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25 March 1955

Copy No. 88

CURRENT INTELLIGENCE BULLETIN

57

DOCUMENT NO. 57
NO CHANGE IN CLASS
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 4 Jan 80 REVIEWER:

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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FAR EAST

1. Japan warns Nationalist China against activities in Ryukyus:

[Redacted]

The Japanese embassy in Taipei, apparently angered at Chinese Nationalist sponsorship of Ryukyuan independence activities, has warned the Chinese that the establishment of "liaison offices, etc." in the Ryukyus without consulting Japan "is something we cannot take." The embassy, [Redacted]

[Redacted] emphasized that Japan retained sovereignty over the islands even though it agreed at San Francisco to place them under American trusteeship.

[Redacted]
this exchange resulted from the Chinese government's statements before the Legislative Yuan concerning its efforts to promote Ryukyuan independence and "prevent Communist influence from penetrating that area." Nationalist officials claimed that "Washington must take Nationalist China into consideration" with respect to the Ryukyus.

Comment: Japan has shown great sensitivity in the past over Chinese Nationalist propaganda favoring independence or a trusteeship for the Ryukyus. Tokyo may fear that the United States could eventually be won over to the idea if Japanese neutralism made American bases in Japan untenable.

Taipei points out that the islands were a Chinese protectorate for more than 500 years before the Japanese occupation in 1871, and that the population is of Chinese ethnic origin. Taipei's present position is based on the Potsdam Declaration, which states that Japanese sovereignty is to be limited to the four main islands of Japan and such minor islands as the Allies--including Nationalist China--may determine.

2. Danger of incident involving neutrals in South Korea seen increasing:

The action of the South Korean National Assembly on 23 March in calling on the government to oust the Czech and Polish members of the Neutral Nations Inspection Teams has increased the danger of an incident, according to Ambassador Briggs. He notes that such an incident would involve the American troops which guard the five neutral teams now operating in the south.

Briggs reports that the government may have sponsored the assembly's action as a means of obtaining a "legal" mandate to act unilaterally in ejecting the Communists from South Korea. He states that the government's impatience is steadily mounting and that its restraint of the past few months is now ended.

Comment: The assembly's action, probably government-inspired, may be the first step in carrying out Foreign Minister Pyun's threat of 19 March to try South Korea's "own legal means of throwing the Communists out."

The intensified campaign of the South Korean government to abolish the teams, which has the additional aim of buttressing its demands for a military build-up, may make the Swiss and Swedes more reluctant to take positive action to eliminate the teams or reduce their personnel. They have previously indicated their unwillingness to act under pressure.

SOUTHEAST ASIA

3. Bao Dai intervention in Vietnam sect problem urged by French:

French officials in Paris, including General Ely, contend that Bao Dai's immediate intervention in the dispute between Premier Diem and the sects

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[Redacted] is desirable in view of the "united front" which the sects have achieved. Bao Dai's intervention might take the form of his returning to Saigon within a few days, or summoning Diem and the sect leaders to Cannes, with a view to forming a "national union" government.

In Saigon, Deputy Commissioner General Jean Daridan is taking the line that Diem should yield to the sects' demand for a reshuffle of his government. Daridan says that Le Van Vien, leader of the Binh Xuyen, is determined "to act" and cannot be bought off. General Jacquot, acting commander in chief, criticized Diem's policy toward the sects but doubted that an armed attack by the sects was likely.

General Collins believes there is not much unity among the sects, and that Bao Dai's return to Vietnam would cut the ground from under Diem by encouraging new political maneuvering.

