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SUMMARY

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FAR EAST

1. Comment on Japan-Communist China trade agreement:

[redacted] An unofficial Japan-Communist China trade agreement for one year, calling for \$84,000,000 in trade each way, was signed on 4 May in Tokyo. The negotiations for the agreement, between a private Japanese group and official Chinese Communist representatives, had been stalled for several weeks over the Communists' demands that the Japanese government guarantee a payments plan and permit an exchange of permanent trade missions with diplomatic status. Prime Minister Hatoyama finally agreed to offer official "co-operation," but not "assurances" that the agreement would be fulfilled.

[redacted] a high percentage of Japan's proposed exports consist of embargoed items. Consequently, only a small portion of the trade agreement is likely to be implemented. The agreement will have the effect, however, of increasing pressure on the Hatoyama government to work for an early relaxation of CHINCOM controls.

Hatoyama's decision probably resulted from constant reminders from the press, opposition parties, and trade associations of his promises to work for increased trade with Communist China. He will probably agree to an exchange of trade missions after testing American reaction. [redacted]

SOUTHEAST ASIA

2. Binh Xuyen reportedly plans to hold out ten miles south of Saigon:

[redacted] On 1 May the main body of Binh Xuyen forces was ten miles south of Saigon, where it intended to remain, [redacted]

[redacted] These forces plan to avoid a pitched battle with the national army, however, and if necessary to retreat to the coastal area, where they can hold out "with already committed French assistance!"

Remaining Binh Xuyen positions in the Saigon area, such as the national police building in the French sector, are expected to capitulate for lack of supplies.

Comment: The Binh Xuyen will probably prove a long-term police problem, but it is no longer a serious threat to the stability of the Diem government.

The government is pressing the French to expel remaining Binh Xuyen units from the French sector. The French have warned that an attack on these Binh Xuyen elements would be considered an act of hostility against French forces, but they have been unwilling to assume responsibility for the expulsion of the Binh Xuyen from their sector. The government has cut off the police building's water and electricity.

3. Phnom Penh embassy assesses Cambodian neutralism:

Ambassador McClintock in Phnom Penh believes that while the Cambodian government is inclined to take an increasingly impartial attitude as between East and

West, there are important limits to this trend. He believes two crucial factors make Cambodia's attitude toward the Communist bloc different from that of India: firsthand experience with a Communist invasion, and an urgent desire to be strong enough to resist internal subversion and external infiltration.

Any attempt to draw Cambodia into active co-operation with regional security arrangements is likely to be resisted at the present time, according to the ambassador. Over the long pull, however, as the country's leaders come to realize that American interest is not a subterfuge for exploitation and as Communist pressure builds up, Cambodia's neutrality may be expected to assume a "Swedish tinge."

SOUTH ASIA

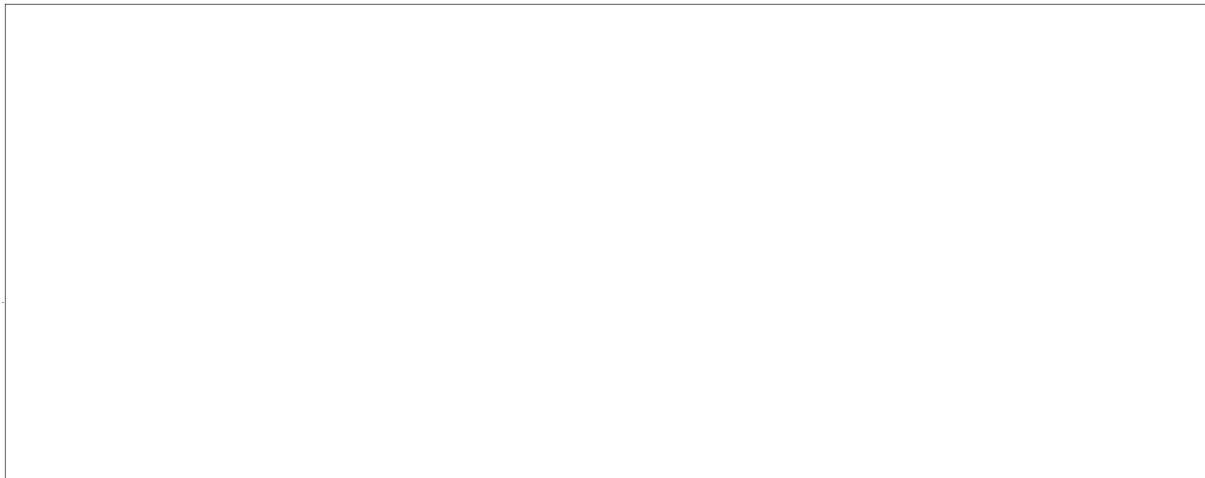
4. Indian home minister anticipates failure of Indo-Pakistani talks:

