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26 May 1955

Copy No. 94

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 43
NO CHANGE IN CLASS.
[] DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 9/1/80 REVIEWER: _____

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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FAR EAST

1. Japan denies intent to withdraw from GATT negotiations:

[Redacted] An official of the Japanese Foreign Ministry has stated categorically that Japan has no intention of withdrawing from negotiations now being conducted

as a preliminary to Japan's accession to the General Agreement on Tariffs and Trade (GATT).

The American embassy in Tokyo reports, however, that Japan is concerned and probably resentful over the large number of countries which may invoke Article 35, which could deny most-favored-nation treatment to Japan.

Comment: An earlier report reaching the embassy stated that Japan was planning to abandon its efforts to join GATT because of domestic opposition to tariff cuts and because of the large number of nations planning to invoke Article 35 of the agreement.

Japan appears to be assured of the necessary 23 votes for full membership.

SOUTH ASIA

2. Afghan defense minister says mobilization has been abandoned:

[Redacted] Afghan defense minister Mohammad Arif stated on 23 May that Afghan troop mobilization had been abandoned. [Redacted]

Comment: If troops called to active duty since 4 May are actually being disbanded, it would be an admission of Afghan inability to maintain a strong front against Pakistan for any appreciable length of time and would materially weaken Kabul's international position. It would also further weaken confidence in Daud, since as prime minister and as a former war

minister he should have been able to estimate more accurately his country's ability to withstand the strain of mobilization--especially when mobilization is used as a political weapon.

There have been several reports that the Afghan administration and economy were disrupted by the retention of conscripts on active duty.

NEAR EAST - AFRICA

3.



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WESTERN EUROPE

4. Conservatives seen winning British election by narrow margin:

The consensus in Britain is that the Conservative Party will win the general elections on 26 May with about the same majority it now holds or with a slight increase.

According to the American embassy in London, this estimate is based on the belief that few voters have switched from their 1951 choices, that any Conservative gains resulting from the redistribution of seats may be balanced by losses caused by incursions of the Liberal Party, and that Labor abstentions due to apathy may be canceled out by Conservative abstentions resulting from overconfidence.

Comment: A Gallup poll published on 24 May gives the Conservatives a 4-percent lead over Labor, but also shows 12.5 percent of the people in the "don't know" column. Judging from past elections, more than half of the "uncommitted" votes will go Labor. Professional pollsters generally estimate the Conservatives' actual lead at only 1.5 percent, a margin which could give them a majority of between 30 and 35 seats.

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6. Comment on establishment of Soviet State Committee of Labor and Wages:

[Redacted] On 24 May the USSR created under L. M. Kaganovich, one of the top Soviet leaders and long the foremost industrial trouble shooter within the Soviet hierarchy, a state committee on labor and wages. Kaganovich's appointment underscores the urgency with which Soviet leaders view the labor situation.

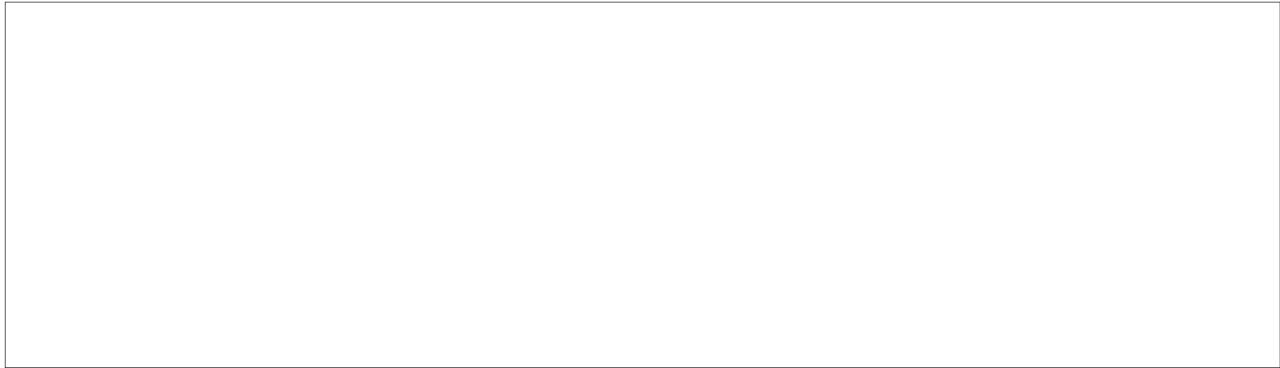
There has been a progressive worsening of the Soviet labor situation since at least the advent of the Fifth Five-Year Plan. The deterioration of the labor program has taken the following apparent form: consecutive overfulfillment of the rate of entry into the labor force; chronic overexpenditure of the wage fund; until 1954, annual declines in rate of increase in labor productivity; and failure to undertake prompt revision of wage and output norms in the presence of major changes in technology.

