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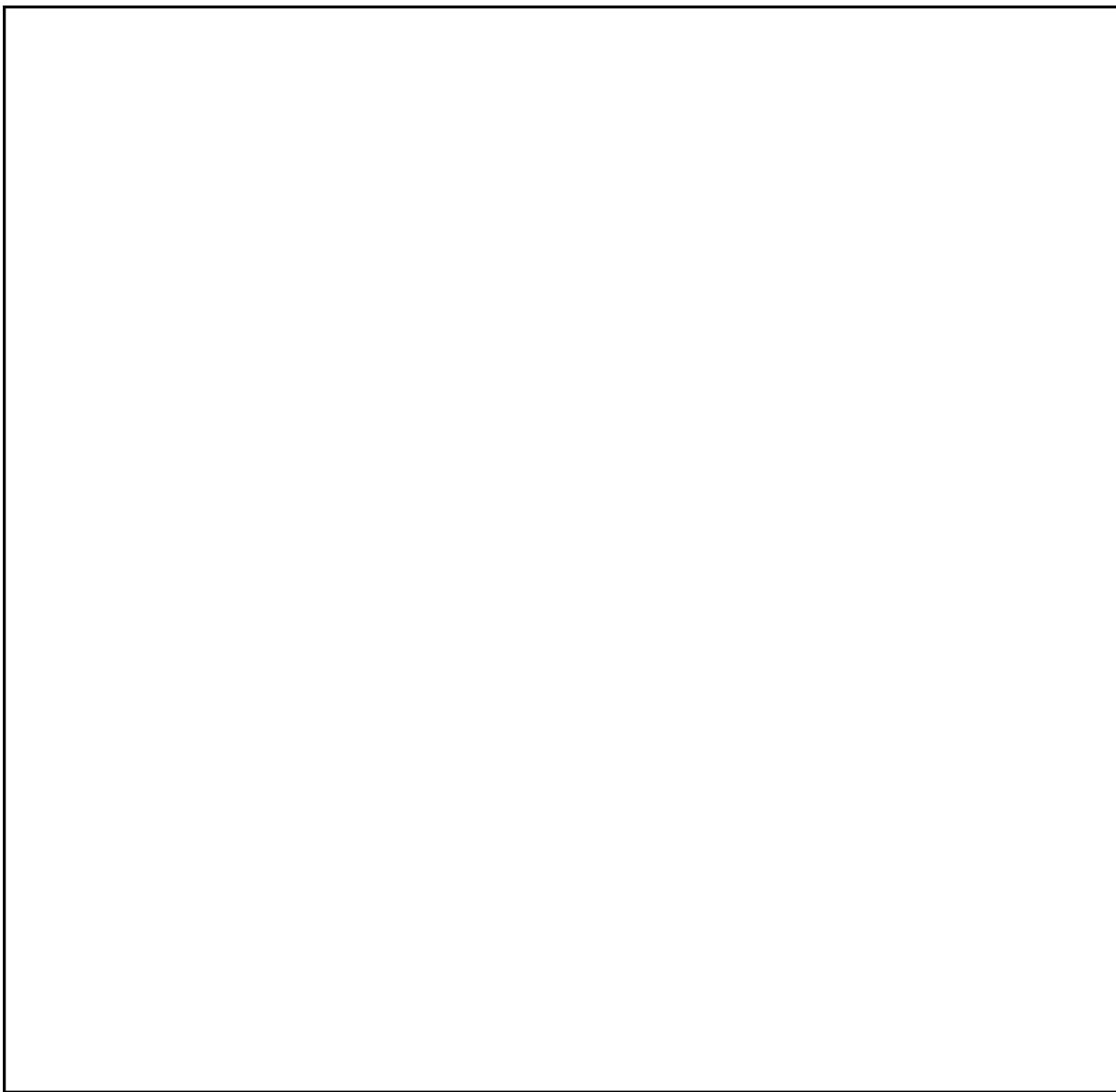
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FAR EAST

2. Yoshida reported ready to transfer premiership to Deputy Prime Minister Ogata:

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Shigeharu Matsumoto, a close confidant and adviser to Prime Minister Yoshida, thinks that following his world tour Yoshida will be able to arrange for his

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"peaceable" retirement and for "handing the baton" to his chosen successor, Deputy Prime Minister Taketora Ogata. Matsumoto told Ambassador Allison on 22 September that Ogata, as new Liberal Party leader, would have the support of influential conservatives Ikeda, Kishi and Ashida, and that a majority of the Progressive Party would come over to the Liberals.