[redacted]
Home Minister Pant told Indian newsmen during a briefing held about 2 May that he did not expect any substantive results from the Indo-Pakistani talks scheduled to take place on 14 May, [redacted]

Pant said he felt the Pakistani government desired to hold discussions with India in order to bolster its own position at home. He doubted that there would be any tangible result from the talks unless Pakistan agreed to a Kashmir settlement on the basis of the status quo. India, he said, would not abandon any of the territory it now occupies in Kashmir.

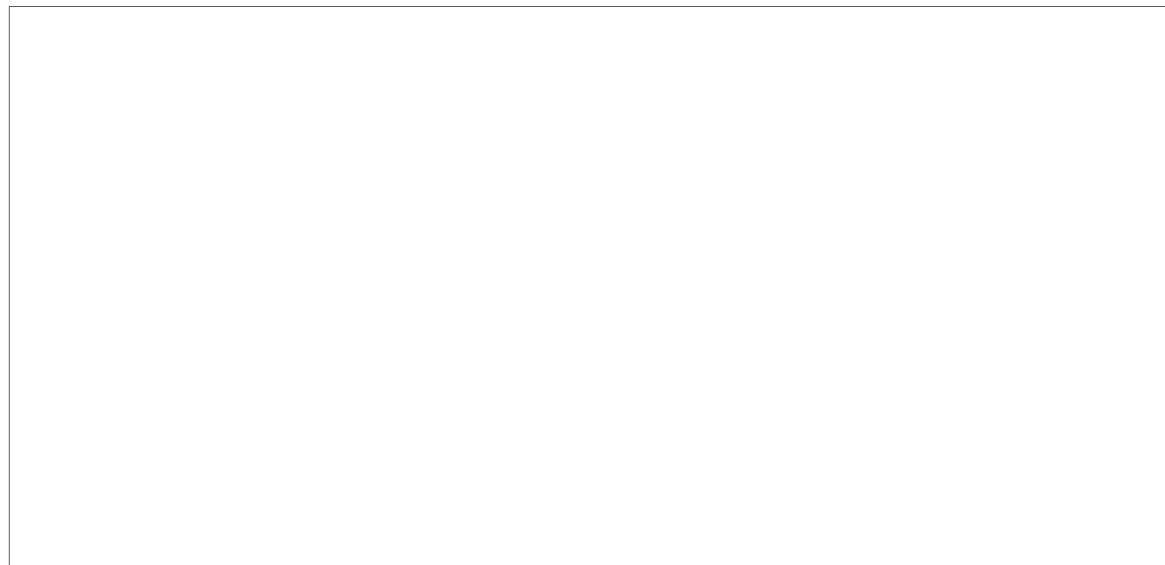
Comment: Indo-Pakistani disputes other than that on Kashmir are gradually being solved to mutual satisfaction. No suggestion on Kashmir raised by Pakistan is likely to be seriously considered by India, however, especially since New Delhi is aware that Pakistan desires an immediate settlement of that problem to end the drain on the government's time, energy and finances.

5.
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EASTERN EUROPE

6.



THE FORMOSA STRAITS

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

This report is based on information received in Washington
up to 1100 hours 4 May 1955.

1. No significant developments have been reported.

2. A summary of Formosa Straits Reports for the week ending
4 May is attached.

WEEKLY SUMMARY

FORMOSA STRAITS REPORT

4 May 1955

1. The Communists have continued the repair and construction of roads and the improvement of field fortifications on the Peiling Peninsula, north of the Matsu Island group. Numerous explosions were heard from both the Peiling Peninsula and the Min River estuary, west of the Matsus. The majority of these sounds probably were blasting associated with the construction work.

2. The presence of at least two Communist PT boats in the Matsu area is indicated by recent sightings. Their aggressive employment could restrict Nationalist naval operations in support of these islands. The Nationalist nighttime coastal interdiction patrol has not reported any interceptions. There are continuing reports of Communist seaborne logistic activity in the Matsu area during daylight hours. Chinese Communist submarine strength has been increased by two long-range submarines to a total of six submarines capable of limited war patrols.