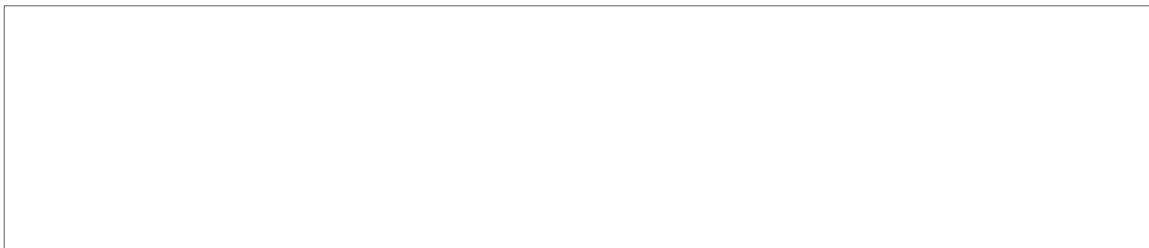
Comment: Bao Dai and the sects have been drawn closer together by their reluctance to see Diem emerge as the undisputed leader of South Vietnam. Diem, on the other hand, is unlikely to yield his position of leadership so long as he retains American support. He believes that with adequate secret funds he can buy off sect leaders and eventually cripple the sects militarily.

To circumvent the deadline of 25 March set by the sects for a reshuffle of the government, Diem proposes to enter negotiations but to avoid any retreat.

According to press reports, the sects on 24 March ordered a "general strike" and a blockade of Saigon starting Sunday. Earlier the French commander in South Vietnam had informed the American embassy that he would not tolerate such a blockade.

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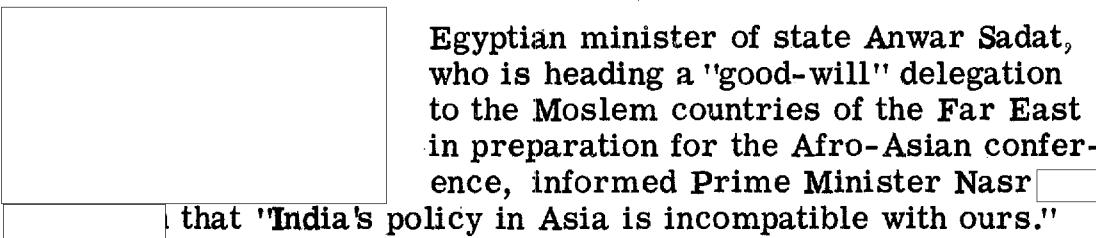
NEAR EAST - AFRICA

4. Turkey presses for visit of President Bayar to Iran:

The Foreign Ministry spokesman said that Bayar has wanted to visit Iran "for a long time" and that, since the Shah recently expressed the desire to see him in Tehran, it would be advantageous for him to go in the near future.

Comment: Turkey is anxious to round out the "northern tier" defense alignment with Iran as an important link.

The Shah has already committed himself to the "northern tier" principle, but has proposed that joint general staff talks be held as a preliminary to Iran's decision to join the Turkish-Iraqi pact. Ankara, however, believes that Iran should be brought into the defense alignment before such conversations take place in order to prevent Tehran from using the resultant planning as a device to force increased American military aid. A visit by Bayar to Tehran at this time would offer an opportunity to press Iran for early adherence to the pact.

5. Egyptian minister warns Cairo against India's Asian policy:

Egyptian minister of state Anwar Sadat, who is heading a "good-will" delegation to the Moslem countries of the Far East in preparation for the Afro-Asian conference, informed Prime Minister Nasr [redacted]

[redacted] that "India's policy in Asia is incompatible with ours."

He warned that "Communist China, with India's support, will endeavor to condemn America for the misfortunes of Asia."

Sadat recommended that Nasr visit Pakistan before India, stating that it is "very important that I see you before you go to India or Indonesia."

Comment: Sadat is one of the original members of the Revolutionary Command Council and has been labeled anti-Western in the past. If he can convince Nasr that Egypt's interests as a leader of the Moslem world may conflict with India's objectives at the conference, Cairo may adopt an independent role despite Prime Minister Nehru's overtures for Nasr's support at the conference.

EASTERN EUROPE

6. Comment on 34-percent increase in defense allocation in Czech budget:

The Czechoslovak budget for 1955, although providing for total expenditures slightly below the 1954 level, calls for a defense expenditure approximately 34 percent higher than last year's figure. According to the official announcement of 22 March, the 1955 defense expenditure represents 12.1 percent of the total budget, compared with 8.9 percent in 1954.