Comment: Ogata has long been regarded as the most likely successor to Yoshida. A former newspaper man and for many years the editor of a leading newspaper, Ogata was an influential member of several cabinets during and immediately following the war. Despite his purge during the occupation, he is considered friendly toward the United States and the West.

Yoshida's voluntary retirement would remove a major obstacle to conservative unity. There is little prospect, however, that Ogata could for long control the schisms within the conservative movement, with its tradition of personal loyalties and bitter rivalries for power.

3. Comment on resumption of heavy Communist shelling of Quemoy:

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Communist artillery near Amoy resumed its heavy shelling of the Quemoy Islands on the evening of 22 September. Approximately 3,600 rounds were fired in much the heaviest shelling of the islands since the opening Communist barrage of 6,000 rounds on 3 September. The shelling of Big Quemoy was concentrated on two

points on the eastern end of the island where Nationalist artillery is located, and along the western coast as far south as Quemoy town. Total damage done to Nationalist military installations is not yet known, but Nationalist casualties included 20 killed and 62 wounded.

Sporadic and reduced Communist shelling of the Quemoy after 3 September, together with Communist

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propaganda treating the first phase of the operation as completed, had suggested that Peiping had no desire to intensify military operations against the island. The renewed shelling may be in response to continued Nationalist air and sea strikes on the Amoy area and may presage stronger Communist military action in that area, including the use of air power.

There are still no signs that the Communists are concentrating forces for an invasion of the Quemoyes. This could be done quickly and with little warning, however. As a face-saving alternative, Peiping might soon move to take Tatan and Erhtan, two tiny islands now lightly held by the Nationalists about three miles southwest of Little Quemoy.

4. Large Chinese Communist purchase of life belts in Hong Kong confirmed:

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Hong Kong police have confirmed a press report that a "large" order for life jackets has been placed with Hong Kong manufacturers for delivery to Macao, obviously for transshipment to the Communist mainland. Delivery will be delayed because supplies of cork in Hong Kong are sufficient for the manufacture of only 10,000 life jackets, according to the police.

The Hong Kong government will find it difficult to prevent delivery because neither life belts nor their components are strategic items, the American consul general believes.

Comment: A large order for life belts gives further substance to Peiping's announced intention of "liberating" Nationalist-held offshore islands and Formosa.

A total of 300,000 life belts--an unconfirmed figure reported by the press--would go far in equipping the 400,000 troops of eight armies which, it is estimated, the Communists would employ in an attack on Formosa.

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This purchase would not necessarily imply, however, that attacks on Nationalist bases would soon follow. This equipment might be assigned to military units in amphibious training.

SOUTHEAST ASIA

5. Bao Dai offers Vietnamese premier "freedom to resign":

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Premier Diem on 23 September received from Bao Dai in France a telegram offering to relieve Diem of his oath of loyalty, thereby making it easier for the premier to "free yourself from your heavy burden," if he so desired. The American embassy in Saigon interprets this as a "polite" request for Diem's resignation.

Diem is replying that he intends shortly to announce the reorganization of his government, with the participation of the sects and outstanding nationalists. He also is saying the new government will have the backing of the United States.

Comment: Bao Dai is still legally the final arbiter of the fate of the Vietnamese cabinet, and is being subjected to strong pressure by all parties to the current dispute. During the past few days both French and Vietnamese officials in Paris have given American officials the impression that Bao Dai would act soon to remove Diem.

