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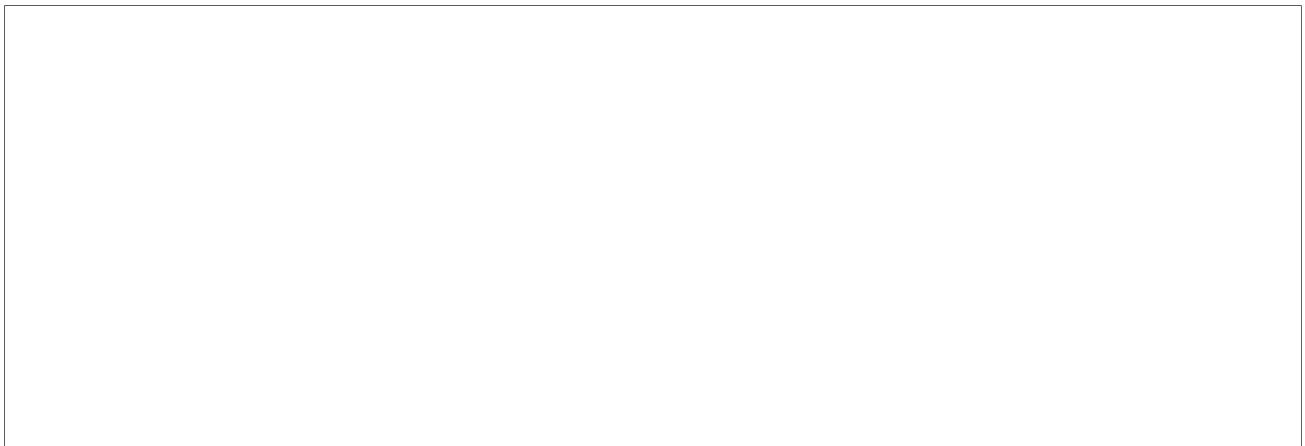
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SOVIET UNION

1. New light cruiser added to Soviet Northern Fleet:

[REDACTED] [REDACTED]
 [REDACTED] a new light cruiser of the
 Sverdlov class has been delivered to the
 Soviet navy by the Molotovsk shipyard and that the new vessel is
 undergoing shakedown operations in the Archangel area.

Comment: The addition of this cruiser and two others transferred from the Baltic in May brings cruiser strength in the Archangel area to seven; in 1950, when the build-up of the Northern Fleet began, there were none. The growth of cruiser strength in the only Soviet European fleet with access to the Atlantic has been accompanied by the addition of at least 20 new long-range submarines and at least 26 destroyers in the same period of time.

The first cruisers of the Sverdlov class were laid down in 1949 at Leningrad. A total of 14 have been built thus far--ten at Leningrad, two at Molotovsk and two at Nikolaev. At least two more probably are under construction at Leningrad, one at Molotovsk and two at Nikolaev.

SOUTHEAST ASIA

2. Sino-Viet Minh propaganda on Indochina becomes more belligerent:

[REDACTED] Chinese Communist and Viet Minh propaganda on developments in Indochina has become more ominous in the past few days. The United States is accused by Peiping of creating a "serious threat" by obstructing implementation of the Geneva accords, masterminding the Saigon riots, and of "sparing no effort to dismember Vietnam and turn South Vietnam into an American military base." Peace in Indochina, therefore, is facing a "crisis," this propaganda asserts, and the United States "will be responsible for the grave consequences."

