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30 June 1957



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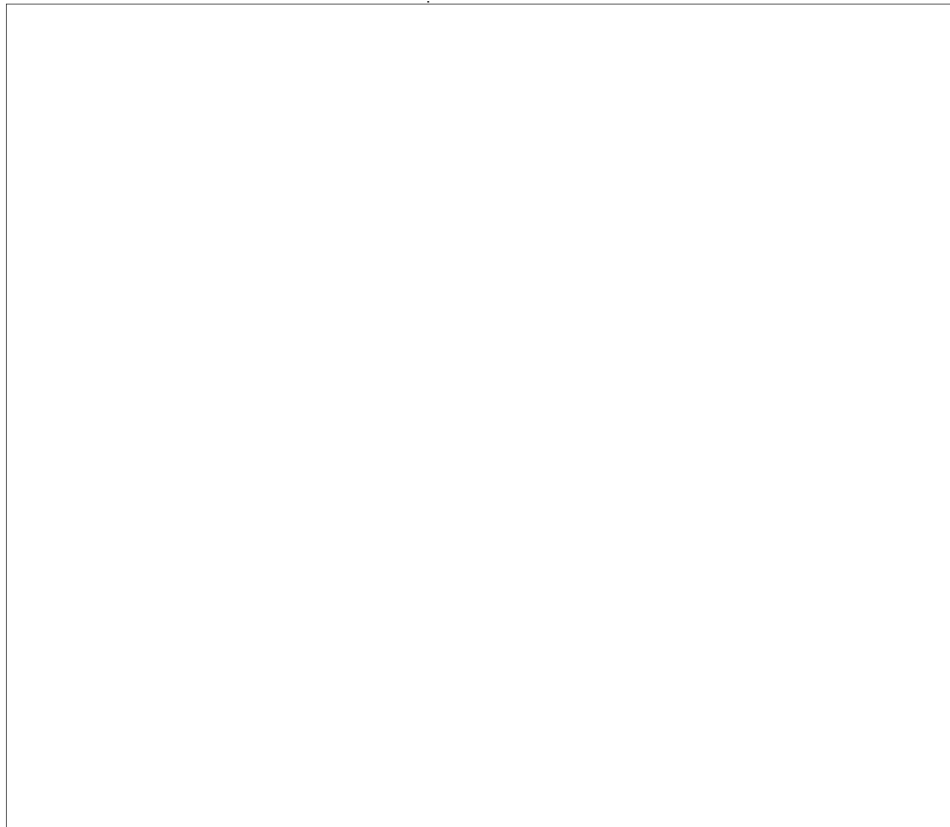
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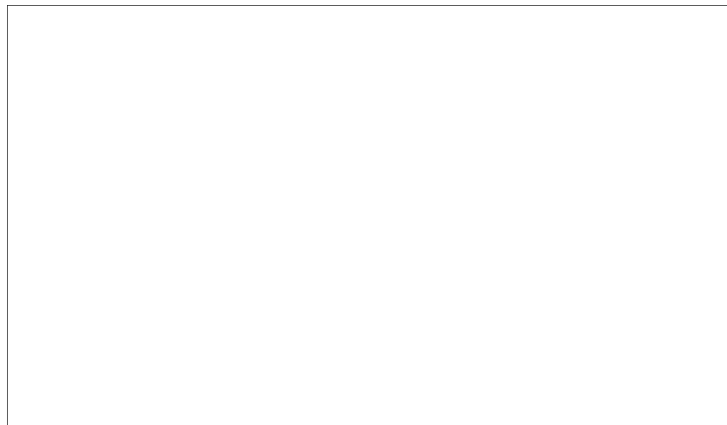
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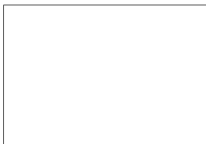


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~~CONFIDENTIAL~~**1. THE 1957 CHINESE COMMUNIST BUDGET**Comment on:

[REDACTED] Finance Minister Li Hsien-nien has presented to the Chinese Communist National People's Congress an austerity budget designed to lay a "solid foundation" for the Second Five-Year Plan, to be launched in 1958. Expenditures and revenues in the 1957 budget will total \$11.9 billion, slightly under last year's figures.

Last year's budget resulted in a sizable deficit; and to achieve a balance this year, the regime plans to reduce defense spending by just under 10 percent, to about \$2.25 billion. Administrative expenditures will also be cut. Investments in fixed assets are to be sliced by more than 20 percent, although the amount to be spent will still be larger than in any other year of the First Five-Year Plan except 1956. The priority of heavy industry remains the "guiding principle" of industrial investment, but even here, investment has been cut by 8 percent.

While asserting that the people's purchasing power would be at least as high as it was last year, the minister implied that further increases in prices might be necessary during the year. He added that the salaries of certain officials, who have come under attack for high living in the current "contradictions" campaign, would be "appropriately" lowered.

