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China

Offshore islands: On 10 January Nationalist naval vessels in the Tachen area were subjected to the heaviest Communist air and sea attacks launched to date. The air assault forced Nationalist ships to withdraw, and the Tachen garrison, one third of which is now composed of troops newly arrived from Formosa, has been left without local naval support. The islands have been almost entirely without air support for some time. These factors, together with the growing problem of supplying the islands, have drastically increased the vulnerability of the Tachens to further Communist attacks.

The air strikes apparently were aimed at disrupting the second phase of a Nationalist plan for replacing the Tachen garrison with troops from Formosa. When the first phase was begun, on 21 December, the Communists staged a generally unsuccessful air raid over the islands. During the second phase, on 10 January, the Tachen anchorage was filled with ships participating in the rotation, including the sole remaining destroyer escort in the area, three LST's, two gunboats, and several other vessels.

For seven hours, Chinese Communist fighters and bombers struck at the shipping and hit all three LST's and the destroyer escort. One of the LST's was sunk, and the destroyer escort was forced to return to Formosa. All other ships withdrew to Nanchi Island, 90 miles southwest of the Tachens. During the withdrawal, a Nationalist gunboat was attacked and sunk by Communist vessels which may have included torpedo boats.

Shortly after midnight on 13 January, two Nationalist minesweepers escorting a junk to the Yushans, 35 miles northeast of the Tachens, were attacked by Communist ships. The results of this clash are not yet known.

US observers report no signs that the Communists are massing troops and boats for an invasion attempt against the Tachens, but it is generally agreed that the Communists will renew their air and sea attacks in an effort to destroy the Nationalist naval strength remaining in the area and to isolate the Tachen group.

The situation in the other coastal islands was quiet this week. Communist guns continued their sporadic shelling of the Quemoy's. The Communists allegedly are now using a new road running northeast from Foochow to the tip of the Pehling Peninsula, opposite the Matsus, which leads to coastal artillery positions reported to be under construction.

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Railroad to Ningpo jet base: [REDACTED]

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[REDACTED] the Chinese Communists are rebuilding the 80-mile railroad from Hsiaoshan to Ningpo, on the East China coast south of Shanghai.

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Reconstruction of the railroad would improve Communist capabilities for a major operation in the Ningpo area, which is about 100 miles north of the Tachens, since the Ningpo air base and nearby military installations would need large tonnages of fuel and other supplies under combat conditions. Ningpo is the only active jet base in East China not located on a railroad.

There would be little economic need for a rail line, as sea transportation and the existing highway are adequate for the area's normal requirements. [REDACTED]

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North Korea

Possible withdrawals of Chinese units: Several recent unconfirmed reports have indicated the possibility of further withdrawals of Chinese Communist ground forces from North Korea. A recent report has stated also that North Korean troops have assumed responsibility for all sectors of the front line.

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Chinese forces remaining in North Korea are estimated at 560,000. Replacement of Chinese with North Korean troops along the front would be consistent with the current North Korean political offensive against South Korea. Pyongyang has made major propaganda efforts to convince South Koreans that peaceful unification can be achieved by negotiations among Koreans themselves.

The North Korean Army has the capability of assuming responsibility for the front lines, but reserve and coastal security positions would presumably be bolstered by Chinese units.

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East Europe

Soviet troop rotation: Final tabulations on the 1954 exchange of Soviet troops between East Germany and the USSR indicate that approximately 195,000 troops, mostly recruits, entered East Germany between late September and mid-December 1954, while about 182,000 troops eligible for discharge returned to the USSR. The difference between the totals of arrivals and departures is accounted for by normal attrition. The 1954 rotation program involved nearly half the estimated 400,000 Soviet ground troops in East Germany, the largest turnover of Soviet troops noted in any year since compilation of detailed data on this subject was initiated in 1950. The unusually large rotation figures result from the release this year of both the 1931 and 1932 classes, which were called up together in 1951.

In Austria, final figures on troop rotation indicate that, during the autumn, approximately 9,700 Soviet troops arrived and 9,000 departed. Unlike the figures for East Germany, these are comparable with those of other recent years and represent a turnover of less than one third of the Soviet Army troops in Austria. [REDACTED]

East Germany

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Increased controls in Berlin: Since 10 December, Soviet Zone authorities have instituted a number of control measures which are gradually isolating East Berlin from the remainder of the city and are restricting the movement of persons to and from the Soviet sector. These actions may be preliminary measures to tighten the security of the entire Soviet Zone in preparation for the introduction of conscription in East Germany.

West Berliners who either work in East Berlin or visit that sector to shop at favorable rates of exchange are faced with a series of travel, monetary, and purchase restrictions which will discourage further travel to the East sector. [REDACTED]

[REDACTED] dismissal of the approximately 20,000 West Berliners working in East Berlin will start later this month.

Identification and goods controls on elevated and subway trains on the sector borders, introduced during the pre-Christmas buying spree, apparently are continuing. Additional personnel to carry out these controls reportedly are being recruited by the East Berlin police to work on a volunteer basis. Intersector travel restrictions not only

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will help to control the amount of goods purchased in East Berlin by West Germans but also will facilitate prevention of the escape of draft-age civilians wishing to avoid conscription into the East German army.

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Poland

Civil defense: [REDACTED] Lodz (southwest of Warsaw), block committees have been conducting civil defense and first-aid courses since November 1954 for residents of that city. Old wartime air raid bunkers are being restored and cleaned, and air raid sirens are being repaired and tested. In the first week of December 1954, an air raid drill was carried out in the large center section of Lodz.