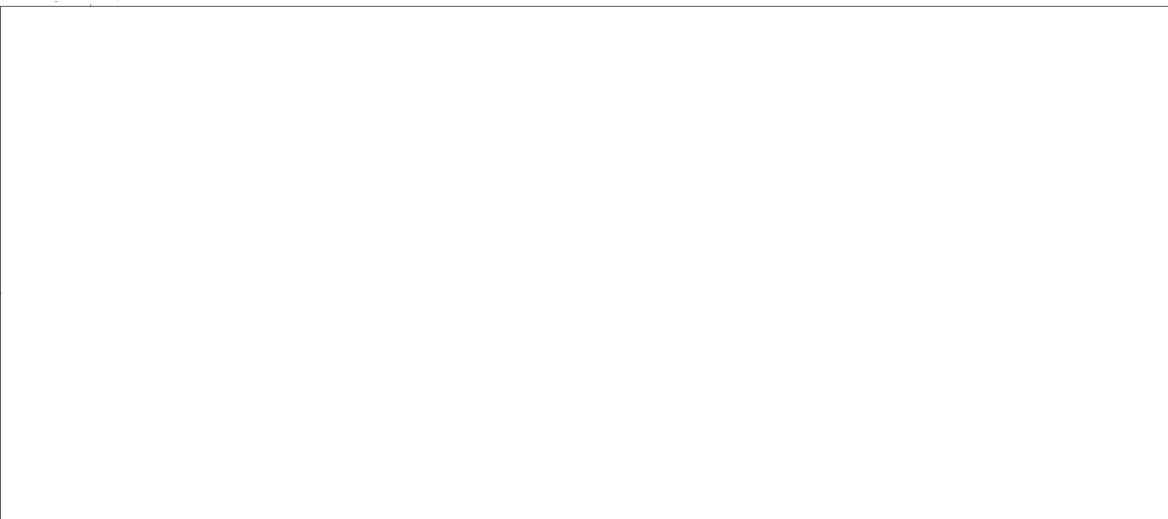
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Viet Minh propaganda has been even more vehement. Hanoi broadcasts claim that the United States is planning to attack both North Vietnam and Communist China.

Considerable attention has been focused on Laos. The United States is accused of sabotaging negotiations between the royal government and the Pathet Lao and of instigating the recent fighting at Muong Peun. On 19 July, Peiping noted that China and Laos were neighbors and warned that unless "sinister American maneuvers" to promote aggression in Laos through the Manila pact were frustrated, "the flames of war in Indochina would be rekindled."

The Communists may follow this propaganda attack with acts of violence intended to spur diplomatic activity toward a solution in Vietnam. (SECRET)

3. Viet Minh said to be giving clandestine aid to Hoa Hao dissidents:



Comment: Ba Cut is said to be violently anti-Communist. However, in view of his present logistic and financial difficulties, he may feel constrained to accept Viet Minh aid.

The Vietnamese army, in the second phase of its operation against Ba Cut's forces, has largely succeeded in containing them, but is unlikely to suppress them completely in the foreseeable future.

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SOUTH ASIA

4. Comment on reported increase in Soviet-Afghan trade activity:

The Soviet Union, in what appears to be an attempt to increase the tempo of economic penetration of Afghanistan, is reported to have greatly increased motor and aviation gasoline shipments. The USSR also has offered to fill all Afghan requirements for diesel oil, purchase one third of the cotton crop, and buy the entire annual supply of karakul skins.

Soviet
offers to provide the Afghans with 25 million meters of cotton cloth within the next two months. Such large imports from the USSR would probably result in a comparable reduction of Afghan imports from India.

In an apparent effort to make its proposals for a transit agreement more attractive to Afghanistan, the Soviet Union is reported to have offered to transport Afghan cotton from the Oxus River on the Soviet-Afghan border to Batumi on the Black Sea for the same price as Afghanistan now pays to transport cotton from Peshawar to Karachi.

There appear to be no transport or economic problems which would place a significant obstacle in the way of completely reorienting Afghan foreign trade both to and through the USSR. In view of the present attitude of the Afghan government in resisting Pakistani pressure, [redacted] estimates that the Afghans would consider additional costs a minor factor.

[redacted]
IT IS
doubtful that a major reorientation of Afghan trade, as opposed to emergency shipments, would be considered before another round of mediation negotiation is attempted and fails. The Afghan government, however, will probably use Soviet economic offers to bring new pressure to bear on Pakistan. (Prepared by ORR)

NEAR EAST - AFRICA

5. Liberal program for Morocco seen gaining decisive support in France:

[Redacted]

Well-informed Paris sources see a trend in France in favor of a liberal policy in Morocco, according to the American embassy. The recent activities of French extremists in Casablanca have evoked a strongly unfavorable reaction in Paris, and in Morocco Resident General Grandval's actions have gained him prestige with liberal French and moderate Moslems.

Premier Faure seems assured of sufficient support from the Socialists and from Mendes-France supporters in the National Assembly to compensate for the loss of votes on the right over a conciliatory North African policy. Reliable sources, including certain members of parliament, expect Sultan Ben Arafa to be replaced, probably by a regency council, some time in August.

Comment: Appointment of a regency council, unsupported by former sultan Mohamed ben Youssef, would still leave the nationalists unsatisfied. They insist on the return of the former sultan. France may therefore reinstate him outright in order to dramatize its announced policy of reducing direct French control of Morocco.