More than anything else, the creation of the Kaganovich committee represents an effort to improve labor productivity through direct rationalization of the labor force structure as opposed to 1953 plan revisions which were aimed at improving productivity by indirect incentive measures.

[Redacted]
This rationalization may well have the effect of providing still another anti-inflationary measure.

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Approved for Release: 2019/09/17 C03194457

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WEEKLY SUMMARY
(19-25 May 1955)

THE FORMOSA STRAITS

**Report of the IAC Current Intelligence Group
for the Formosa Straits Problem**

1. There was no significant air or ground combat activity. Chinese Communist military training continued and construction at the five airfields along the East China coast has proceeded.

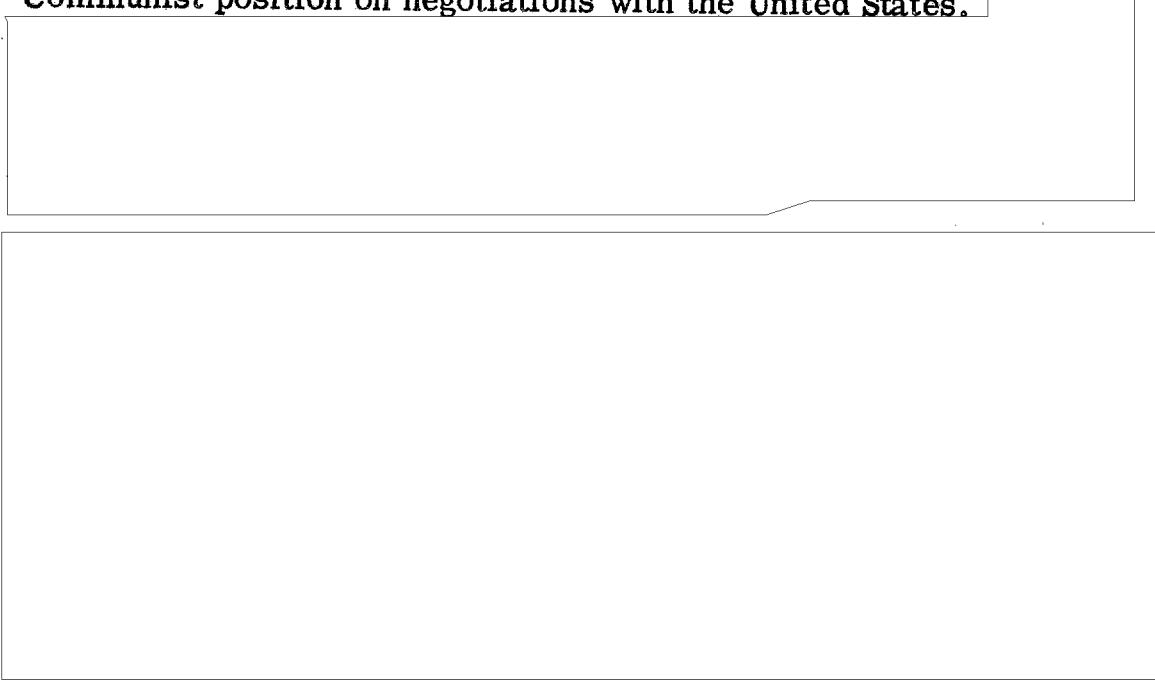
Communist naval operations near the offshore islands have been negligible. Increased sightings of lightly armed coastal patrol craft (YP) in waters between the Foochow area and the Choushan Islands to the north, however, suggest that there may be a build-up of these smaller craft in the area north of the Matsus.

2. Estimates based on comparative photography and information concerning recent construction of other Chinese Communist airfields indicate that the airfield at Nantai, near Foochow, may be completed early in June. A runway at Swatow Northeast is expected to be completed by 15 June. Runways at Lungtien, Chingyang and Lungchi are expected to be completed in July and August. These estimates are concerned with runway construction only and do not include such items as POL, hangars and other facilities which, according to US standards, to go make up a fully operational military airfield.

