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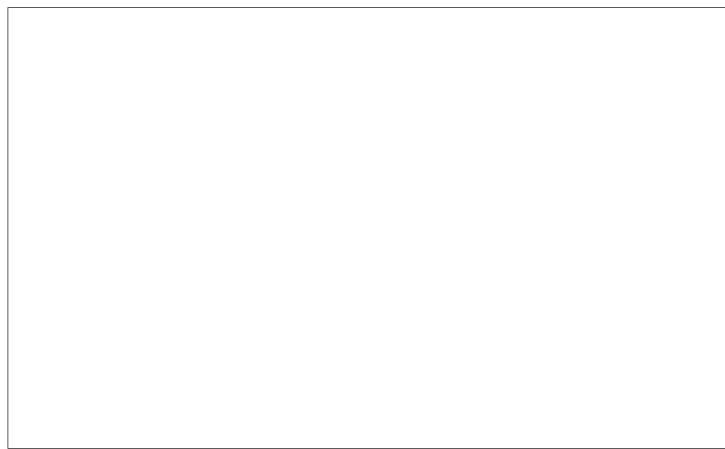
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1. [redacted] WARNS OF COUNTERACTION AGAINST
JORDAN FEDAYEEN

[redacted] there is a good possibility
Israel will in the near future take action a-
gainst Arab fedayeen terrorist centers in Jordan.
[redacted] French premier Mollet also had been informed of this pos-
sibility by the Israeli ambassador.

Comment Israel has recently placed increased em-
phasis on continuing Arab fedayeen activity,
which intercepted messages have revealed is being directed
from Cairo. Such emphasis by Israeli spokesmen has often
in the past been the prelude to a retaliatory raid--the last such
raid against Jordan was on 10 October, prior to the attack on
Egypt. However, the Israelis may at this time be using the
threat of retaliation to spur Western diplomatic moves in their
behalf. Should such moves not be forthcoming and fedayeen ac-
tivity continue, the Israelis probably will launch at least a raid
into Jordanian territory. [redacted]

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2. PLANS FOR FURTHER EGYPTIAN SABOTAGE IN PERSIAN GULF OIL AREA INDICATED

Comment on:

	Egypt is planning further clandestine operations against the British-protected oil-producing sheikdoms in the Persian Gulf.	

Cairo was informed [redacted] that one of its agents had contacted the emir of Qatar and would dispatch explosives to him for sabotage of oil installations. Oil operations in Qatar are conducted by the Qatar Petroleum Company, a subsidiary of the Iraq Petroleum Company, which is owned by British, French, Dutch and American interests. Qatar's present reduced output of about 100,000 barrels a day is carried by pipeline to a tanker-loading terminal, from which it is shipped to the nearby refinery at Bahrein.

Although the emir of Qatar enjoys special treaty relations with Britain, he has been somewhat less friendly to Britain than the other rulers of Persian Gulf protectorates.

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3. SITUATION IN INDONESIA

[Redacted]

Tension remains high in North Sumatra, where Col. Simbolon, leader of the local revolt against the central government, has escaped into the interior. Army elements in North Sumatra appear to be evenly divided between those supporting Simbolon and those backing Lt. Col. Ginting, the government's territorial commander who took over in a coup on 27 December. The Djakarta government has sent fighter and bomber aircraft to Medan, the North Sumatran capital, to bolster Ginting's efforts to stay in control.

Spokesmen for the Central Sumatran government, still under army control, repeatedly pointed out in a special broadcast of 27 December that it had no connection with events in North Sumatra. In South Sumatra the governor, with army support, has cut off revenues normally going to Djakarta, but has made no effort to join forces with disaffected elements in the other two Sumatran provinces.

Meanwhile, the government's success in splitting rebel elements in North Sumatra has increased the present prospect for survival of the Ali cabinet. President Sukarno, furthermore, is strongly supporting Ali, and the Nahdlatul Ulama, Indonesia's second largest Moslem party, has decided to stand with the National Party in an effort to keep the government in office. Should the Masjumi, the largest Moslem party, resign with its small-party allies, the government would still have a parliamentary majority and could perhaps remain in office. [Redacted]

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4. YUGOSLAV DEFENSE POLICIES FOR 1957

The Yugoslav defense policies as outlined in the speech of Defense Secretary Gosnjak and the defense budget approved by the Yugoslav parliament on 27 December indicate that the Tito regime does not expect hostile Soviet bloc action as a result of the Hungarian crisis and the ideological rift between Belgrade and Moscow.

