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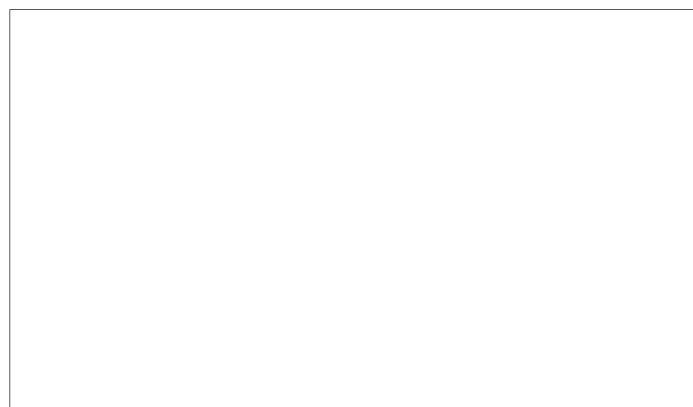
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CENTRAL INTELLIGENCE AGENCY

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THE TAIWAN STRAIT

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1. PRIME MINISTER EDEN RESIGNS

Comment on:



Sir Anthony Eden's resignation offers the opportunity for a new prime minister to restore foreign and domestic confidence in a conservative British government. Eden's belligerent defense of the Suez intervention at a time of mounting troubles in administering gas rationing had brought an increase in popular demands for his departure. Some government leaders may also have felt that efforts to restore relations with Britain's allies and with the Commonwealth were being retarded by Eden's continuance as prime minister.

Either Leader of the House of Commons Butler or Chancellor of the Exchequer Macmillan may be asked to form a new government. The appointment of Butler, who has avoided any responsibility for the Suez intervention, would present a clearer break with the past.

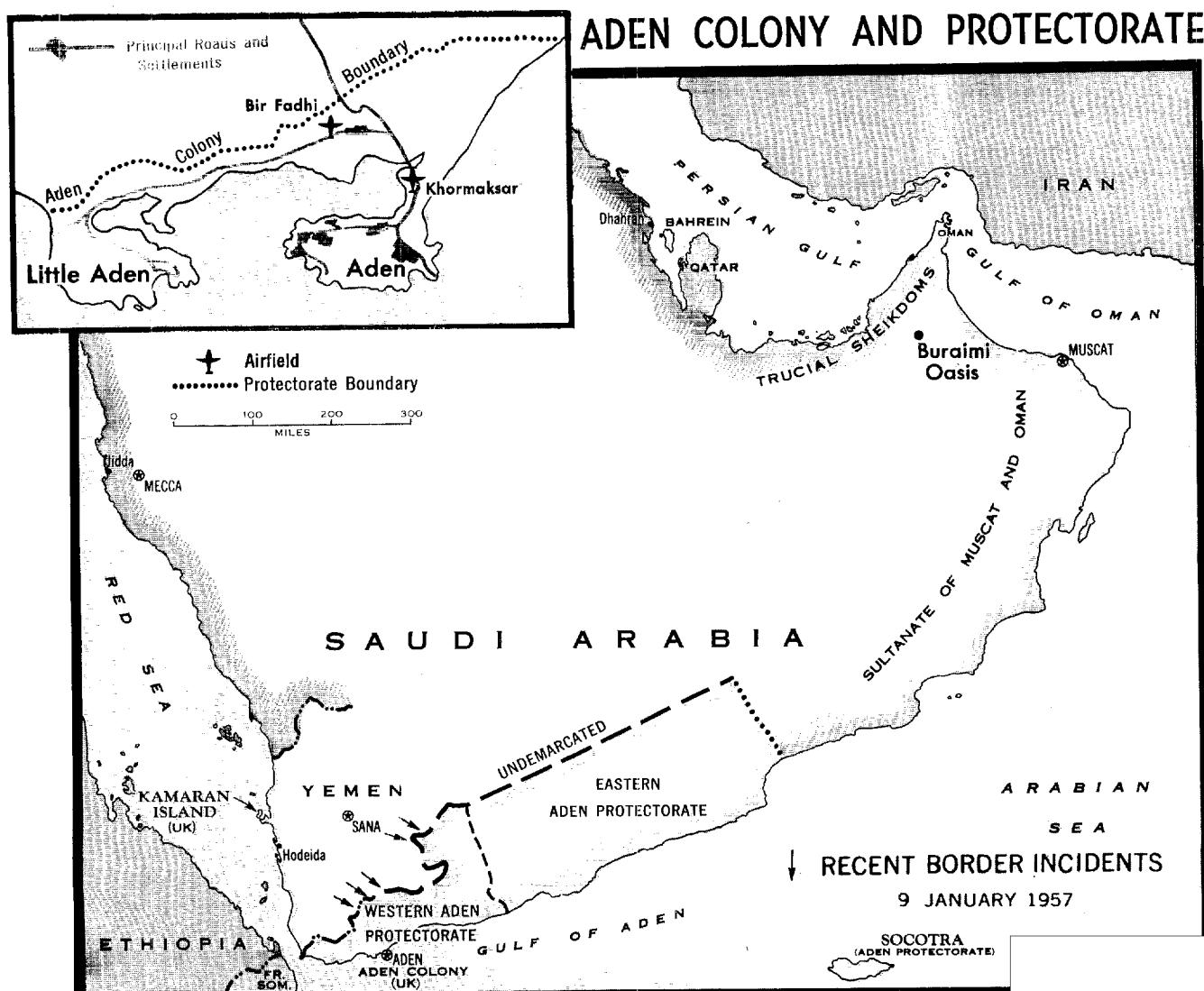
The decision on calling early general elections rests with the new prime minister. In view of the Conservatives' substantial parliamentary majority he will probably decide against elections at this time, when public opinion appears to be turning away from the government.

