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3 November 1955

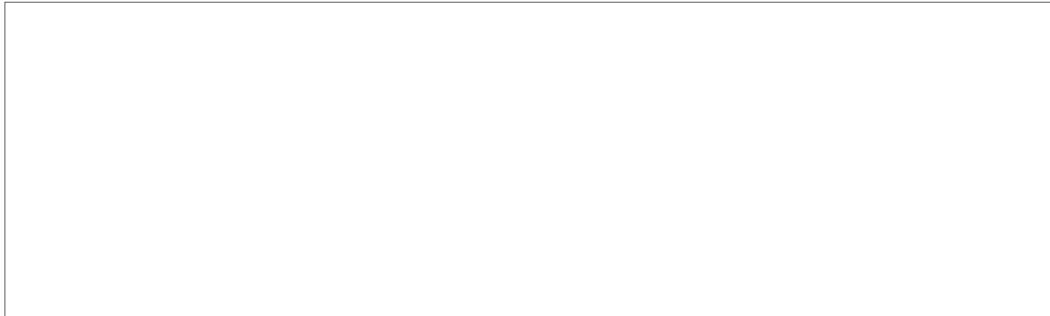
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THE FORMOSA STRAITS
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1. ISRAEL'S NEW GOVERNMENT

Comment on:

David Ben-Gurion's return as prime minister and defense minister in the new Israeli cabinet assures that Tel Aviv will continue its tough border policy and its intensified diplomatic attempts to meet the Arab threat. Ben-Gurion has been labeled an "activist" because of his espousal of

firm retaliation on Israel's frontier. He is also Israel's ablest diplomat and most experienced negotiator. His first public pronouncement on resuming control included a warning that Israel will continue to defend itself and an invitation to Nasr and the Arabs to meet at the conference table--which they will automatically reject.

His five-party coalition cabinet, which may be characterized as slightly left of center, controls 75 of the 120 seats in parliament. In the present mood in Israel, which is emphasizing readiness for war and a closing of ranks, Ben-Gurion's decisions in terms of the war crisis will receive full public and parliamentary support. [redacted]

2. ISRAEL SEEKING MILITARY EQUIPMENT FROM ITALY

[redacted]
Israel wishes to purchase a large
order of planes and military equip-
ment in Italy, according to the Amer-
ican embassy in Rome. [redacted]

[redacted]
the desired equipment included
40 F-51's, 50 Sherman tanks, 50 M-7 self-propelled guns,
120 armored cars, 500 bazookas, and as many Browning
machine guns as are available.

Comment

These prospective arms purchases
would be in line with Israel's stated
policy of seeking arms from any source, preferably from
the West. In late October the Israeli cabinet in a special
session voted to spend \$50,000,000 for arms. Earlier re-
ports indicate that Israel may also be negotiating for two
destroyers from Italy.

Italy would probably be willing to sell
this equipment to Israel in line with the Segni government's
desire to play a larger role in Middle East affairs.

3. REPORT OF FRICTION BETWEEN USSR AND COMMUNIST CHINA ON MIDDLE EAST ISSUES

[redacted] Chinese Communists at Geneva [redacted]

[redacted] were "very unhappy" with Soviet maneuvers in the Middle East, [redacted]

[redacted] the Chinese have informed the USSR that they are dissatisfied because the Soviet Union is "spoiling the atmosphere for working out their plans in the Far East."

Comment

Soviet moves in the Middle East would appear, on the contrary, to benefit the Chinese by establishing a precedent in the area for closer relations with the Sino-Soviet bloc.

Current propaganda from Peiping faithfully supports the Soviet position on Middle East issues.

4. SOUTH KOREA FACING SERIOUS INFLATION PROBLEM

Comment on:

South Korea is again threatened with inflation that could result in a serious weakening of the currency and a resumption of bitter attacks on the United States as responsible, according to Economic Co-ordinator Wood in Seoul. He anticipates a price rise of at least 80 percent, and possibly as high as 140 percent, during the fiscal year ending next July.

