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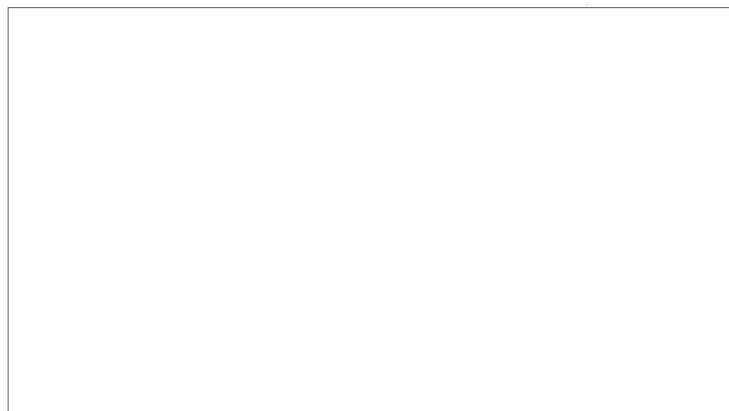
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THE TAIWAN STRAIT

[redacted] (page 12)

1. USSR OFFERS STATUS QUO SETTLEMENT AS ALTERNATIVE TO BOLSTERING NATO STRENGTH

Comment on:

Soviet Premier Bulganin's letters to President Eisenhower and to heads of other NATO governments together with recent private statements apparently are intended to undermine the rationale of American measures to increase NATO's strength and unity by offering the West a general political settlement based on the status quo.

In a conversation on 4 December with the Swiss ambassador, Bulganin elaborated on Khrushchev's proposal of 3 December to a group of ambassadors for Western recognition of the status quo in Eastern Europe in exchange for a Soviet agreement not to attempt to overthrow capitalist regimes. Bulganin stated that the USSR was prepared to give assurances, on a reciprocal basis, against intervention in the affairs of capitalist countries. He suggested that such an agreement might cover a period of 12 or 15 years.

Bulganin denied that the Russians were engaged in a "sputnik diplomacy." He asserted, however, that they had achieved technological parity with the West and that East and West should therefore come to an agreement on the basis of the status quo. Soviet presidium member Mikoyan took the same line in a talk with the Swiss ambassador on 7 December, stating that East-West negotiations should be facilitated now that the USSR has reached parity in the technological field. He remarked that the USSR previously had suffered from an inferiority complex which had made negotiations difficult.

Although the Soviet leaders evidently believe their technological achievements will enable them to gain world recognition of the USSR's strategic parity with the West, it is unlikely that Moscow considers there has been a sufficient change in the balance of power to justify any radical shift in Soviet foreign policy. Bulganin remarked to the Swiss ambassador that although one side or the other might gain a temporary lead in some particular field, this could not change the basic situation.

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2. BULGANIN LETTER TO NEHRU

Comment on:

Soviet Premier Bulganin's 10 December note to Nehru probably was designed to add to Asian neutralist pressures on the West to agree to immediate suspension of further tests and to heighten Asian suspicions of Western defense moves likely to result from the NATO conference. As in the Soviet note to Japan delivered on 5 December, Moscow seeks to exploit Asian desires for a test ban.

In replying to Nehru's 28 November appeal to the USSR and the United States to cease nuclear tests and disarm, Bulganin asserted that test suspension is "now up to the governments of the United States and Great Britain." This emphasis on the USSR's willingness to cease nuclear tests by 1 January 1958 will focus critical Asian attention during the next two weeks on Western responses. While India, Japan, and Burma as well as other countries favor control and inspection procedures over future nuclear development, they are willing to see these measures instituted after the cessation of nuclear testing. Continued Western refusal to agree to a test suspension independent of other disarmament measures probably would disappoint many Asian and African nations.

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**3. LACK OF PROGRESS IN WEST GERMAN MILITARY
BUILD-UP CRITICIZED IN NATO**

Comment on:

[Redacted]

In the course of the NATO Annual Review examination of West Germany's build-up plans, NATO representatives criticized Bonn's pleas of financial difficulties. The

German representative stated that rearmament was unpopular with the West German public. The Standing Group representative pointed out that NATO military authorities were particularly concerned over the serious shortfall in the German army and air force and over the urgent need to increase the pace of the build-up.

