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24 July 1954

3.3(h)(2)
3.5(c)

Copy No. 80

CD/ED

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 51
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 3/1/80 REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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GENERAL

1. Ulbricht visit to Moscow may foreshadow new Soviet moves in Germany:

[Redacted]

American officials in Berlin believe that the publicly announced presence in Moscow of East German deputy premier Ulbricht and President Pieck may mean that high-level discussions are taking place, possibly on a Soviet-East German pact.

They believe a friendship pact to change the status of Soviet troops to a "protective force" would be consistent with current Soviet policy, but that an Eastern European security pact including East Germany would be unlikely until French intentions on EDC become clear. Another possible agreement would grant East Germany responsibility for negotiating German reunification.

American officials also believe it possible that the visit by Ulbricht and Pieck may be laying the groundwork for a Soviet-proposed international conference on Germany and European security.

Comment: Planning for an international conference is the most likely subject of the current discussions, at which former high commissioner Semenov is probably also present. It is possible that French Communist leader Thorez, who left France for Moscow on 16 July, is also participating in the discussions.

While details of a treaty between the USSR and East Germany may be under discussion, there is not likely to be any announcement of a security pact before an attempt is made to hold another international conference. The Soviet Union will probably urge that another conference grant considerable responsibility for unification attempts directly to the East and West Germans.

SOVIET UNION

2. Comment on Soviet plan fulfillment for the first half of 1954:

[Redacted]

Reversal of the declining trend of the past several years in the growth of capital investment and industrial labor productivity

is the most significant feature of the plan fulfillment report for the first half of 1954 released on 22 July by the Soviet Central Statistical Administration.

Capital investment increased 14 percent over the first half of 1953, as compared with a 4-percent increase in 1953 over 1952. Maintenance of this growth rate through 1955 will permit achievement of the five-year target for capital investment.

Industrial labor productivity rose 7.5 percent over the first half of 1953, while the corresponding increase from 1952 to 1953 was 6 percent. While this rate of growth will not permit achievement of the five-year target for labor productivity, continuing above-plan increases in the size of the industrial labor force made possible a 14-percent gain in gross industrial output during the first half of 1954. This will ensure fulfillment of the 1955 output plan. However, the output of pig iron, oil and fertilizer is below that necessary to meet five-year goals. Large percentage increases were reported in the output of a number of consumer durables.

The current emphasis on increasing agricultural output is also shown by the continued shift of technically trained manpower to agriculture and the large allocations of mechanical equipment.

FAR EAST

3. Comment on loss of British airliner off Hainan:

 The British airliner of the Cathay Pacific Airlines lost while en route from Hanoi to its home base at Hong Kong was apparently shot down by fighter planes off the coast of Hainan Island on the morning of 23 July. At least one passenger is known to have suffered bullet wounds and another reported that while in the water he saw a straight-wing propeller-driven plane 1,000 feet overhead.

Comment: The Chinese Communists have shown sensitivity to flights near Chinese territory, but this is the first time such an attack has occurred in this area.

As the attack was made in an area believed to be out of range for Chinese Communist MIG's based at Canton, the nearest known jet fighter base, it is possible that the attackers came from Suichi on the Leichou Peninsula, opposite Hainan.

SOUTHEAST ASIA

4.

LATIN AMERICA

5. Comment on new Argentine "supercabinet":

[Redacted]

Peron's appointment on 22 July of a five-man "supercabinet," which is to act as an all-powerful junta in the formulation of government policy, may be merely a step to help correct known government inefficiency. The action lends plausibility, however, to the many reports that Peron is seriously ill.

If Peron is gravely ill, the "supercabinet" would be a convenient medium for transferring power to Vice President Teisaire, who won his post in a special election in April and in the "supercabinet" now occupies a key role as secretary for political affairs. The other new appointees include Foreign Minister Remorino and three other members of the previous 21-man cabinet, which has now been reduced to 16 ministers.

[Redacted]