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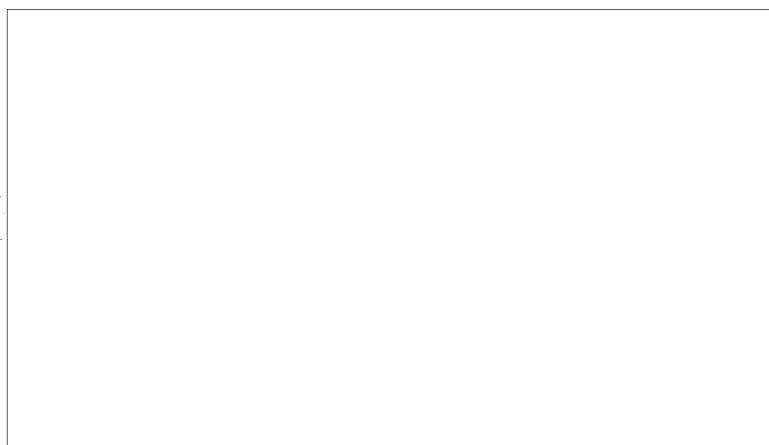
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OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY

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1. RHEE REJECTS PROPOSAL TO REDUCE SOUTH KOREAN FORCES

[Redacted] President Rhee on 21 June resisted an American proposal that South Korea's military forces be reduced in favor of economic development, stating in effect that this could not be done at present despite the American decision to modernize US forces in Korea and improve the South Korean forces.

Comment South Korean military leaders generally acknowledge that the pay and living conditions of the forces must be improved to reverse the decline in troop morale and that such action requires either a reduction of manpower or an increase in American aid.

Rhee may accept a reduction of forces in order to obtain additional jet aircraft, but can be expected to try to obtain further benefits before he gives his consent. He has long professed a desire that American aid counterpart funds be used for economic purposes rather than diverted to the defense budget. [Redacted]

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2. PEIPING WARNS OF "FIGHT TO DEFEND" KOREAN ARMISTICE

Comment on:

The warning issued by Radio Peiping on 23 June that the "Korean-Chinese side would fight to defend" the Korean armistice agreement is the first strong reaction to the recent move to modernize UN forces in South Korea.

Peiping's blast characterized the US move as having "seriously threatened" the armistice agreement. Peiping has apparently chosen to regard the action as falling short of abrogation of the agreement. Its threat to "fight" in defense of the agreement is apparently aimed at Syngman Rhee, who is charged with "clamoring to take advantage of this opportunity to tear up the whole agreement."

Some continuation of this line can be expected in Communist propaganda. Major emphasis, however, will probably be placed on the long-standing Communist objective of bringing about the withdrawal of all foreign forces from Korea and unification of the country by negotiation between the North and the South. In a broadcast of 22 June, North Korean leader Kim Il-sung reiterated these goals as a "peaceful solution" to the Korean problem.

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3. QUEMOY ISLANDS TARGET OF HEAVY CHINESE COMMUNIST BOMBARDMENT

Comment on:

Chinese Communist artillery on 22 and 23 June fired more than 1,500 rounds on the Quemoy Islands--the heaviest shelling since early 1956. Chinese Nationalist Defense Ministry spokesmen describe the shelling as probing and harassing fire in which they see no particular invasion threat.

Since 10 May, when the year-long lull which had prevailed in the Quemoys was suddenly broken by a Communist barrage of over 600 rounds, artillery duels in the Quemoy area have increased in frequency, but the Communists have seldom fired more than 200 rounds. The Chinese Communists fired 6,000 rounds on 3 September 1954, and 3,000 rounds on 20 January 1956.

The Chinese Communists allege that the current bombardment was in retaliation for earlier Chinese Nationalist shelling of several coastal villages. Moreover, according to a Peiping radio broadcast, the Nationalists opened fire on the British freighter, White Bee, which entered the port of Amoy on 19 June. Most of the artillery duels of the past year have been initiated by the Nationalists, who have recently reaffirmed their intention to fire on foreign ships entering the port of Amoy.

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4. PATHET LAO SYMPATHIZER DESIGNATED TO FORM GOVERNMENT IN LAOS

Comment on:

Bong Souvannavong, opposition leader and Pathet Lao sympathizer, has been designated to form a new government in the three-week-old Laotian cabinet crisis. Bong's chances of winning the necessary two-thirds assembly approval appear slight, although he can be expected to make a persuasive appeal for a neutralist foreign policy and an immediate settlement with the Pathet Lao. He will probably use divisive tactics in an effort to split the alliance between the former political enemies Independent Party leader Phoui Sananikone and Nationalist Party leader Katay.

Bong's designation, however, is regarded as a maneuver by the crown prince to afford Phoui additional time in which to improve his prospects for investiture. Phoui supported Katay in his recent unsuccessful efforts to form a government and is a critic of Souvanna Phouma's "soft" policy toward the Pathet Lao.