Wood expects that the money supply will be increased by 80 percent during the year, primarily in order to cover a budget deficit of about \$125,000,000. Inflation to this degree would undermine the effectiveness of the American aid program by discouraging the development of local industry and exports and by encouraging black markets, speculation and corruption. It would also require an upward revision of the hwan-dollar exchange rate next September, with a renewal of the acrimony which has characterized this issue.

The attainment of a balanced budget will be difficult as long as South Korea maintains its present large military establishment. This year's national defense allocation of \$165,000,000 just about equals the government's entire anticipated revenues. The basic weakness of the South Korean economy, which suggests the need for substantial foreign aid for years to come, is indicated by the estimated import requirements for the next two years of \$842,000,000, against exports of only \$70,000,000.

BIWEEKLY SUMMARY
20 October-2 November 1955

THE FORMOSA STRAITS

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

1. There were no major military developments. Shelling by both sides continued in the Quemoy's, where the Chinese Communists fired about 250 rounds, most of these on 26 October. Nationalist artillery fired over 1100 rounds against the Communists that day, which may have turned routine harassment fire, initiated by the Communists, into an artillery duel.

The first Chinese Nationalist operation in the past month against Communist naval vessels was reported on 30 October. Four Nationalist aircraft attacked two patrol craft 25 miles northeast of Matsu, and one of the vessels was reported to have been left burning. Poor weather has restricted naval activity by both sides during the past several weeks.

2. A MAAG-sponsored plan for the rotation of Chinese Nationalist units on the offshore islands with units recently trained on Formosa is under way. So far only one artillery battalion on Quemoy has been rotated to Formosa, but the plan envisages the eventual rotation of every unit. These rotations will not only provide needed training on Formosa for the units which have been garrisoning the offshore islands for some time, but will also ensure that the offshore islands are eventually defended by units which have had recent intensified training under MAAG supervision.

3. At an 8 October luncheon given by Chou En-lai in Peiping, he took pains to emphasize that Communist China has no intention of attacking Formosa

who attended the luncheon. Chou expressed confidence that internal collapse would bring Formosa under Peiping's control.

The Chinese Communists have consistently asserted that Peiping is willing to "liberate" Formosa by "peaceful means" but have not renounced military action if "peaceful means" fail.

4. Peiping propaganda output on the subject of Formosa during the past two weeks (18 October - 1 November) showed an increase in volume, with renewed emphasis on the theme of "peaceful liberation" through negotiations with "local authorities," a theme not stressed since early September.

