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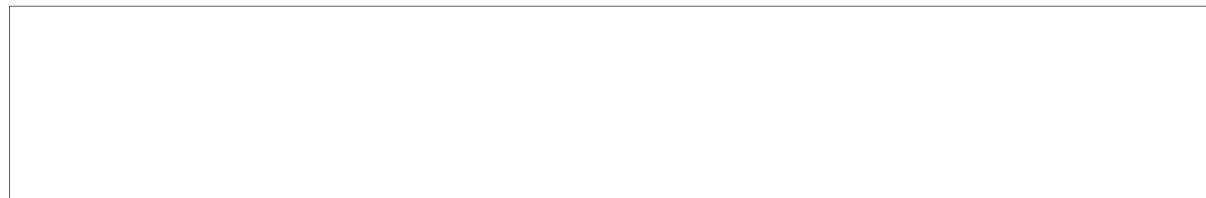
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## FAR EAST

### 1. Indians foresee Communist attacks on Matsus and Quemoys:

The Chinese Communists intend, at a time of their choosing, to attack the Nationalist-held Matsu and Quemoy island groups,

Comment: Peiping could undertake an amphibious operation against the Matsus and Quemoys at any time. Moreover, the Chinese Communists are apparently readying air bases in Fukien Province which will give them a large complex of fields from which they could mount air attacks on the Matsus and Quemoys as they did on the Tachens.

As Peiping is probably in doubt about American intentions regarding the defense of the offshore islands, the Chinese Communists seem most likely first to undertake probing operations against the Matsus and Quemoys with limited artillery, naval and air attacks.

## SOUTHEAST ASIA

### 2. French plan joint corporations with Viet Minh:

France is planning to turn over to the Viet Minh a controlling interest in French industrial installations in the Haiphong perimeter after the Communists take

over that city in May, according to the director of economic affairs for the French Foreign Ministry. He told American officials in Paris on 7 February that under arrangements now being considered, France will retain possibly a 40-percent interest which will be divided between the present owners and a French government agency. No formal agreement has yet been reached with the

Viet Minh, but Jean Sainteny, French delegate general to North Vietnam, has been authorized to negotiate.

The French official added that Paris believes the maintenance of French interests could have a "moderating" effect on "extremist elements" in North Vietnam. The American embassy in Paris believes that Viet Minh officials have already been consulted on the plan.

Comment: The Viet Minh would profit from the technical know-how and capital gained through such an arrangement, but could be expected to support it only as long as they find it advantageous.

While much of the impetus for the Sainteny mission stemmed from Mendes-France's desire to experiment in "coexistence," it is unlikely that any new French premier will curtail Sainteny's activities immediately. The proposed plan will probably be explained on the grounds that no alternative gives hope of salvaging anything when the Communists take over.

3. Burmese minister says country must expand trade with Communist China:

Burmese minister of trade development Raschid told an American embassy officer he is convinced that under present circumstances Burma has no alternative but to expand trade with Communist China. He admits some basis for the fears of Burma's traditional suppliers of manufactured goods--Japan, India and the United Kingdom--that consummation of the proposed trilateral trade arrangement between China, Ceylon and Burma would result in Peiping's capture of a large share of the Burmese market. He considers this unavoidable, however, because of the lack of other markets for Burmese rice.

Comment: Burma's efforts to negotiate a trade agreement with the Soviet Union, by means of which it hoped to find a market for surplus rice, recently ended in failure,

Japan, India and the United Kingdom furnished Burma with imports valued at \$122,000,000 in 1953, a representative year. These were 69 percent of Burma's total imports. Communist China furnished only \$2,000,000 worth of goods to Burma in 1953.

Burma's traditional pattern of trade would be seriously disrupted by the importation in 1955 of as much as \$50,000,000 worth of Chinese goods which it would be obligated to take under existing and proposed agreements with Peiping. A large Burmese mission is presently in Communist China charged with securing Chinese goods as payment for Burma's rice.

Greatly expanded trade relations with China would further disincline the Burmese to abandon their neutral foreign policy in favor of closer ties with the West.

#### NEAR EAST - AFRICA

##### 4. Egyptian premier stresses opposition to pact with West:

In discussing with Ambassador Eric Johnston the proposed Iraqi-Turkish defense agreement, Egyptian prime minister Nasr restated his opposition to the pact and emphasized his belief that the "internal front" in the Arab states must be solidified before any action is taken on the "external front."