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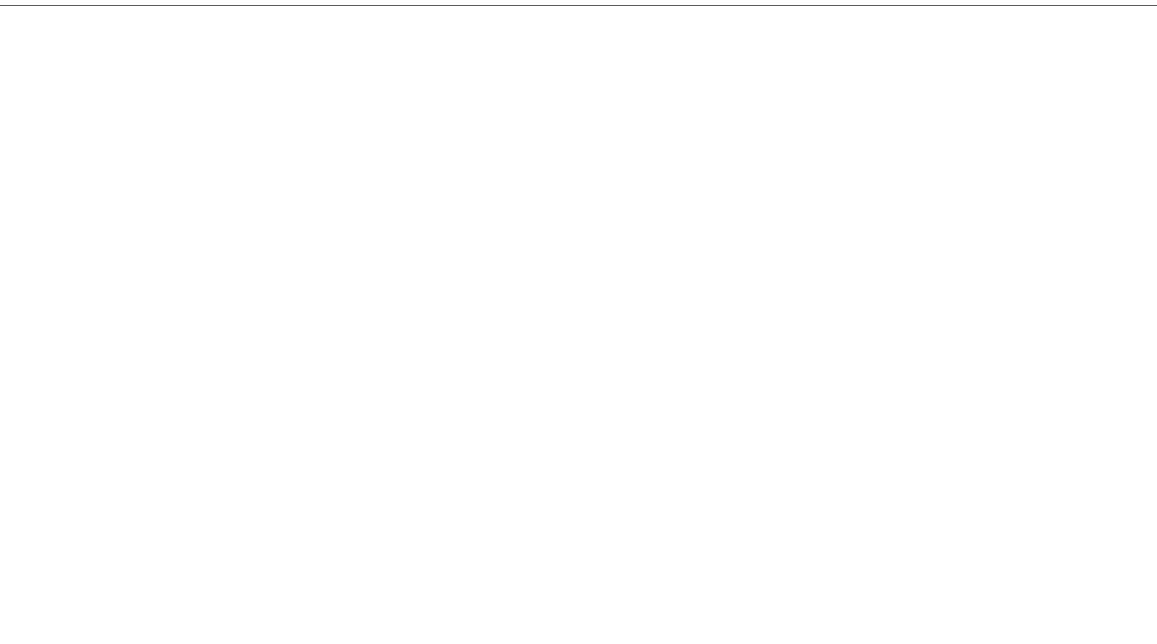
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5. KING HUSSAIN REPORTED ATTEMPTING TO TAKE
JORDAN INTO BAGHDAD PACT



Comment Association of Jordan with the Baghdad pact could be Iraq's price for providing the financial assistance so desperately needed by Jordan. Iraq has long sought the inclusion of other Arab states in the Baghdad pact, in which it is at present the only Arab member. Hazza Majali was premier of Jordan for a short period in December 1955, when he unsuccessfully attempted, under British pressure, to take Jordan into the Baghdad pact. He was forced to give up his attempt in the face of widespread Egyptian-inspired rioting.

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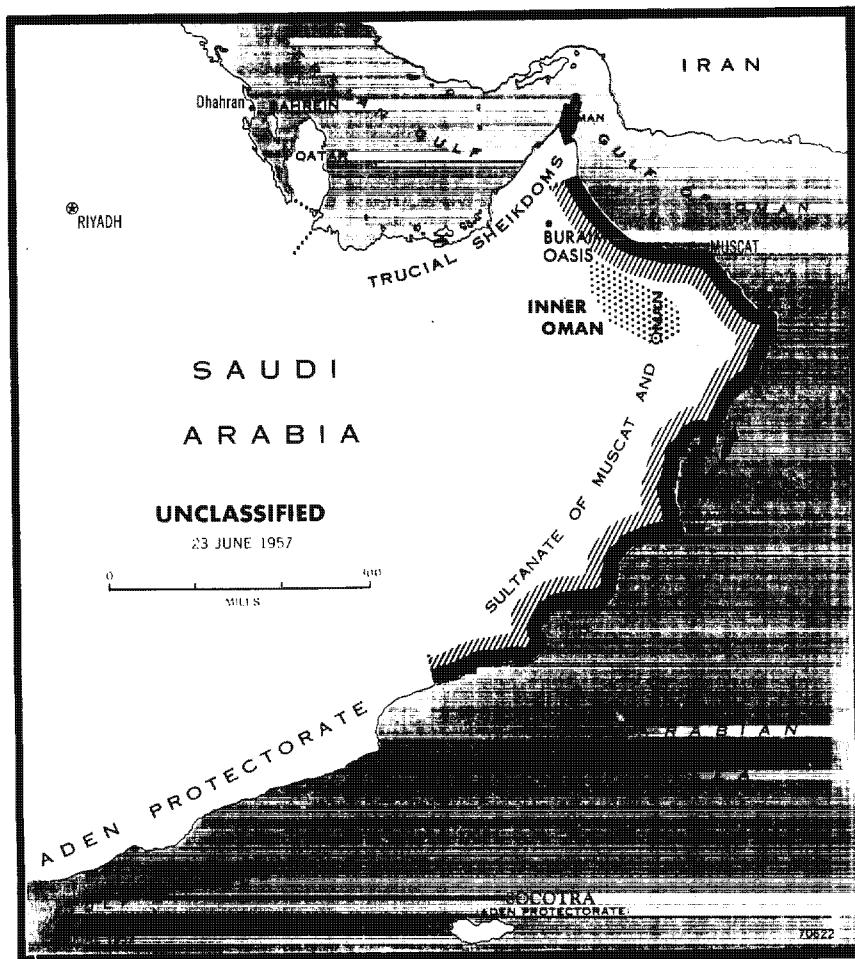
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**6. RETURN OF SAUDI-TRAINED OMANI REFUGEES MAY
PRESAGE INCREASED PRESSURE ON SULTAN OF MUSCAT**