Li also revealed that deliveries of equipment to China under the terms of loans from the Soviet Union lagged substantially behind schedule in 1956. In addition, foreign loans China anticipates receiving in 1957 will be only one fifth of the 1956 level, while loans extended by China to other countries will increase by one quarter this year. [REDACTED]

[REDACTED]

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2. ISRAELI-SYRIAN BORDER TENSION

Comment on:

Tension remains high along the Syrian-Israeli border. The past two weeks have been marked by a series of incidents including the killing of an Israeli engineer and a young Israeli woman.

A UN observer has informed the American army attaché in Damascus that on 25 June he saw a new Israeli military camp with an estimated two companies of troops about 10 miles west of the Syrian border north of Lake Tiberias. Such activity raises the possibility that Israel may resume the policy of making reprisal raids which it followed before the Sinai campaign last fall. However, the American military attaché in Tel Aviv has reported that as of 28 June only routine military training activities had been noted there.

American observers in both Israel and Syria speculate that the border incidents may be due to a desire of Syrian leftists to keep their country in a state of tension to cover possible political moves as well as to trigger-happy troops operating in unpleasantly hot and dry weather.

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3. SOVIET GROUND ATTACK AIRCRAFT REPORTED DELIVERED TO YEMEN

Comment

The IL-10, a single piston-engine aircraft, is well adapted to the kind of warfare Yemen has been engaged in against the British. While obsolete by both Soviet and Western standards, it is currently employed in a ground attack role by Communist China. Although no match for British jet fighters based in Aden, such an airplane, if effectively piloted, could probably inflict considerable damage on British armored car patrols and troops of native Aden levies.

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4. CARDINAL WYSZYNSKI TO PRESS FOR NEW CONCESSIONS FROM POLISH REGIME

[REDACTED]

At a conference of Polish bishops convened on 25 June following his return from the Vatican, Cardinal Wyszynski announced his intention to press the regime for additional concessions, as well as to hold it to the spirit and letter of the December church-state agreement.

[REDACTED]

the cardinal has already demanded the resumption of church control over the Catholic charitable organization, and will press for the return of church properties and the right freely to publish religious material. [REDACTED]

[REDACTED]

Wyszynski told the bishops that the Pope has approved the appointment of ten new bishops including those the cardinal had proposed for the former German territories.

Comment

In approving the appointment of bishops to the former German territories, the church has made its only gesture of conciliation toward the Polish government since Wyszynski went to Rome. Vatican circles reportedly had strong misgivings about the church-state rapprochement in Poland. Wyszynski apparently convinced them that his strong influence over the Polish people has successfully prevented public outbursts against Soviet domination and possible Soviet intervention, a fact which will be a major asset in his attempts to exact further concessions from the regime. The Polish United Workers' (Communist) Party is on record, however, as opposing nonreligious activities of the church, presumably including charitable and publishing activities.

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5. SOUTH KOREA AGAIN BLOCKS AGREEMENT WITH JAPAN

Comment on:

[redacted] South Korea is attempting to gain further concessions from Japan before agreeing to an exchange of detainees and a resumption of formal negotiations for an over-all settlement between the

two countries, [redacted]

[redacted] the American interpretation of the Japanese peace treaty would be disregarded in settling Korea's claims against Japan. The American interpretation states in essence that since Japan has renounced all property claims against Korea, Korea's claims against Japan are reduced. Previously both sides had apparently agreed with this interpretation. Kim also said that President Rhee is willing to release all Japanese fishermen, including those who have not completed their sentences, if Japan would agree to the changes.

[redacted] President Rhee appears to have resorted to his usual technique of increasing demands when agreement appears imminent. [redacted]

[redacted] the Japanese Justice Ministry wants to file deportation orders against the Korean mission in Japan if Seoul does not accept the proposed agreement. [redacted]

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6. REVISED NEW ZEALAND DEFENSE POLICY



The American embassy in Wellington reports that the revised defense policy announced by the New Zealand government on 12 June represents a revolution in New Zealand's military thinking. New Zealand now plans to send a full battalion to Malaya to replace an air force squadron of 150 volunteers, and to establish there-- for the first time--an overseas headquarters. It will also maintain a small but effective mobile force at home for use in Southeast Asia. In addition, semitrained conscripts will be kept in readiness for mobilization and overseas deployment in an emergency.

The new defense proposals have received general approval, despite their call for increased expenditures. They reflect New Zealand's recognition that its role in promoting collective security must be limited to the contribution of conventional forces, while relying on the United States and United Kingdom for nuclear deterrent. The embassy believes the plan is the first step toward integration with Australian forces and toward close co-ordination with United States defense planning. Considerations of public sentiment have prevented a radical departure from present defense ties with the United Kingdom.

Comment

The defense plans indicate a departure from New Zealand's past reluctance to spend money on defense. While calling for some re-equipment, New Zealand has not yet adopted Australia's decision to re-equip with American materiel, although such a step in the future is probable.

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