Nasr appeared convinced that his stand had earned him strong support among nationalists in Egypt and other Arab states.

Comment: Narrow nationalism and the avoidance of any formal ties outside the Arab League is a generally popular policy with most Arabs. In his relations with the West, Nasr has always been sensitive to popular reaction, real or imagined. His present position probably reflects his concern over his own "internal front" in Egypt and popular opposition to the regime.

## WESTERN EUROPE

5. Adenauer's supporters criticize his policies on German unity:

There appears to be widespread dissatisfaction in the Bonn coalition with Chancellor Adenauer's summary rejection of the Soviet proposals of 15

January on German unification, American officials in Germany report.

Christian Democratic leaders feel that Adenauer must make some positive move during the Bundestag debate on the Paris accords to prove that he "takes the unity problem seriously." They also consider it important to defer final adoption of the defense legislation necessary to implement the accords until the public is convinced that no serious negotiations with Moscow on the unity question are possible.

Comment: Adenauer's Bundestag position is being undermined by the cumulative effect of Moscow's recent unity overtures and ratification uncertainties in France. Unless a French government favorable to the Paris accords is formed before the Bundestag debate scheduled for 24 February, the chancellor may have difficulty in pushing through final approval at that time. To assuage coalition opinion during the debate, he may make public his recent request to the Allies for joint consultation on approaching Moscow for a four-power conference.

6. Comment on French government crisis:

French premier-designate Antoine Pinay has a fair chance of forming a government acceptable to the National Assembly. He seems to have the support of the bulk of the right, including the Social Republicans and the René Mayer faction of the Radical Socialists. The key Popular Republican Party is not committed as yet, but Pinay is expected to offer it major cabinet posts. According to a high

Foreign Ministry official, Pinay would name Popular Republican Robert Schuman foreign minister and press for early action on the Paris accords.

Pinay is a personal friend of the Tunisian premier, and he has already taken steps looking toward continuation of negotiations on Tunisia. Political observers in Paris believe that new negotiations with Tunisia must in any case follow the lines already proposed by Mendes-France.

#### LATE ITEM

##### 7. Comment on Malenkov's resignation:

[Redacted]

The resignation of Malenkov as chairman of the Council of Ministers of the USSR climaxed a six weeks' period of indications of controversy over domestic policy questions probably related to a reappraisal by the Soviet leaders of the international situation. Despite Bulganin's appointment to the premiership there is little doubt that Khrushchev is now the most influential leader in the USSR.

Malenkov's statement that he will be assigned "other duties" suggests that he retains some stature and political strength, and, for political reasons, is not to be destroyed immediately. The resignation is reminiscent of the demotions in the 1920's, which were followed by purges when opposition continued. The parallel which Khrushchev drew in his address to the 25-31 January central committee plenum between well-known victims of the 1930 purge trials and those individuals recently favoring too heavy an emphasis on consumers' goods appears to be a warning that further opposition would indeed result in a purge.

There is still no reason to consider Krushchev the indisputable master Stalin was. The designation of Marshal Bulganin as premier appears to be an attempt to continue the facade of collectivity in Soviet leadership and a reminder of the military power behind the regime. Despite Bulganin's lack of professional military background, his appointment to the top position in the government emphasizes to the Soviet public, and

especially to the Western world, the importance of the current Soviet increase in defense allocations.

In public speeches and private conversations, Krushchev has tended to take a more dogmatic and truculent view of problems of foreign and domestic policy than Malenkov. Available evidence suggests that Khrushchev, for the time being at least, will continue basic post-Stalin tactics designed to isolate the United States and weaken the unity of the Western powers. His 5 February interview with Hearst and Kingsbury Smith suggests continued Soviet use of "coexistence" policies, although within this context there is likely to be a greater stress on the dangers of general war, which the USSR portrays as implicit in US policy.

Molotov's foreign policy speech before the Supreme Soviet on 8 February was cast in terms reminiscent of Khrushchev's speeches in 1954, which tended to be more belligerent than those of other leaders without differing notably in substantive policy.

Some of the imagination and flexibility of the Malenkov regime may be lost. The emphasis on heavy industry and agriculture, Khrushchev's specialty, will undoubtedly be maintained.