The German representative expressed Bonn's firm intention to fulfill its NATO obligations, but pointed to the economic problems created by absorbing 10,000,000 refugees and increasing the defense budget by "leaps and bounds." The review committee chairman replied that refugees had been a net gain for Germany and that Bonn has large holdings of foreign exchange and gold. He also hoped that creation of a 12,000-man cadre for home defense would not impede the build-up of NATO forces.

Bonn has been extremely reluctant to commit itself to a long-range schedule for its NATO forces, and the considerable hedging during the examination indicates doubts on the advisability of investing large sums for conventional forces and equipment.

4. ANTI-AMERICAN DEMONSTRATIONS PLANNED IN PARIS

Comment on:

Anti-American demonstrations may be held in Paris during the NATO conference. Pierre Poujade has called for "patriots" to gather at war memorials on 15 December "to protest American insolence."

the Communist-led General Labor Confederation and other extreme leftist groups would go on strike and that they would be joined by rightist groups.

if President Eisenhower arrives at Villacoublay airport near Paris, 40 percent of the employees will walk out, and that a mass demonstration will be held outside the American embassy during any reception.

the Gaillard government has made substantial concessions to labor which are expected to limit labor's willingness to go out on strike. Some support may be available, however, from Communist militants in response to the Communist party central committee's call for "dignified" demonstrations against NATO.

The Paris police will be particularly alert to forestall hostile demonstrations during the NATO discussions and will effectively curtail any minor manifestations of anti-Americanism.

**5. IRANIAN PRIME MINISTER SAYS IRAN MAY ADOPT
NEUTRALIST POLICY**

Comment on:

Iranian Prime Minister Eqbal has suggested to an American embassy representative that Iran is contemplating a neutralist policy. Apparently continuing Iran's campaign to highlight its need for additional American aid, Eqbal said that unless there was an increase in such aid, Iran would have to re-evaluate its Baghdad pact position, cut down its army, and apply the savings to interior economic development. He asserted the Russians were willing to give economic aid and even ships for the Iranian navy. Tehran, he said, believes it is gaining nothing from its pact membership and is in an exposed position with respect to the USSR. The prime minister also voiced suspicions regarding the motivation of Iraq and Turkey--both Baghdad pact members.

One of the most recent approaches of the USSR in its campaign to enter the Iranian economy apparently was made by the chief of the Soviet commercial office in Tehran on 1 December to a group of Iranian businessmen.

[redacted] he offered Soviet participation in forming an oil company to extract oil in northern Iran. The USSR would furnish all equipment and technicians. Iran would own 51 percent of the stock, and the Soviet Union 49 percent.

6. BURMA TO ACCEPT \$10,000,000 SOVIET
AGRICULTURAL LOAN

Comment on:

Burma has decided to accept a Soviet offer to construct two irrigation dams in central Burma on a credit extending over 12 years at 2.5-percent interest.

Moscow had also offered to construct a plow factory on a five-year credit at 2.5-percent interest.

[redacted] in view of Burmese negotiations with Czechoslovakia and Japan for a textile factory and the fact that the Chinese Communists are already building one, the USSR was not interested in such a project at present.

The credit for construction of the irrigation dams will amount to approximately \$10,000,000, about half of which will be in foreign exchange, [redacted]

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7. INDONESIAN SITUATION

Comment on:

Communist gains in Java have convinced Sumatran leaders that the only sensible course is to declare Sumatra independent,

The military commander in Central Sumatra, Lt. Col. Hussein, has already taken steps to protect foreign business in his area and to see that revenues, which previously went to Djakarta, do not fall into Communist or central government hands.

Hussein has ordered that Dutch enterprises be placed under the control of the provincial administration and that the tax on all exports be turned over to authorities in Padang, the provincial capital, rather than be remitted to Djakarta. In South Sumatra, army commander Lt. Col. Barlian has assured the local Stanvac manager that the Dutch in the province will be protected and that Dutch employees of Stanvac will not be forced to leave.

In Java, President Sukarno has made his first statement since the speech following the attempt on his life on 30 November. In a brief speech in Surabaya he said there would be no letup in the anti-Dutch campaign and apparently omitted any reference to illegal labor activities. He tied the campaign to Indonesia's demand for Netherlands New Guinea, stated that Indonesia faces "many hardships" in its battle to win the area, and said the country's aims are supported by a majority of the world's population including Communist China.