This increase is consistent with the Orbit's public emphasis on the need for an increase in military power to counteract "threats from the West," but percentagewise is considerably higher than the 12-percent rises in absolute expenditures announced for 1955 in the USSR and Poland.

A large portion of the Czech increase may be devoted to the procurement of new and improved military

equipment, as suggested by initial Czech receipt this year of Soviet IL-28 aircraft. Some of the increase, however, may reflect a change in budgeting procedures, i.e., some items used by the military which were formerly included within the national economy sector may have been transferred to the defense allocation.

WESTERN EUROPE

7. French government brings court action against Poujade tax-protest movement:

The French government on 22 March instructed the Seine court to issue a warrant and open an inquiry into the so-called "Poujade movement" protest taxes. The court action is to be taken under the 'injury to the prestige of the nation' clause of the 1935 general tax code.

The American embassy in Paris has been informed that the inquiry will aim at obtaining sufficient evidence to issue a search warrant covering Poujade's headquarters and the residences of the movement's leaders. Labor unions are reported to have complained bitterly to the government about its failure to move against Poujade and his supporters.

Comment: Premier Faure was forced to make concessions to the Poujade movement to avoid delaying action on the Paris agreements by the Council of the Republic. The Paris press was extremely critical of Poujade's antics in the National Assembly gallery during the budget debate on 19 March, and the present legal action is probably the beginning of a stronger government campaign against Poujade.

During the assembly debate on Faure's request for decree powers, scheduled for 28 March, Poujade's supporters in the coalition will probably join the opposition in an attempt to bring down the premier.

8. Comment on latest Austrian treaty developments:

Chancellor Raab will probably find it difficult to refuse the Soviet invitation of 24 March to visit Moscow to discuss the Austrian treaty question. Raab has already stated that he would go to Moscow if he thought it would result in progress toward a treaty.

The Soviet invitation comes just four days after a radio speech by Raab in which he seemed to go a long way toward meeting Soviet requirements for Austrian neutrality as stated by Molotov at the Berlin conference in January 1954. The USSR has also agreed to Vienna's proposal that the Austrian treaty question be discussed separately from the German question at a conference of the four occupation powers and Austria.

American officials in Vienna believe the Austrian government is "nervous and worried" by its recent discussions with the USSR and would like to shift the responsibility for negotiations to the Western powers.

Allied officials in Europe have expressed concern that the Vienna government is becoming increasingly receptive to the idea of some form of Austrian neutralization, which is opposed by the three Western occupation powers, in exchange for a treaty. The French Foreign Ministry told the American embassy in Paris that recently Austrian officials had implied that Vienna was discussing with Moscow the possibility of "complete neutrality, such as that of Switzerland."

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 24 March 1955.

1. Small-scale artillery fire was exchanged in the Quemoy area. No other ground activity was reported. Air action was negative due to weather. [redacted]