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FORMOSA STRAITS SITUATION

Primary roads _____
Secondary roads _____

NAUTICAL MILES
0 50 100 150
STATUTE MILES
0 50 100 150

Railroad
Proposed railroad

COMMUNIST AIRFIELD LEGEND

PRIMARY
SECONDARY

- ▲ OPERATIONAL
- ▲ SERVICEABLE
- ▲ UNKNOWN

USABILITY

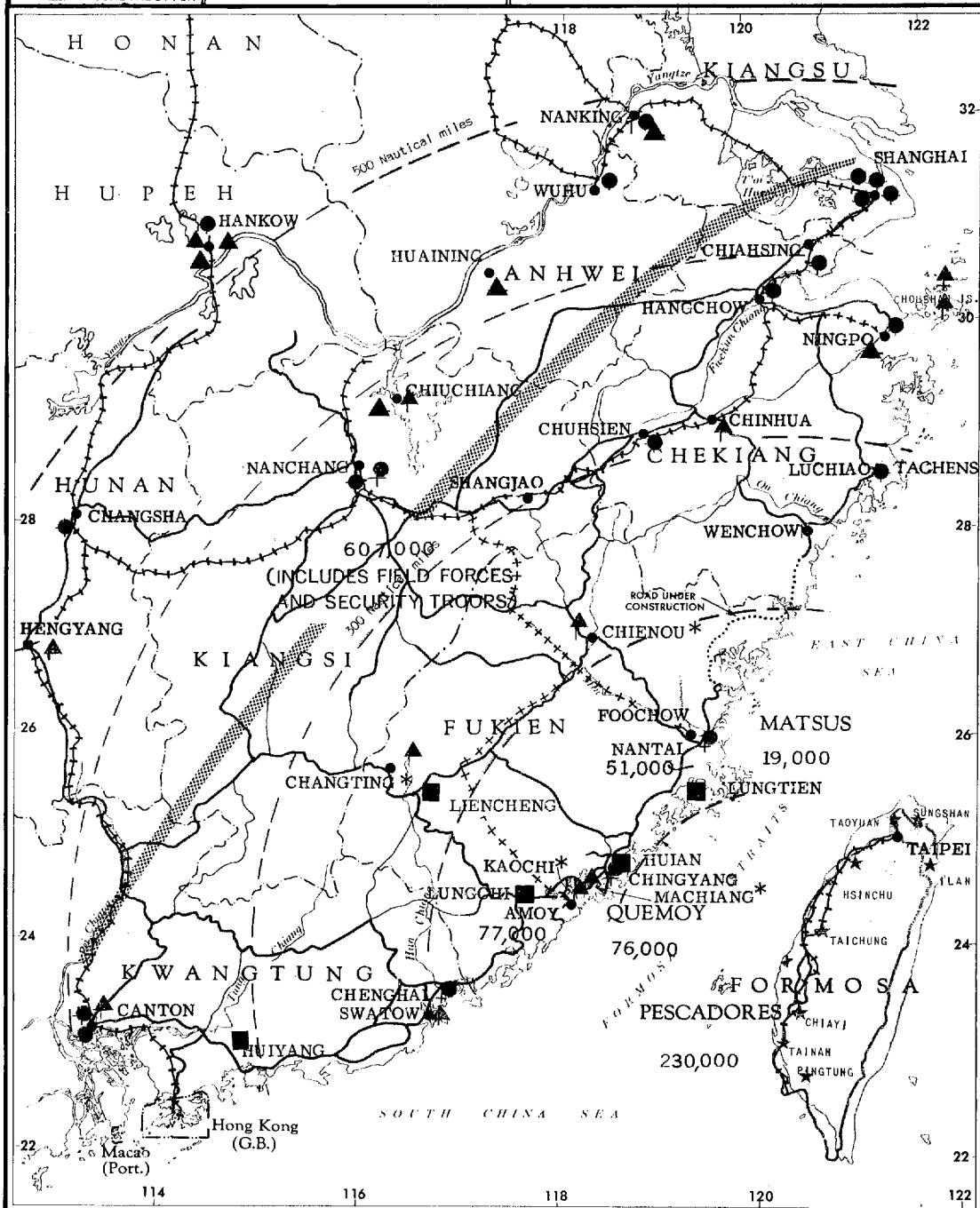
- + MIG-15, MIG-17, TU-4, IL-28
 - | TU-2, IL-10, LA-9/11, LI-2, ETC.
 - UNKNOWN
- * FIELDS NOT CONSIDERED CAPABLE OF SUPPORTING SUSTAINED OPERATIONS AT PRESENT.

■ UNDER CONSTRUCTION

NATIONALIST AIRFIELD

DESIGNATIONS

- PRIMARY: CONSIDERED MOST IMPORTANT IN AREA, WITH PREPARED RUNWAY GENERALLY 5000 FEET OR LONGER.
- SECONDARY: AUXILIARY OR EMERGENCY BASES, OR FIELDS OF LESSER IMPORTANCE. RUNWAYS GENERALLY LESS THAN 5000 FEET.
- OPERATIONAL: ACTIVE BASE FOR MILITARY & CIVILIAN AIRCRAFT. SOME BASES USED BY PISTON TYPES MAY BE USABLE BY JETS.
- SERVICEABLE: INACTIVE BASES CAPABLE OF USE BY AIRCRAFT
- UNKNOWN: CURRENT STATUS UNDETERMINED.



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