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2. YEMEN-ADEN BORDER HOSTILITIES

Comment on:

The Cairo press report on 9 January that Yemen had "declared a state of war against Britain" appears to be part of a growing propaganda effort, in which Yemen is receiving active Egyptian and Soviet support, to discredit the British and the West in the Middle East.

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[Redacted] The
Yemeni government radio, meanwhile, has demanded restoration by Britain of Aden Protectorate and Aden Colony to the kingdom of Yemen.

Attacks by Yemeni tribesmen and dissidents on villages and outposts in the protectorate have increased markedly since late November. The outbreaks follow the arrival in Yemen during October of an initial shipment of Soviet-bloc arms. Protectorate tribesmen have retaliated against Yemeni villages, and British-led native troops and detachments of British forces have on several occasions chased the attackers back into Yemen under "hot pursuit." British jet fighters have been in action against the intruders, and on 31 December encountered light antiaircraft fire for the first time. [Redacted]

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3. KREMLIN TO ISSUE STATEMENT ON US PLANS FOR MIDDLE EAST

Comment on:

[redacted] the Soviet government intends to issue a "special statement" condemning the new American policy in the Middle East "in about three days."

[redacted] the Russians are "greatly perturbed" by the plan which they "consider as a Marshall Plan in its objective of aligning many countries against them." [redacted] their campaign against the plan is "gathering momentum."

The issuance of the proposed statement probably would coincide with Chou En-lai's departure from Moscow on 11 January. Chou might join the USSR in an official attack on proposed American moves in the area in order to strengthen the effect of the statement.

[redacted] the East German and Budapest communiqüs already had "condemned the new American policy" and his encouragement to the Arabs to "stand together against" the new American policy are a continuation of Moscow's attempts to display bloc solidarity and to get Arab support for any counter-move it decides to make.

[redacted] the Soviet ambassador in Cairo would explain to Nasr the Soviet analysis of the military, diplomatic and economic aspects of the new American policy.

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**4. EGYPT TO INSIST THAT CANAL TOLLS BE PAID
EGYPTIAN AUTHORITY**

[redacted] after the Suez Canal clearance operation Egypt "will not hesitate... to stop the passage of any ship which does not pay the tolls, as happened with the British and French ships which were not paying these tolls to the Egyptian administration."

Comment Egypt, encouraged by Moscow, will almost certainly adopt a much firmer attitude in regard to possible flouting of the Egyptian canal authority than it did before the Anglo-French intervention. With reference to reports that Egypt would refuse passage to British and French ships until Israel has withdrawn behind the 1949 armistice lines, the American embassy in Cairo believes that the details of the Egyptian position on future canal operations have not yet been settled.

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5. MASJUMI WITHDRAWAL FROM INDONESIAN CABINET

Comment on:

The withdrawal of the Masjumi party from the Indonesian cabinet is a severe blow to Premier Ali's government, but does not necessarily mean its immediate downfall. Although two small Christian parties are likely to follow the Masjumi's example, the survival of the cabinet will depend on whether the opportunistic Nahdlatul Ulama (NU) adheres to its public commitment to continue support of the present regime.

