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GENERAL**1. Additional Soviet warships may be transferred to Chinese Communists:**

Two prewar destroyers, two coastal submarines and two long-range submarines, which had been sighted proceeding southward through the Sea of Japan, had rounded the southwest tip of Korea by the afternoon of 27 June and apparently were headed for Tsingtao.

Comment: Voyages out of home waters are very unusual for ships of the Soviet Pacific Fleet. Although these destroyers and submarines may be on a training cruise, it appears more likely that they will be transferred to the Chinese Communists. In October 1954 a similar group of two prewar destroyers, two submarines and two minesweepers went from Vladivostok to Tsingtao, where all vessels were turned over to the Chinese.

Transfer of the second group of ships would bring Chinese Communist destroyer strength to four and raise to 11 the probable number of submarines in the Chinese Communist navy.

FAR EAST**2. Comment on air incidents in the Formosa Straits:**

The two Chinese Communist air attacks on Nationalist aircraft near the Matsu Islands on 27 June were the first Communist attempts to intercept Nationalist planes in the Formosa Straits, although earlier attacks had been made north and south of the straits. One of the aircraft attacked was a photo reconnaissance plane, the other a Nationalist commercial plane. The reconnaissance plane was destroyed, and the commercial plane was slightly damaged.

Peiping can be expected to justify the attacks in terms of defensive action. Nationalist aircraft had

attacked Communist naval targets along the coast the day before, and on 25 June Peiping had broadcast a detailed account of Nationalist military "harassment" against the mainland during June.

Further incidents of this type appear highly probable as the Communists improve their proficiency in fighter operations and as additional fighter bases are completed in the coastal area. Peiping may welcome opportunities to take such action at this time, in order to maintain tension in the area and keep some degree of pressure on the United States to enter into negotiations.

SOUTHEAST ASIA

3. Key Indonesian army officers refuse to acknowledge new chief of staff:

[redacted]

Opposition of anti-Communist army commanders to the installation of General Utoyo as the new Indonesian chief of staff and the refusal of Colonel Lubis, [redacted] acung chief or staff, to relinquish his duties are expected to provoke a strong reaction from President Sukarno. This development may open a new phase in the two-year conflict between the pro-Communist defense minister and anti-Communist army elements. Tension is reported high and the anti-Communist commander in West Java is reported to have deployed troops into strategic positions near the capital.

[redacted]

Should the commanders retreat from their position, Sukarno will probably press for disciplinary action. This would reduce their strength and weaken anti-Communist influence in the army.

SOUTH ASIA

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