to accomplish this if the government did not take action.

The American embassy reports that the Shah was angered at the outburst. However, Falsafi's claim that he had palace approval was widely accepted and no official action was taken publicly to dispute the belief. Radio Tehran continued to broadcast the sermons, together with messages of congratulations to Falsafi on the "government action."

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JAPAN'S FOREIGN TRADE PROSPECTS IN 1955

Japanese foreign trade may remain in the black during 1955, but by a small margin. A number of temporary factors, which helped Japan achieve a payments surplus equivalent to \$100,000,000 in 1954, will probably decline in importance, and a deficit may occur in the dollar accounts. This would intensify pressure in Japan for increasing trade with the Sino-Soviet bloc and further relax restrictions on trade in strategic materials.

American spending, which has been declining since the Korean armistice, was still sufficient as of April to enable the Japanese to offset their trade deficit. The Japanese government estimates that this spending will drop another \$155,000,000 during 1955 to a total of \$420,000,000 for this year.

By importing such essential raw materials as coal and iron ore from the Sino-Soviet bloc and other nondollar sources and by cutting down on total imports of textile raw materials, machinery, oil and chemicals, Japan hopes to bridge most of its dollar gap.

The large sterling balances which Japan accumulated during 1954, and which accounted for most of its foreign exchange surplus, are not expected to continue to rise appreciably in 1955. Japan plans to increase its sterling area imports sharply to forestall any move by Britain and the Commonwealth to reimpose import restrictions against Japanese goods.

Much of Japan's success in this and other world markets last year was due to export subsidies and other restrictive trade devices.

The link system, under which Japanese traders took

losses on export goods, and in return were authorized by the government to import domestically profitable items, like sugar and oil, was probably responsible for half of Japan's export increase during 1954. Barter trade accounted for another 20 percent.

In order to quiet complaints from Britain, the United States, and other countries, and to ease the way for its membership in the General Agreement on Tariffs and Trade (GATT), Japan has agreed to abolish the link system, stop the pilfering of trademarks, designs and copyrights, and work generally toward freer trade and currency convertibility.

If the Japanese keep their word, it will reduce considerably their export prospects, since they have not yet succeeded in reducing basic costs. A recent report, however, states that Japan is considering abandoning further efforts to join GATT.

Japanese prices are still generally higher than the international level. The Hatoyama government is pledged to continue Yoshida's "austerity" policy and has restricted the national budget to the 1954 level, while maintaining tight controls over credit. Nevertheless, these measures have proved inadequate to prevent an upward trend in prices since January, and the wholesale index at the end of March was only about 4 percent below the preausterity level of a year ago.

Additional factors adversely affecting Japan's balance of payments in 1955 are higher international freight rates and higher raw material prices, a possible upward adjustment of inventories, and the problem of repayment of short-term credit liabilities. Furthermore, trade with Indonesia, Japan's

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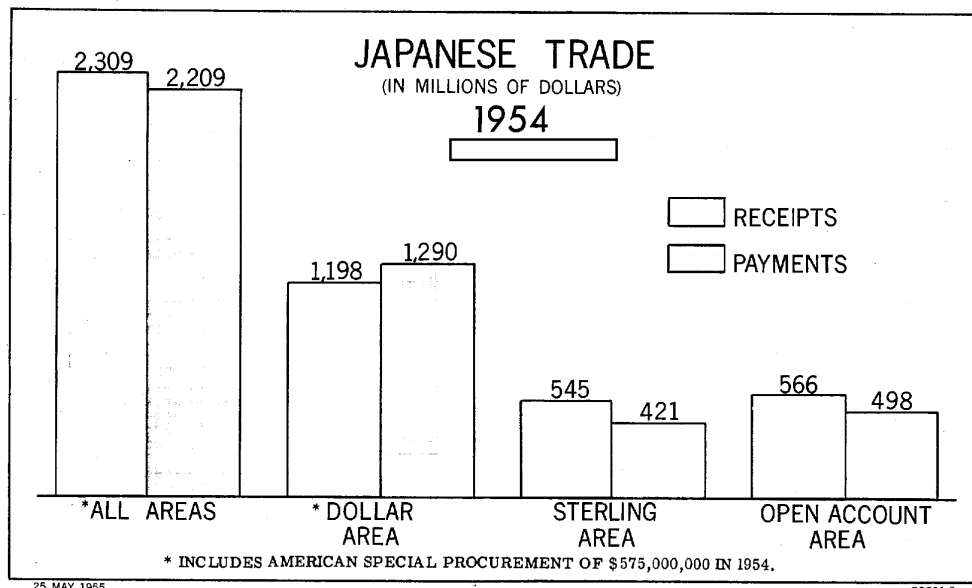
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largest customer in the Far East, is expected to decline because of Indonesia's poor credit position.

Reparations, while not involving foreign exchange payments, will undoubtedly have an indirect effect on Japan's normal exports to claimant countries.

Japan's short-range plans for dealing with these problems

While trade with the China mainland is still less than 2 percent of the total, special emphasis will be placed on it in 1955, with the aim of gradually developing it on a long-range basis. Southeast Asia, which provided the bulk of the increase in Japan's 1954 exports, will continue to receive attention, but further large-scale increases in 1955 appear to depend on a solution of the reparations question and the



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involve the formation of large trading companies and cartels to compete more effectively in world markets.

Hard bargaining with sources of supply in order to secure markets for Japanese goods is increasingly reflected in recent trade agreements. Credit policies, tax incentives and market survey missions are also part of the government program to promote exports and curb imports, restrict domestic demand, and make foreign markets more attractive to Japanese businessmen.

extension of American economic aid to that area.

Latin America is the special interest of Japan's top economic planners. Japanese exports to the area increased threefold in 1954--double the prewar volume--and now account for 10 percent of total exports.

The United States is Japan's primary customer. Still, it buys goods worth only one third of what it sells Japan. So long as the Japanese import policy is determined by considerations of price and quality, the United States will

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probably maintain this position. However, if the Japanese embark on a policy of buying where they have the best chance of developing markets, or if American spending suddenly drops, American exports will be the first to suffer.

Over the long run, as Japan continues the trend toward

a planned economy, exports and imports will be increasingly subject to government trade policy.

The readiness of the world to accept Japanese competition and continuation of the present international prosperity would probably slow the imposition of these controls. [redacted]

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