Ali is favored by the unwavering backing of President Sukarno, who has reiterated his desire to avoid a "cabinet crisis" until the Sumatran problem is settled. The government can also depend on continued Communist assistance. In a parliamentary showdown, Ali can expect to be upheld in a vote of confidence as long as the NU stays in line. Parliament is due to reconvene on 21 January. [redacted]

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6. MOLLET'S ALGERIAN POLICY

Comment on:

Premier Mollet's 9 January declaration of French policy on Algeria contains a few minor concessions in anticipation of the UN Algerian debate late this month but will do little to alleviate explosive conditions in Algeria. Its main intent seems to be to hold right-center support in the National Assembly. The only major new element is an invitation for representatives from democratic countries--but not under UN auspices--to observe the elections promised three months after a cease-fire.

On 8 January, Mollet told Ambassador Dillon he feared the French population in Algeria might resort to violence. He warned that a UN resolution condemning French policy could trigger off counterterrorism that might lead to the overthrow of the present regime in France. He said the French delegation would walk out if the General Assembly insists on its competence to discuss the issue, and that France would withdraw permanently from the UN if a resolution condemning French policy were passed.

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7. SOVIET AIRCRAFT ASSOCIATED WITH NUCLEAR TESTS ACTIVE NEAR GUIDED MISSILE RANGE

Since 25 November 1956, an aircraft associated with the Soviet nuclear weapons test program has been active on at least two occasions at Kapustin Yar airfield, which serves the missile rangehead, and at Arzamas airfield near the nuclear weapons laboratories at Sarov/Shatki.

At least two other nuclear test-associated aircraft have been scheduled from Semipalatinsk into airfields near the rangehead during the same period.

Comment

The pattern of current flight activity indicates that an experimental project involving both the Soviet nuclear weapons and guided missile development programs is under way. This is the first evidence of an association between these programs since 2 February 1956, when a missile firing occurred which may have involved a nuclear test.

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8. INFLATION IN SOUTH KOREA MAY RAISE CRITICAL ISSUE FOR US-KOREAN RELATIONS

Comment on:

[Redacted] The Seoul wholesale price index has reached the level which, under the terms of an August 1955 US-Korean agreement, will probably require an upward revision of the hwan-dollar exchange rate at the end of the first quarter of 1957. Any attempt to implement the agreement seems certain to enrage President Rhee and revive the difficulties accompanying this issue. He has indicated that he will resist strenuously any attempt to revise the rate. Rhee is obsessed with the notion that revisions of the exchange rate have been the primary cause of inflation, and that a fixed rate would ensure fiscal stability.

The agreement, which was achieved only after protracted negotiations, calls for a 500-1 rate so long as the index does not rise by more than 25 percent above the September 1955 level. In the week ending 4 January, prices rose 6.9 percent to bring the index to a point 26.3 percent above the base, and prices are continuing to rise. The black market exchange rate exceeds 1000-1.

The American embassy reports that the Ministry of Finance directed the Bank of Korea to withhold the above figures, but that they had already been made public. This suggests that political pressure may be brought to bear on the Bank of Korea to manipulate the future price index.

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SUMMARY
12 December 1956 - 9 January 1957)

THE TAIWAN STRAIT

Report of the IAC Current Intelligence Group
for the Taiwan Strait Problem

1. There were no significant combat operations in the area during the period.
2. During December a number of jet light bombers were transferred from Manchuria to the Hangchow-Nanking area. This movement probably represents the return of the Chinese Communist 20th Air Division, or elements thereof, to East China, following its re-equipment with IL-28's. Transfer of the entire division would double jet light bomber strength in this area, placing some 120 of these aircraft within easy combat radius of the offshore islands and Taiwan.

TAIWAN STRAIT SITUATION
9 JANUARY 1957

CHINESE COMMUNIST AIRFIELD LEGEND:

DESIGNATIONS	PRIMARY AIRFIELD CONSIDERED MOST IMPORTANT IN AREA WITH PREPARED RUNWAY GENERALLY 5000 FEET OR LONGER.	SECONDARY AIRFIELD AUXILIARY OR EMERGENCY BASES RUNWAYS OF LESSER IMPORTANCE. RUNWAYS GENERALLY LESS THAN 5000 FEET.	USABILITY			
			+	I	?	█
ACTIVE BASE FOR MILITARY & CIVILIAN AIRCRAFT. SOME BASES USED BY PISTON TYPES MAY BE USABLE BY JETS	●	▲	MIG-15 MIG-17	TU-2, IL-10 LA-9/11 LI-2 IL-28 ETC.	UNKNOWN	UNDER CONSTRUCTION
INACTIVE BASES CAPABLE OF USE BY AIRCRAFT	●	▲	TU-4			
CURRENT STATUS UNDETERMINED		■				

* FIELDS NOT CONSIDERED CAPABLE OF SUPPORTING SUSTAINED OPERATIONS AT PRESENT.