Use of the coastal airfields would permit the simultaneous launching of larger numbers of fighters, greater endurance over target areas in Formosa, and lower altitude jet fighter operations. BEAST (IL-10) piston attack bombers operating from the new coastal airfields would be able to attack some targets on the west coast of Formosa. BEASTS operating from present Chinese Communist bases cannot carry out attacks against Formosa. (SECRET)

3. The Chinese Nationalists are preparing six light field artillery battalions, a medium field artillery battalion and an additional battery of 155-mm. guns for shipment from Formosa to the Quemoy Islands during June. This will bring the artillery units of the five divisions there to full strength and increase the artillery there from the present 171 pieces to 259 pieces.

4. There has been no further clarification of the Chinese Communist position on negotiations with the United States.



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Following is a summary of significant Chinese Communist military developments affecting the Formosa Straits area during the period 22 April - 25 May 1955.

Ground:

Ground combat activity has continued to be slight and insignificant in the area opposite Nationalist-held territory. The only known addition to Chinese Communist strength in that area is the recently accepted 65th AAA Division. Although this unit probably has been there for some time, it has only recently been identified in the Foochow area. The expected appearance of Communist artillery on the Peiling Peninsula opposite Matsu has been confirmed by some shelling of Nationalist vessels in the area as well as one instance of shelling received by the Nationalists on one of the Matsu Islands. Interpretation of aerial photography has shown 12 to 16 artillery pieces in this area.

Air:

[Redacted]

the 8th Air Division, equipped with BUTCHER (IL-28) jet light bombers, into the Hangchow area, has been completed. BUTCHERS operating from Hangchow would be capable of carrying out both high- and low-level operations against targets in Okinawa, Formosa, Quemoy and the Matus. While the actual estimated division strength is approximately 65 BUTCHERS, only 39 have been seen on Hangchow airfield at one time.

There are indications that Chinese Communist jet light bomber strength has been substantially increased. As of 25 May, 45 BUTCHERS had been flown into Tsitsihar from the Soviet Union. At least 22 of these aircraft were subsequently transferred to the Chinese Communist naval air force base at Chiaohsien. In addition to these aircraft, there is evidence that possibly as many as 84 BUTCHERS may have been turned over to the Chinese Communist air units in the Port Arthur-Dairen area. Also, there are fairly firm indications that the Chinese Communists were operating at least some aircraft in the Port Arthur area. Although the extent

of these aircraft transfers cannot be ascertained, acquisition of all the jet light bombers now at Tsitsihar, and also those believed to be in the Port Arthur/Dairen area, would increase the Chinese Communist air force strength from an estimated 145 in March to approximately 275.

Daily fighter coastal patrols apparently were initiated by the Chinese Communists and were believed to be operating from the bases at Chuhsien and Luchiao. In the period 12 to 18 May, three encounters were reported between Nationalist and Communist aircraft in the area 20 to 50 miles north of the Matsus. Although firing occurred, no damage to aircraft on either side was reported. Otherwise, Communist air activity in the Straits was nearly nonexistent.

Navy:

Chinese Communist submarine strength has been increased from five to seven submarines. The two additions, first observed in March 1955, are both Soviet long-range types. The five boats previously accepted were two long-range types and three short-range types; one of the latter is believed nonoperational. These seven boats, representing transfers from the Soviets, are based at Tsingtao and are believed manned by Chinese crews. The six operational boats have the capability of conducting limited war patrols.

The presence of a Communist PT unit of three to five boats in the Matsu area has been indicated by the sighting of this type craft there three times during the past month. This would be a logical Chinese Communist reaction to the Nationalist interdiction patrol north of the Matsus.

Logistics and Transportation:

A preliminary interpretation of air photographs on 19 May covering Foochow and its hinterland indicates that the supply build-up in the Nantai-Foochow area continues; backwaters were filled with barges and many supply compounds were noted near the Min river.

