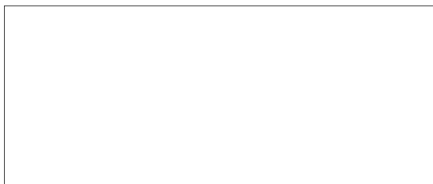


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30 June 1955



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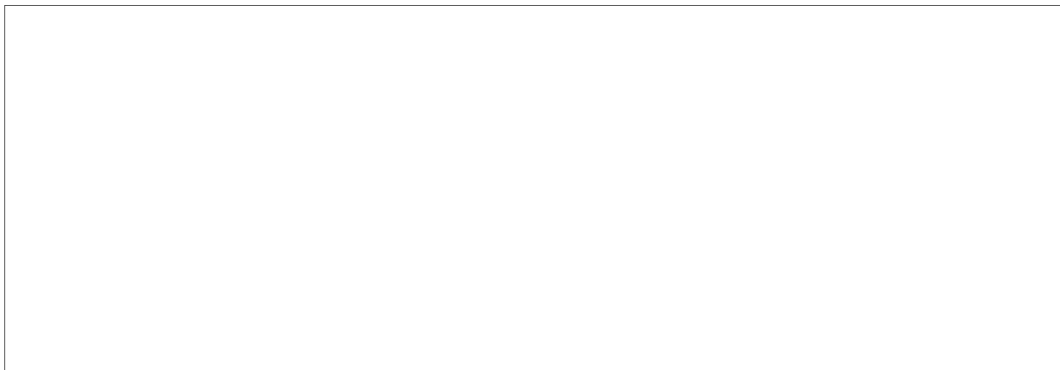
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DOCUMENT NO. 8
NO CHANGE IN CLASS.
DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 11/1/80 REVIEWER: 



Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY



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S U M M A R Y

F A R E A S T

1. Chiang Kai-shek agrees to release of Russian tanker crew (page 3).

S O U T H A S I A

2. Afghan prime minister Daud may be removed (page 3).
3. Pakistan adherence to Turkish-Iraqi pact may be imminent (page 4).

N E A R E A S T - A F R I C A

4. Report of North African gunrunning foreshadows new French pressure for US support (page 4).

E A S T E R N E U R O P E

5. USSR reported prepared to make "unheard-of sacrifices" to reach agreement with Bonn (page 5).

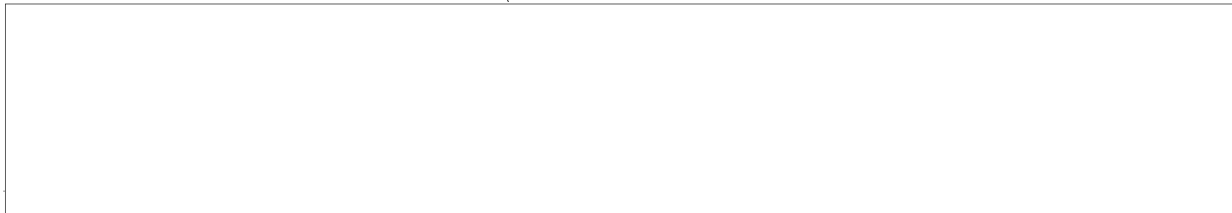
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6. Indonesian ambassador impressed by remarks of Soviet leaders (page 6).

T H E F O R M O S A S T R A I T S

(page 7)

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FAR EAST

1. Chiang Kai-shek agrees to release of Russian tanker crew:

[REDACTED] Chiang Kai-shek told the American chargé in Taipei on 28 June he would release the crew of the Soviet tanker Tuapse in ten days or two weeks. [REDACTED]

[REDACTED] Chiang would make no commitment regarding release of the ship itself.

Comment: The Tuapse was seized by the Nationalist navy off southern Formosa on 23 June 1954. Chiang had previously told Ambassador Rankin that he would offer to release the 40 crew members who wish to return to the USSR in exchange for return of American airmen now held prisoner by the Chinese Communists. He has refused to release the ship despite urging by his own Foreign Ministry that he do so.

SOUTH ASIA

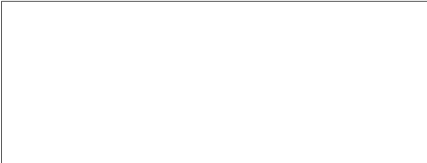
2. Afghan prime minister Daud may be removed:

[REDACTED] Afghan prime minister Daud may be removed within a few days as a result of efforts made by the Afghan royal family in co-operation with the Pakistani government. Shah Mahmud and Shah Wali, powerful members of the royal family, are aroused over the prime minister's rejection of Pakistan's latest proposal of 25 June for settlement of the quarrel between the two countries.

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According to press reports of 28 and 29 June, Pakistan, presumably in compliance with Shah Mahmud's request, is preparing to sever diplomatic relations and institute a formal economic blockade of Afghanistan. Meanwhile, the Saudi Arabian mediator announced in Karachi the failure of his mediation attempts.