Comment on:

An increase in Saudi-inspired unrest against the British-supported Sultan of Muscat is suggested by a recent report from the American consul general in Dhahran.

400 to 500 refugee Omani tribesmen, whose lands were taken over by the Sultan of Muscat in 1955, have been undergoing military training in eastern Saudi Arabia and returned



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by sea to Muscat in mid-June. This group was preceded last month by about 100 other Omanis who had been similarly trained.

[redacted] the Omanis, after landing on the coast, have returned to their former homeland, in the interior. The consulate general believes that the Omani force may be used to heighten pressure on the Sultan of Muscat. This in turn will probably hamper the current British effort to effect a rapprochement with Saud.

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7. REPORTED RIFT BETWEEN KING SAUD AND CROWN PRINCE FAISAL

Comment on:

The differences between the king and his brother are said to be of both an institutional and policy nature. Faisal has, [redacted] become increasingly annoyed with the king's steady centralization of state power and his own consequent declining influence. It is claimed that Faisal has striven to make the Council of Ministers a genuine advisory council to the king. Faisal is also alleged to have been frustrated in this by Royal Counselor Yasin who, jealous of his own position, has persuaded King Saud that Faisal was trying to take over some of the royal powers.

On matters of policy, Faisal reportedly does not favor rapprochement with Iraq, preferring to support Egypt. Faisal's bitterness over the Palestine question, stemming from his leadership of the Saudi delegation to the UN in 1947 and 1948, has resulted in reports that he is anti-American. Some reports state that there is also divergence between Saud and Faisal over succession to the throne--each favoring his own eldest son as second in line after Faisal himself. Others suggest that Faisal was aware of the existence of the cache of Egyptian arms and explosives discovered in the king's palace in Riyadh during April.

[redacted] believes there has actually been a divergence of views between Faisal and the king,

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but for the present doubts that the trouble is serious enough to be a direct threat to the throne. Nevertheless, the existence of a rift and the possible loss of Faisal's support at a time when Saud is undertaking a basic reorientation of his country's foreign policy, together with the newly earned enmity of Egypt's antimонаrchical regime, would presage new difficulties for King Saud.

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8. POLISH STALINISTS WAGING VIGOROUS CAMPAIGN TO GAIN PARTY CONTROL

The Stalinist Natolin faction of the Polish Communist Party has launched a vigorous campaign aimed at gaining control of the party at its congress in December, [redacted]

[redacted] The Natolins appear to have a carefully worked out plan designed to gain "grass-roots" support among party members which would in turn strengthen their position at the congress and isolate Gomulka.

Their tactics at local party meetings are to have a series of speakers vigorously attack various features of Gomulka's political, ideological, and economic policies. Natolin speakers also have concentrated their fire on two Gomulka supporters, Ochab and Zambrowski, hoping thereby to bring about their elimination from party offices at the congress.

Many party members are said to be impressed by the vigor and self-assurance of the Stalinists. People who recently were outspoken in their support of Gomulka now remain quiet, fearing reprisals if the Natolins should regain power.
[redacted]

Comment

This campaign is a determined attempt by the Natolins to recapture the party leadership. They realize that the December congress will probably be their last opportunity to unseat Gomulka and regain control of the party apparatus. By concentrating their attacks on the Polish leader at meetings of local party organizations, they are endeavoring to take advantage of the weakness of Gomulka's influence in the lower echelons of the party apparatus.

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9. SOVIET NAVAL ACTIVITY IN MEDITERRANEAN

One Soviet Sverdlov-class cruiser and two Riga-class destroyer escorts entered the Mediterranean through the Turkish Straits on 20 June. One Skoryy-class and two Kotlin-class destroyers followed on 21 June.

Comment	The cruiser and two destroyer escorts were reported early on 23 June lying to in the Sicilian Straits, apparently awaiting the Skoryy-class destroyer, then about 15 miles to the southeast. A Soviet tanker which left the Black Sea on 18 June was refueling the cruiser and one escort.
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The two Kotlin-class destroyers, which apparently parted from the Skoryy in the Aegean Sea, arrived in Port Said on the morning of 23 June. The Soviet military attaché to Egypt boarded one of the destroyers, after which the two ships, accompanied by a large Soviet naval tanker which left the Black Sea on 19 June, began a transit of the Suez Canal.

The Soviet minesweeper which escorted the three Soviet submarines from the Baltic to Alexandria got underway on 23 June en route to the Black Sea.

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