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8. JAPANESE PRIME MINISTER FACES ELECTION DILEMMA

Comment on:

Renewed factionalism within Japan's ruling Liberal-Democratic party threatens the stability of the Kishi government and is becoming the major consideration in Kishi's timing of general elections.

Prime Minister Yoshida and other party leaders who resent their continued secondary role in party and government affairs are trying to topple the Kishi administration. Their maneuvers are directed against Kishi's retention in the cabinet of Economic Planning Board Minister Ichiro Kono, the strong man of the Hatoyama cabinet, who they fear is too ambitiously expanding his power.

The Yoshida and Kono groups, which appear to be irreconcilable, are demanding that Kishi make a choice between them. Each has threatened to quit the party and force the government to resign if it loses.

Kishi probably will attempt first to work out a compromise. Should he fail, a decision to hold elections in January or February, rather than next fall as Kono desires, would aid Yoshida, who wants early elections to limit Kono's opportunities to entrench himself further.

The open factionalism in Japan's conservative ranks that will result from a failure to solve this problem would encourage the trend toward the left and neutralism that has been evident over the past several years. Any successor to Kishi, and particularly if it is Kono, not only might loosen ties with the United States but might seek closer relations with the Communist bloc, especially Communist China.

9. GUATEMALAN SITUATION

Comment on:

Rightist plots to seize the Guatemalan government have received new impetus from the failure on 6 December of the most recent unity attempt by anti-Communist forces. Fear of adverse United States reaction has thus far been an important factor in discouraging

the several military and civilian groups that are considering a coup. Extreme rightists, however, are receiving encouragement and financial support from Generalissimo Trujillo of the Dominican Republic. A rightist coup would provoke strong counteraction from leftists, who are capable of causing serious violence.

The Communist-infiltrated Revolutionary party, which on 5 December was granted the right to participate in the 19 January national elections, is the country's strongest single party. Although Interim President Flores assured the American ambassador on 9 December that he would never turn over the government to a Communist, he is a weak leader and is hampered by his policy of strict adherence to the law and of complete neutrality in the coming election. He has refused to permit the return of prominent Communist exiles, but Communists and pro-Communists are reported still returning to Guatemala. Flores sees little danger in the activities of leftists who, during the pro-Communist Arbenz regime, demonstrated their subservience to Communist leadership and who now have considerable influence in the Revolutionary party.

SUMMARY

14 November - 11 December 1957

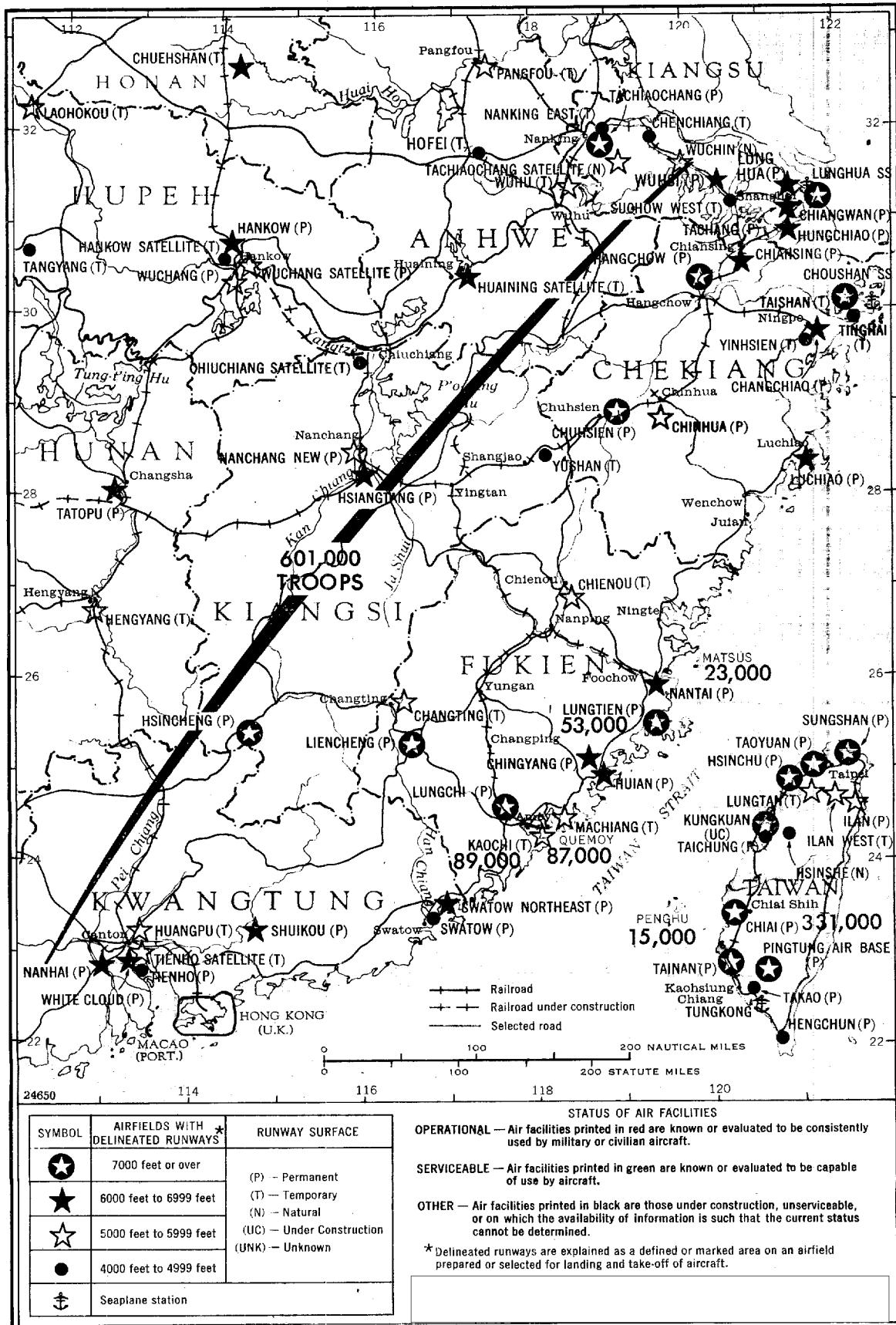
THE TAIWAN STRAIT**Report of the IAC Current Intelligence Group
for the Taiwan Strait Problem**