3. Pakistan adherence to Turkish-Iraqi pact may be imminent:


 Pakistani defense minister general Mohammad Ayub Khan, who is now visiting Turkey, has cabled Karachi recommending prompt adherence by Pakistan to the Turkish-Iraqi pact, according to Ambassador Warren in Ankara. Ayub has also informed Karachi that the Turks, Iraqis, and British contemplate setting up a council in connection with the pact immediately following Pakistan's adherence. Ambassador Warren states that Ayub's decision followed two sessions with Turkish and Iraqi officials.

Comment: Ayub's action may pave the way for Pakistan's early adherence to the pact, since the defense minister was the chief advocate of delay until Karachi could be sure that the United States would also join.

If, however, the Karachi government fails to act before 7 July, when the Constituent Assembly is scheduled to meet, Pakistani action on the pact may be indefinitely delayed.

NEAR EAST - AFRICA

4. Report of North African gunrunning foreshadows new French pressure for US support:

 British ambassador Jebb in Paris has informed Ambassador Dillon that careful investigation indicates gunrunning from

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Libya to Algeria is taking place on a larger scale than the British had previously supposed. The French government has been informed of the British discovery.

Comment: Paris, which on 20 June suggested high-level talks with Washington on mutual interests in North Africa, will use such a report to redouble pressure on both Washington and London for increased support on North African problems.

In recent months the French government has repeatedly charged American complicity in North African nationalist activity. These allegations were largely based on reports of gunrunning which Premier Faure's personal spokesman admitted on 24 June to American officials were based on very meager information supplied by anti-American elements.

EASTERN EUROPE

5. USSR reported prepared to make "unheard-of sacrifices" to reach agreement with Bonn:

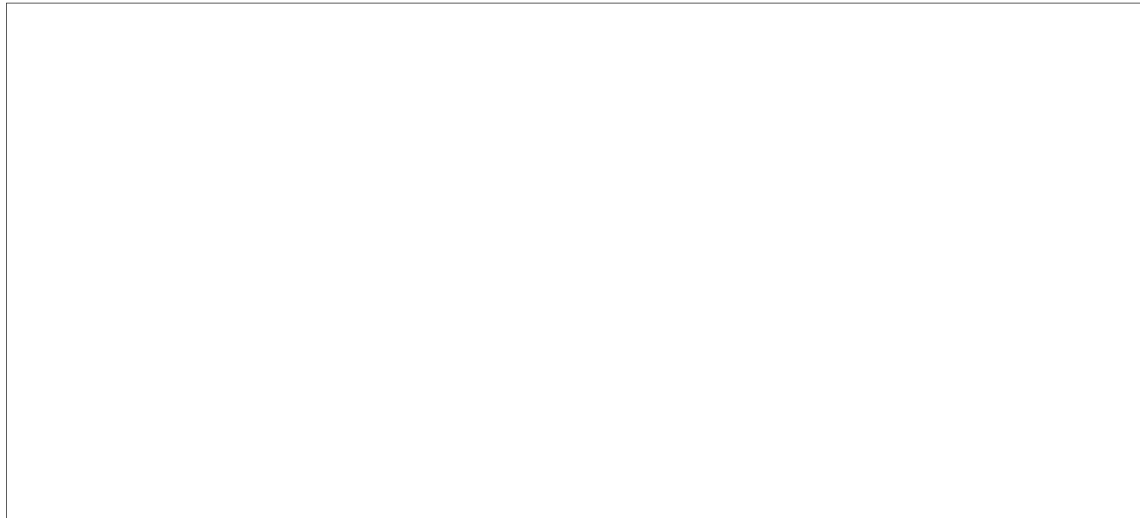
A Soviet official in East Berlin recently stated that the USSR will make "unheard-of sacrifices" to secure an agreement with West Germany, [redacted]

[redacted] Possible concessions include "political withdrawal," the sacrifice of top-level East German government officials, and "even the revision of the Oder-Neisse line." The official added that the USSR wants relaxation in Europe "at any price."

Comment: These extravagant statements are similar to others [redacted] concerning Soviet intentions toward Germany. The USSR may hope, by creating the impression that it is willing to make great sacrifices, to convince West Germans that they should yield on such key issues as elections and neutralization. There is little prospect, however, that West Germany will make such concessions.

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6. Indonesian ambassador impressed by remarks of Soviet leaders:

Comment: The Indonesian ambassador, although anti-Communist, has always tended to view Soviet actions favorably and is a strong adherent of Indonesia's "independent" foreign policy.

Any statements indicating an appreciation of the Bandung conference would be most happily received by the Indonesians, who regard the conference as a national triumph in terms of proving their ability to conduct a major international gathering. They are eager to believe that Bandung has genuinely contributed to a decrease in world tension.