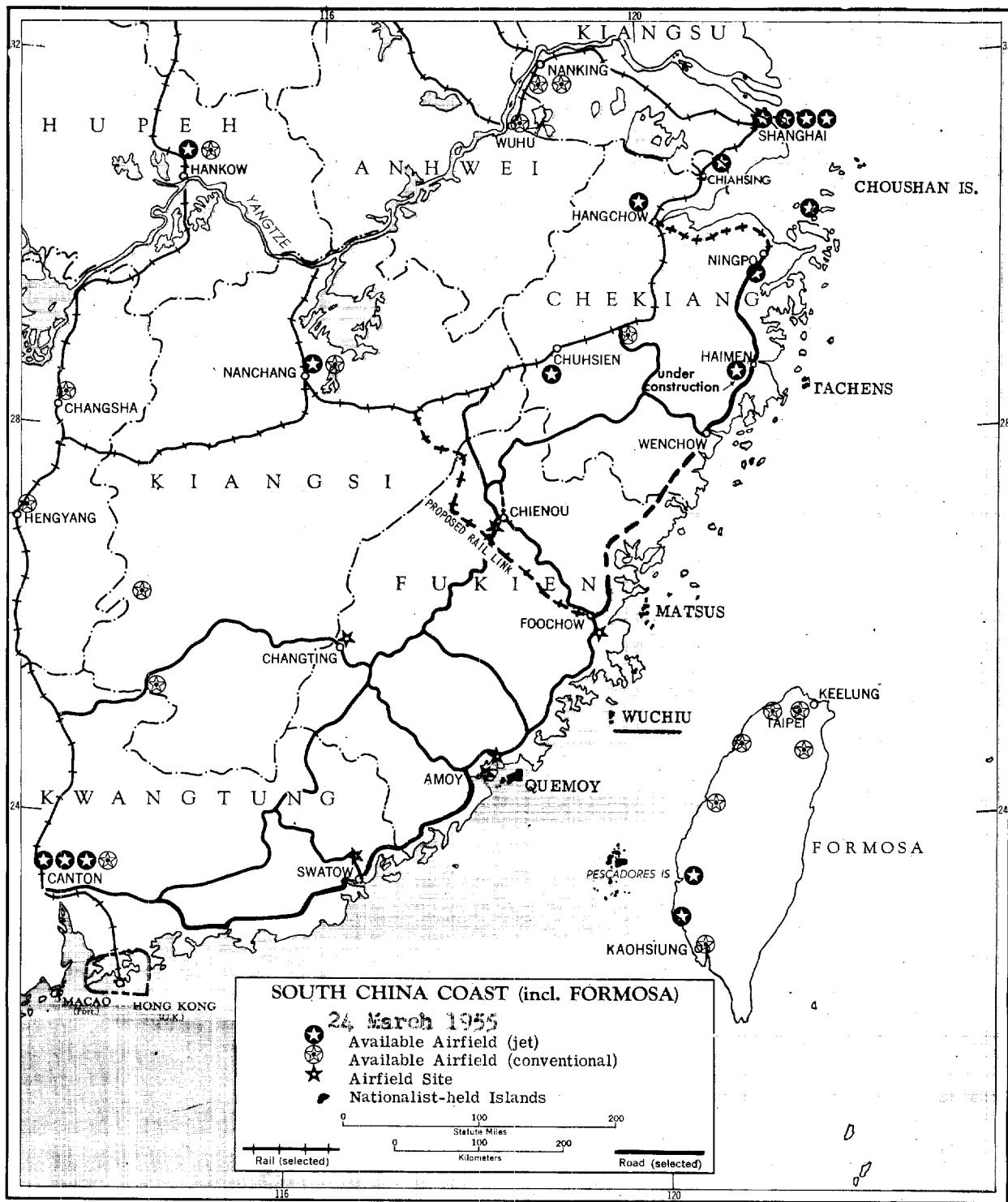
2. The sighting of additional minor Chinese Communist naval vessels in the Min River estuary is confirmed [redacted]. A long-range naval reinforcement of the Matsu area may have commenced, but is not yet of sufficient scale to indicate the imminence of hostilities. Part of the additional forces are identified as two LST's, one gunboat and numerous smaller amphibious types. [redacted]

3. Chinese Communist frogmen attempted reconnaissance on 17 March and 22 March of Wuchiu Island, midway between Matsu and Quemoy, and were driven off. These are the first such attempts on Wuchiu, the most lightly held (600 guerrillas) and most vulnerable of all Nationalist island groups. [redacted]

4. Chinese Communist propaganda attention to Formosa has remained at a relatively low level during the past week (approximately six percent of Peiping home service broadcasts), but Peiping continues to reaffirm strongly its "solemn determination" to seize the island. Broadcasts to Formosa claim that Chinese Nationalist morale is sinking and continue to appeal for defections. Peiping Radio has been exploiting the return from Hong Kong to the mainland on 15 March of former Nationalist General Wei Li-huang, who had been living in Hong Kong since 1949. Peiping has noted the rumored establishment in Taipei of a Sino-US "joint operations center" as further evidence of US efforts to "tighten its military occupation of Formosa and prepare for a new war" and has ascribed the return of the Aruba to "Washington's high-handedness." [redacted]

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Approved for Release: 2019/09/17 C03162013



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