1. There were no significant combat operations in the area during the period.
2. Chinese Nationalist military authorities have professed concern over the possibility of a Chinese Communist attack on Ta Tan and Erh Tan Islands in the Quemoy area. Evaluation of the evidence cited by the Chinese Nationalists does not indicate that an attack is imminent, and Chinese Communist military activity appears to continue at recently normal levels.
3. The 15 (possibly 30) jet light bombers which flew from Peiping to Canton in late October have remained in the area, suggesting that the deployment might be a permanent one. At present, the Chinese Communists have 105 (possibly 120) jet light bombers located within range of Taiwan.
4. Chinese Nationalist Foreign Minister George Yeh stated in conversation with a trusted American friend on 30 November that the Nationalists would intensify and enlarge mainland raids to raise morale in the armed forces. Although Yeh's motives for making this statement are not known, it is possible that the Nationalists are planning a modest increase in the scope and frequency of raids and ground reconnaissance patrols against the mainland in an effort to focus world attention on Taiwan.
5. Peiping's refusal to accept a "two Chinas" solution to the Taiwan problem was underlined on 15 November, when Chou En-lai

assembled the heads of all diplomatic missions in Peiping for a two-hour briefing. Chou said the Chinese Communists were willing to continue indefinitely Sino-American talks at Geneva, but would not renounce force in the Taiwan area unless there was an American withdrawal. Insisting that Taiwan is Chinese territory, Chou declared there will be direct "negotiations" with Chiang Kai-shek for Taiwan's liberation. In a subsequent interview with a West German reporter, Chou renewed an "offer" to give Chiang Kai-shek a high post if the Nationalists accept "peaceful liberation."

6. Chinese Communist propaganda to Taiwan has begun emphasizing charges that Soviet missile successes are weakening the US and Nationalist position on Taiwan. Nationalist officials, it is claimed, are "gradually losing confidence" in American strength, and prospects for Taiwan's "liberation" are "increasing daily."

TAIWAN STRAIT SITUATION



STATUS OF AIR FACILITIES

OPERATIONAL — Air facilities printed in red are known or evaluated to be consistently used by military or civilian aircraft.

SERVICEABLE — Air facilities printed in green are known or evaluated to be capable of use by aircraft.

OTHER — Air facilities printed in black are those under construction, unserviceable, or on which the availability of information is such that the current status cannot be determined.

* Delineated runways are explained as a defined or marked area on an airfield prepared or selected for landing and take-off of aircraft.

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