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WEEKLY SUMMARY
(23-29 June 1955)

THE FORMOSA STRAITS

Report of the IAC Current Intelligence Group
for the Formosa Straits Problem

1. Two Chinese Communist air attacks on Nationalist planes on 27 June broke the long lull in combat operations in the area. In one of the attacks, Communist jet fighters made their first appearance near Matsu. [REDACTED]

In the first encounter, two Chinese Nationalist RT-33's (jet trainers equipped for reconnaissance) on a mission in the Taisshan Island area were attacked by four Chinese Communist MIG's. During the ensuing engagement, one Nationalist plane was shot down. In the second encounter, two Chinese Communist MIG's attacked a PBY of a Nationalist civil airline en route from Formosa to Matsu. The PBY escaped with minor damage.

[REDACTED]

2. The first attempted night intercept by Chinese Communist jets in the Formosa Straits area was reported during the period. [REDACTED]

3. The Chinese Communist navy has apparently stepped up its training activity and logistic support in and around the Peiling Peninsula area, immediately north of the Matsus. The training appears to be of the amphibious type, involving minor naval vessels; while the logistic efforts have involved chiefly junks and steamers escorted by small patrol craft. [REDACTED]

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4. Completion of a branch line from the Hunan-Kwangsi railway to Fort Bayard in the Luichou Peninsula, west of Canton, has made available at least four and possibly five railway engineer divisions, which may move to Fukien to work on the Kueichi-Foochow railway and its Amoy branch line; one of the five may already have moved to Fukien. Three such divisions have been working on the Fukien rail lines, to which the Chinese Communists appear to have assigned a high priority. In announcing completion of the line to Fort Bayard, Peiping last week boasted that it would facilitate the "liberation" of Formosa. The Communists may intend to use Fort Bayard as a supply port to relieve strain at Canton, the only major port in southern China. [REDACTED]

5. In his final interview with General Chase, Chiang Kai-shek explained his reasons for overruling Chase in regard to reinforcing Quemoy by one division. Chiang stated that he regarded the reinforcement as essential on military grounds in order to sustain troop morale in the event of a Communist attack against which the US did not intervene. The reinforcement, he maintained, would convince the troops that they could successfully defend the island even without adequate air and naval support. In addition, Chiang stated that, from the political viewpoint, public knowledge of American opposition to the reinforcement would lead to the conclusion that another Tachen-like withdrawal might take place. Chiang indicated that he did not propose to transfer the division immediately. [REDACTED]

6. Soviet and Chinese Communist spokesmen have continued to endorse Chou En-lai's bid for direct Sino-American negotiations. Peiping's recent comment has emphasized that "the question now rests with the United States." Peiping appears to be awaiting reports on the US attitude from intermediaries Krishna Menon and U Nu. [REDACTED]

7. Consistent Soviet attention to the Formosa question and the related question of Communist China's exclusion from the United Nations suggests that the USSR will raise these issues at the BIG Four talks. Soviet and Chinese Communist propaganda has also identified a number of other outstanding Far Eastern issues, and Soviet officials have mentioned the possibility of an

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international conference on such issues. The USSR at Geneva may propose such a conference in addition to, or possibly instead of, bilateral Sino-American talks restricted to Chinese issues.

8. A summary of military developments in Communist China during the period 26 May - 29 June is attached.



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Following is a summary of significant military developments affecting the Formosa Straits area during the period 26 May - 29 June 1955.

Ground combat activity has continued to be slight and insignificant in the area opposite Nationalist-held territory. One and probably two Chinese Communist railway engineer divisions moved into Fukien Province in May to work on the Foochow-Kueichi rail line and possibly on the Amoy branch line. This brings total railway engineer divisions in the Fukien area to three and possibly four. The five Nationalist division in the Que-moys have been brought to approximately full strength by the arrival of organic artillery units; this move has increased artillery strength [redacted]

The Chinese Communists continue their steady and rapid progress on development of air facilities in the area immediately opposite Formosa. Runways at Nantai, Lungtien and Swatow North-east are now completed. The latter two are considered serviceable. There has been no evidence yet of their being used, and construction continues on buildings, taxiways and revetments. Also, initial evidence of rehabilitation work on the unserviceable World War II airfield at Swatow has been received. Construction continues at Lungchi and Chingyang airfields.

Transfer of BEAGLE (IL-28) jet light bombers to Manchuria from the USSR continued, with 10 more of these aircraft received in the past month. A total of 55 have been turned over to the Chinese Communists since 26 March. These aircraft have been split between a naval air unit near Tsingtao, and the air force divisions at Peiping and Hangchow. Final disposition of the approximately 100 BEAGLES of Soviet units withdrawing from the Port Arthur/Dairen area is uncertain, although some, if not all, are believed to have been turned over to Chinese units.

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With the exception of the two Communist air attacks on Chinese Nationalist planes on 27 June, air activity in the area has been low for the month.

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