3. Aerial reconnaissance disclosed continued construction on East China airfields, with no unusual trends noted.

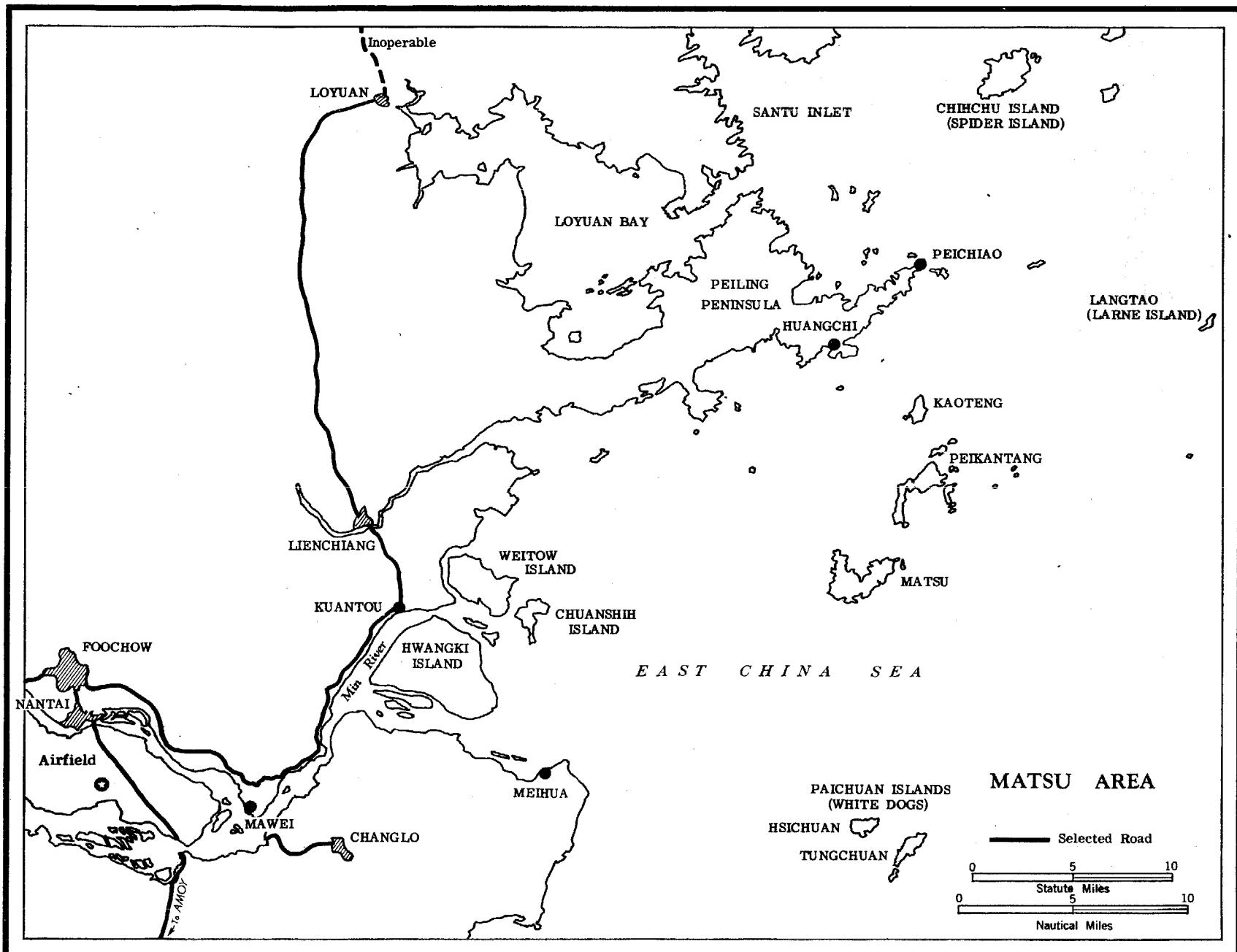
4. Chinese Communist comment on President Eisenhower's and Secretary Dulles' press conference statements charges that the statements failed to deal with the question of withdrawal of US forces, the "crux" of the question of eliminating tension in the Formosa area. Peiping asserts that there is no need for a cease-fire, as there is no war between Communist China and the US.

5. Chinese Communist propaganda broadcasts to Formosa have greatly increased since 1 May. Whereas propaganda was previously directed to Formosa four hours a day on two transmitters, it is now being beamed 12 hours a day on eight transmitters, all of which are believed to be in the Foochow area.

6. Peiping continues to issue propaganda on the subject of the alleged sabotage of the Indian airliner. The present propaganda campaign is probably part of the Chinese Communist effort to exploit British nervousness over the status of Hong Kong in order to minimize British co-operation with the US on Far Eastern issues such as Formosa.

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