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Conduct of air raid drills on a city sector basis would indicate that the Polish civil defense program has made considerable progress during the past year. Previous reports have indicated that Poland, generally considered as lagging behind Czechoslovakia, Hungary, and Bulgaria, has accelerated development of its civil defense program since 1953. Measures taken during 1954 included initiation of training for air defense of industrial installations, overhauling of World War II air raid shelters, construction of new shelter facilities, and strengthening and expansion of the fire fighting services.



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Hungary

Failure of the new course: An analysis by the US Legation in Budapest of the Hungarian economic and political situation indicates that the new course, which has now been in existence for 18 months, has thus far failed to effect more than a nominal increase in agricultural production or to create a sound basis for long-range industrial advances. During this period, the regime has not managed to overcome passive resistance or the lack of enthusiastic support which is evident even among the Party membership. It is doubtful that the regime will be able to bring about any significant improvement in the situation with the measures now being applied or proposed or that the basic new course policies will be radically altered in the foreseeable future.

Hungarian leaders not only admit that productivity has actually declined and production costs risen since July 1953 but that 1954 improvements in the standard of living were gained only by the use of economic reserves. A disappointing 1954 harvest, a shortfall of 500,000 tons in coal mined, a decline in foreign currency reserves, and the depletion of raw material stocks have contributed to Hungary's seriously deteriorated economic position. [REDACTED]

Yugoslavia

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Relations with Orbit: In the past few weeks, diplomatic and economic relations between the Soviet Bloc and Yugoslavia have continued steadily to improve. This has not resulted, however, in any deterioration of Yugoslav associations with the West. The Yugoslav position on this question was reaffirmed by acting Foreign Minister Bebler's statement, in the course of a year-end summation of foreign policy, that normalization of relations with the Soviet Bloc "does not have nor could it have any negative effects on relations between Yugoslavia and the Western countries."

The USSR has not publicly pursued the party-rapprochement tactic which was hinted at last November in the toast by Soviet leaders to "Comrade Tito and the Communist Party of Yugoslavia." Vice President Kardelj recently told [REDACTED] however, that approaches by Soviet officials have indicated a desire to restore Soviet-Yugoslav Party relations. He added that, in personal diplomatic conversations, Soviet leaders had even recognized the validity of some of the unique developments in Yugoslavia, admitting that the country was both Marxist and Socialist despite contrary Soviet assertions made in the heat of the

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quarrel surrounding the break. Kardelj stated that Yugoslavia's policy was carefully to encourage changes in the Soviet Bloc by a friendly but critical and detached attitude and, at the same time, to intensify its contacts with its friends, the democratic socialist parties in Europe and Asia.

The most recent development in Belgrade's relations with the Orbit was the Chinese-Yugoslav interchange in Moscow, resulting in the announcement on 9 January that diplomatic relations would be established. Although their early recognition of the Peiping regime in 1949 failed to evoke any response, the Yugoslavs remained open to any move from Peiping because of their belief that non-Orbit contacts could lessen Chinese dependence on the USSR. It is possible that diplomatic relations with the Viet Minh also will be established. Because of the sharp rebuff to their recognition of the Viet Minh in 1950, the Yugoslavs would probably wait for the Viet Minh to initiate such a move.

Soviet-Yugoslav trade talks were concluded with an announcement on 5 January of an official government-level agreement calling for \$10,000,000 of trade each way during 1955, which does not increase the level of trade called for by the three-month agreement concluded on 1 October 1954. Yugoslavia is currently holding similar official talks with Hungary, and negotiations are scheduled for the next two months with Czechoslovakia, Poland, Rumania, and Bulgaria.

On 8 January the Yugoslav radio announced "prospects for the reestablishment of air relations with certain Eastern European countries." There is an unconfirmed report that Soviet and Polish airlines will soon land in Belgrade and that the Yugoslav civil airline will be permitted to land in Sofia, a stop which would facilitate its Belgrade-Istanbul flight. The Yugoslavs reportedly have asked the Soviet High Commissioner in Austria for landing rights in Vienna.

According to a Yugoslav official, the improvement in relations with the Orbit will not involve forcible repatriation of Satellite refugees in Yugoslavia. Refugees will be permitted to go to the West, remain in Yugoslavia, or return to their homes. Satellite officials have not been allowed to visit them in order to press them to return, although the refugees are free to go to East European diplomatic offices in Yugoslavia. Yugoslav-organized groups of Cominform refugees apparently are still in existence, but an official source has stated that the emphasis in their publications will shift from propaganda to culture in line with "normalization" practice. On 29 December Bebler stated that Belgrade had been officially notified of the dissolution of anti-Tito emigre groups and had been promised that all anti-Tito literature would be removed from public institutions and bookshops in the Satellites.

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USSR

Propaganda against West German rearmament: During the past week, Communist propaganda continued its hard line against West German rearmament. It reasserted Soviet capability to retaliate in the event of nuclear war. In dealing with Austria, it warned that West German rearmament threatened not only Austrian independence but Austrian unity as well. Lending support to this new line was the call for a Congress for the Unity and Independence of Austria, to be convened in March. The nuclear weapon subject is expected to crop up in slightly different context at the conference of the World Peace Council opening in Brussels on 17 January.

In addition to the hard propaganda, the Soviet scare campaign has also resulted in a series of reports threatening some sort of hostile military action by the USSR if West German rearmament is sanctioned.

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The USSR is expected to keep circulating such reports at least until final ratification of the London agreements is accomplished.

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