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CENTRAL INTELLIGENCE AGENCY

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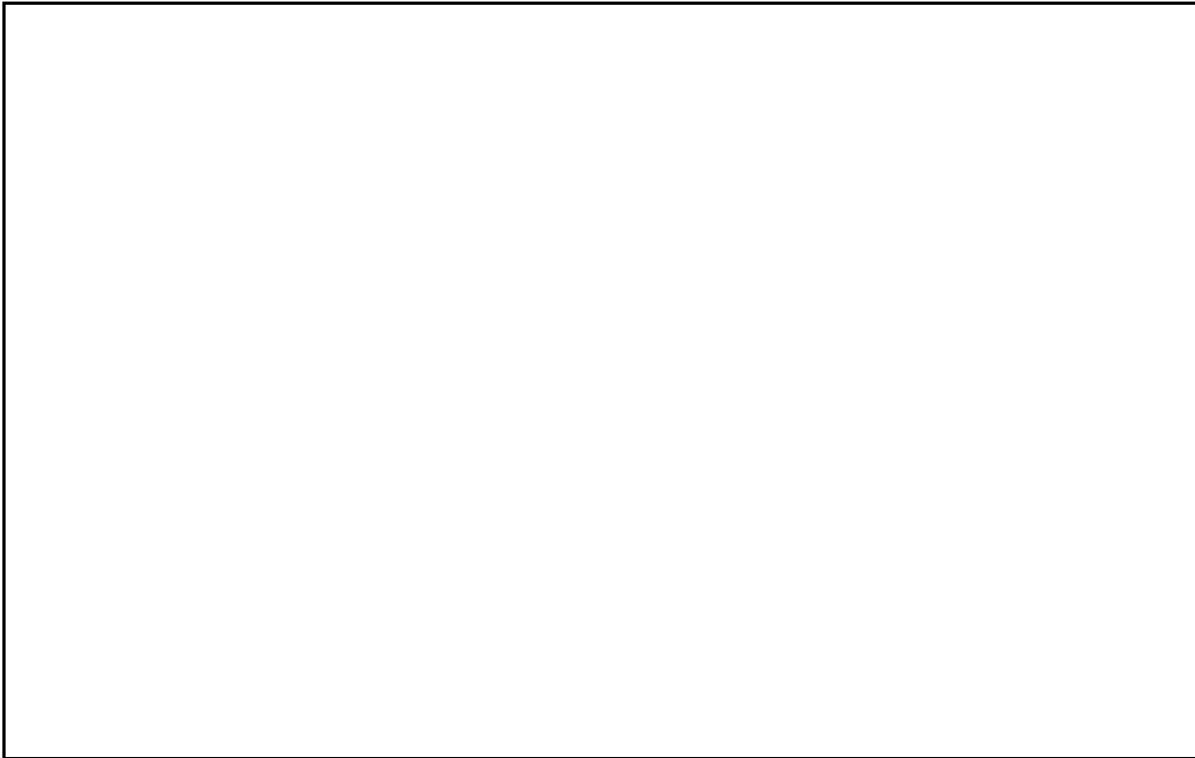
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FAR EAST

3. Chinese Nationalist naval task group withdrawn from Tachen area:

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All ships of the Chinese Nationalist naval task group in the Tachens were withdrawn from the area on 10 January, following damage to the principal unit from attacks by Chinese Communist planes. This move-

ment leaves the Tachen commander without local naval support. The bulk of the Tachen task group is now in the vicinity of Nanchishan, an island about 85 miles southwest of the Tachens.

Communist naval vessels, believed to include torpedo boats, were apparently lying in wait for the Nationalist ships as they withdrew. A Nationalist gunboat was hit and abandoned.

Comment: Lack of naval support for the Tachen area sharply reduces the defensive capability of the island

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garrison. Defense efforts for the next few days probably would also be hampered by the confusion accompanying rotation of the garrison troop units, which is now going on.

Current weather conditions in the Tachen area pose a serious obstacle, however, to an amphibious attack on the islands. On 10 January winds in the Tachens were reported to be 50 knots, and high winds are expected to continue.

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SOUTHEAST ASIA

4. Indonesian president reported speaker at Communist-controlled labor congress reception:

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Both President Sukarno and Prime Minister Ali Sastroamidjojo spoke at a reception on 9 January which opened the second national congress of SOBSI, Indonesia's largest and completely Communist-controlled labor federation, according to the Communist press in Djakarta. Also reported speaking at the reception was Henri Jourdain, deputy secretary general of the WFTU. Three members of the Indonesian cabinet, members of the Indonesian Communist Party politburo, the Soviet ambassador, the Czech consul general, and the counselor of the Chinese Communist embassy were also present.

Comment: The Indonesian government's attitude toward SOBSI's second congress, as reflected in the Communist press story, is different from its attitude toward the first, which was held in October 1952. At that time the only members of the government who made an appearance in connection with the congress were the minister of personnel affairs and the deputy speaker of parliament.

The American embassy in Djakarta estimates that SOBSI's membership numbers 600,000 and states that many of its top leaders are directly affiliated with the Communist Party.

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EASTERN EUROPE

5. American legation reports new course failing in Hungary:

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The new course in Hungary has failed to bring about more than a nominal increase in agricultural production or to build a sound basis for long-range industrial development, according to the American legation in Budapest. In a year-end analysis of the Hungarian economic and political scene, the legation states that the economy of the country has actually deteriorated since the inauguration of the new course in July 1953. It has noted only a slight improvement in the standard of living of the Hungarian people, and states that the nation's economic contribution to the Soviet bloc has very probably decreased.

Comment: A poor harvest, a shortfall of over 500,000 tons in coal mined, and inflation resulting from increasing production costs and falling labor productivity are contributing to Hungary's deteriorating economic position.

Although the October central committee meeting resulted in numerous high-level policy statements criticizing resistance to the new course and demanding a rapid implementation of the economic changes, anticipated measures to improve the situation have not been taken.

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LATIN AMERICA

6. Comment on Costa Rican situation:

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The rebel force which early on 11 January seized control of the Costa Rican town of Villa Quesada, about 40 miles from San José and an equal distance from the Nicaraguan border, probably consists of Costa Rican oppositionists and mercenaries, but the strategy and materiel support for their movement is believed

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to have come from the Venezuelan and
and Nicaraguan governments. The
rebels are reported to be preparing an
airstrip, and early in the evening of
11 January a clandestine radio warned
the Costa Rican public that military objectives and transporta-
tion facilities would be bombed. The radio also transmitted
sabotage instructions.

The strike against the United Fruit
Company in Costa Rica which was called suddenly by Commu-
nist labor leaders on 11 January may be connected with the re-
volt. Former Costa Rican president Rafael Calderon Guardia,
who has for years been plotting to return to power and who is
probably involved in the current revolt, co-operated closely with
the Communists during and after his 1940-1944 term in the presi-
dency.

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Unless the rebels can maintain control
of an airstrip within Costa Rica and quickly launch an air offen-
sive, they will probably fail. The Venezuelan and Nicaraguan
regimes are unlikely to become overtly involved. The rebels ap-
pear thus far to be few in number and to be relying for victory on
the psychological effect of their radio broadcasts and expected air
demonstrations, and on what they probably consider strong domes-
tic opposition to Figueres. They may have overestimated the
latter factor and underestimated the ability of the Costa Rican
Civil Guard.

The 1500-man Civil Guard, Costa Rica's
only armed force, is led by men of undoubted loyalty to Figueres
and has been undergoing intensive training in recent months. The
reserves, which number 3,000 and are now being mobilized, showed
high morale and ability during their recent training.

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