Other photography has disclosed Chinese Communist efforts to improve supply routes in Fukien Province. The major inland

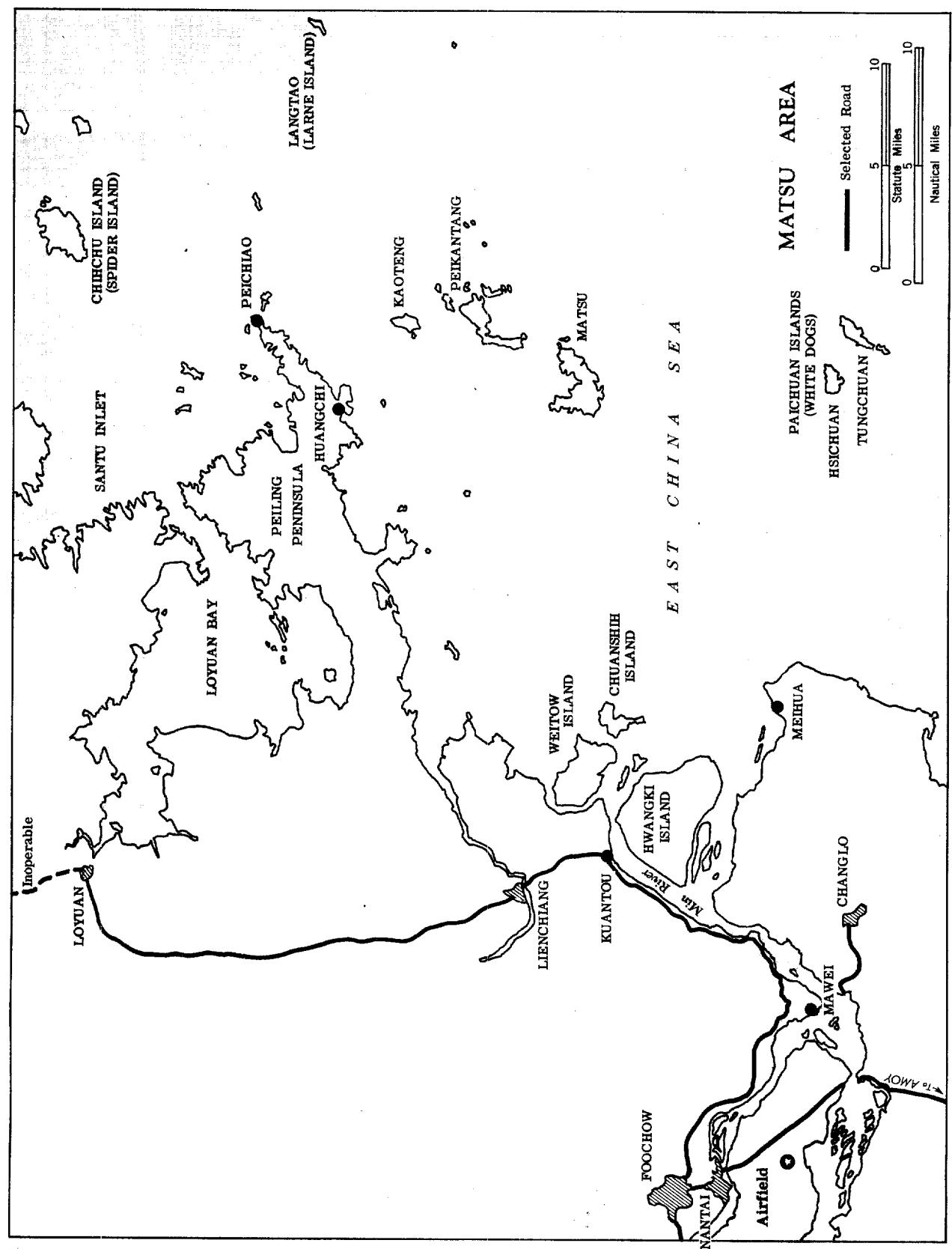
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roads to Foochow and Amoy have been widened and regraded, and several bridges have been constructed to replace ferries.

In late April, the first evidence of preliminary work on a rail line in Fukien was observed. A right of way in central Fukien, approaching Amoy, has apparently been cleared. None of the Fukien rail construction is expected to be completed before 1956.

The coastal road running north from Foochow has been improved as far north as Loyuan, 30 miles from Foochow. This road will provide access to the Santu and Loyuan Bays, both of which could be used as staging areas for an attack on the Matsus, and as terminals for goods shipped from the north and destined for Foochow.

The Communists have initiated merchant shipping runs from Ningpo to Wenchow. This represents a 200-miles southward extension of regularly scheduled shipping. This shipping could be significant in supplying military installations along the eastern coast.



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