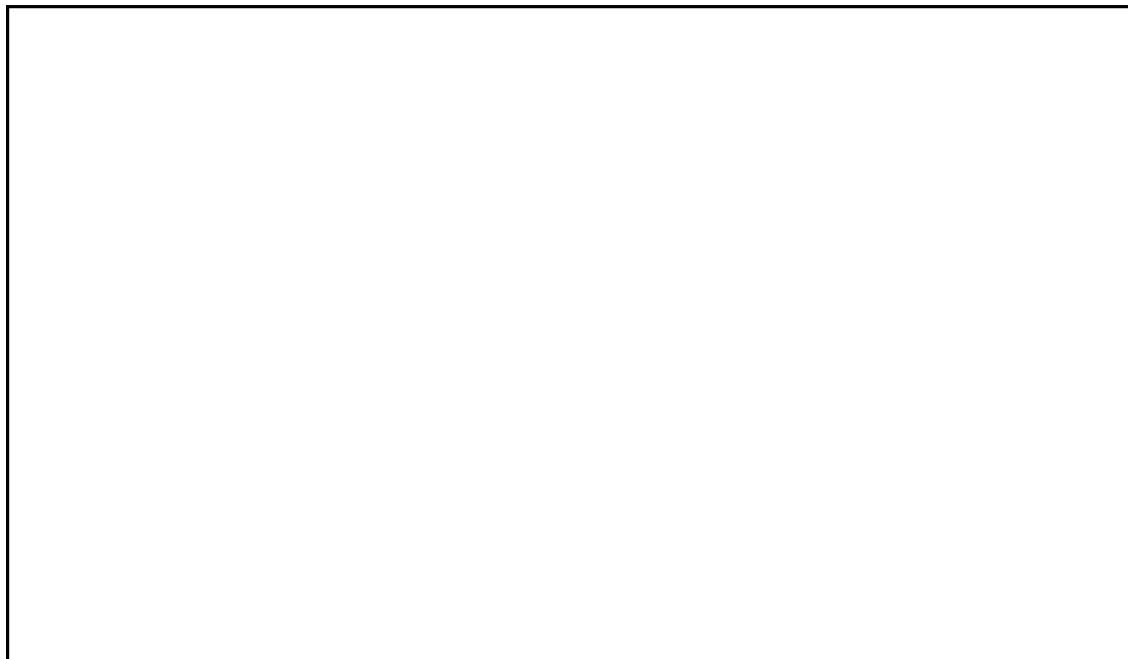
Like most communications from Bao Dai, this telegram is subject to varying interpretations. Its vague wording is probably designed to enable Bao Dai to make his words fit whatever situation develops in Saigon.

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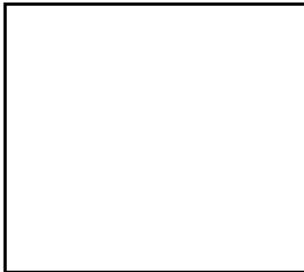
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SOUTH ASIA

7. Comment on changes in Pakistani government structure:

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The unanimous action taken by the Pakistani Constituent Assembly on 21 September stripping the governor general of his most important powers and strengthening the position of the prime minister now appears to have been a "constitutional coup" which will not, however, materially change the power structure of the Pakistani government. The basically pro-American orientation of the Pakistani government should not be changed by this maneuver.

The move apparently was conceived and executed by the members of the small politico-military clique which now controls the country, and which is the only group capable of evoking a unanimous vote on such an issue. It appears to have been designed to increase the prestige and bargaining power of Prime Minister Mohammad Ali, who is about to visit the United States.

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The ailing governor general, who heretofore has been considered unofficial leader of the clique, was obviously uninformed of the move. He now has the choice of acquiescence or resignation.

Mohammad Ali and Iskander Mirza, governor of East Pakistan, left Pakistan on 22 and 21 September for state visits and medical treatment respectively, while General Ayub, commander in chief of the Pakistani army, is scheduled to leave for the United States on 7 October. Since these three men are key members of the ruling clique, their willingness to leave the country at this time suggests not only their complicity in the coup but also their confidence in the inability of the governor general to undo their handiwork.

WESTERN EUROPE

8. German coalition leaders see Mendes-France plan as "intentionally unacceptable":

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West German coalition leaders interpret the German rearmament proposals of French premier Mendes-France as "intentionally unacceptable," and aimed at placing the blame for a breakdown of the London conference on Germany or Britain. They insist that if the conference fails, Britain and the United States must act immediately to rearm Germany. Failure to do this, they say, would discredit Chancellor Adenauer, and result in the de facto neutralization of the Federal Republic.

West German defense officials specifically criticize the fact that under the French plan, Germany would be the only Brussels Pact member whose entire armed force would be subject to control. German officials contend that some form of German NATO membership is a military and political necessity.

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LATIN AMERICA

9. Guatemalan assembly to be chosen in rigged elections on 10 October:

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On 21 September the Guatemalan government set elections for a constituent assembly for 10 October and decreed an electoral law designed to assure the election of a body favorable to continuing Castillo Armas in the presidency.

Ambassador Peurifoy notes that the elections will not be free and that "there is bound to be bitterness" among anti-Communists who do not favor Castillo.

Comment: The constituent assembly, designed primarily to give the Castillo government a semblance of constitutionality, is expected to ratify past decrees of the provisional government, elect Castillo president for a fixed term, and then adjourn.

Castillo was reliably reported on 22 September to have agreed to form a council of state under Juan Cordova Cerna, a leading political figure who broke with Castillo last July. This may heal one of the chief breaches which have been developing in the anti-Communist ranks. The elections could, however, be a serious divisive factor if any of the major anti-Communist factions are denied effective participation.

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