Defense expenditures--\$529,000,000 at the official exchange rate--are to remain about the same as last year, and are now just short of 10 percent of the national income. A slight reduction in military personnel is under way, resulting in part from the pensioning of old officers as well as a cutback in length of service for certain draftees.

Gosnjak stated that the Yugoslavs were no longer counting on Western military aid and are still very intent upon building their own jet aircraft. The implied termination of future US military aid may be intended to forestall Soviet criticism if Belgrade decides to accept the remaining jet aircraft already scheduled under the existing US military aid program.

In the opinion of Ambassador Riddleberger, the equivocal attitude exhibited recently by Yugoslav officials toward continued military aid deliveries may arise from Belgrade's feeling that in return for a possible Soviet accommodation to Yugoslav views on the Hungarian problem, it must be prepared to make a gesture toward the USSR, which undoubtedly has been pressing for a loosening of military ties with the West.

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**5. ZHUKOV'S [REDACTED] THREAT OF MILITARY
INTERVENTION IN POLAND**

[REDACTED] Marshal Zhukov warned Polish party first secretary Gomulka in Moscow [REDACTED] [REDACTED] that if Poland left the Warsaw pact, or threatened to do so, Soviet troops would move in regardless of the consequences, [REDACTED]

[REDACTED] during the Polish-Soviet negotiations, there was much talk about Hungary. [REDACTED] "had reason to believe" the Poles had suggested "some kind of transition" whereby Polish troops would try to guarantee order in Hungary but that Moscow did not respond. [REDACTED]

Comment Hungary's repudiation of the Warsaw pact two weeks earlier would have been fresh in Zhukov's mind and probably prompted the stern warning to the Poles. It cannot fail to have impressed Gomulka as evidence that the Kremlin sees in the pact a means to justify the stationing of troops in the Satellites to assure adherence to the bloc, by force if necessary.

The Poles appear unwilling to consider the Warsaw pact as justification for the stationing of Soviet troops in Poland under the auspices of the Warsaw pact. Although Soviet leaders have said their troops are in Poland by virtue of both the pact and the Potsdam agreement, Warsaw contended in the official government organ on 19 December that the troops are there in consequence only "of the occupation of Germany and the Potsdam agreement, not the Warsaw pact." The Polish-Soviet troop accord of 17 December did not mention the pact.

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6. POLES TO ELIMINATE DUPLICATION IN PARTY AND GOVERNMENT FUNCTIONS

[redacted] overlapping
[redacted] of government and party functions will
be removed in Poland by cutting the party apparatus. [redacted]
[redacted] the party is being reshaped as quickly as possible,
[redacted] at least 100,000 persons will be
cut from the party bureaucracy. [redacted]

Comment

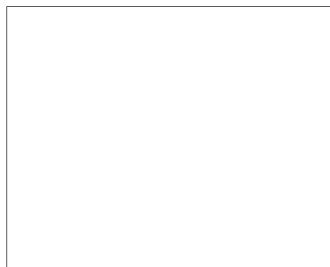
The Poles will probably abolish the central committee departments that are concerned with policy making in the functions handled by the ministries of the government. In addition they may severely cut back the control apparatus in regional and local party organizations. Such changes would result in a party-government relationship similar to that in Yugoslavia.

In addition to streamlining the party, which has about 1,200,000 members, Gomulka is eliminating dissident elements and strengthening his position by replacing them with people who are in sympathy with his ideas. The shake-up in the party has apparently resulted in at least a temporary weakening of discipline on the intermediate and lower levels.

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7. CHINESE COMMUNIST PARTY LEADERS DISCUSS TITO'S VIEWS



The Chinese Communist Party's official newspaper has issued a summary of a "discussion" by party leaders on the questions raised by Tito in his speech at Pula on 11 November. Generally following Pravda's 23 November reply to Tito, this first comment by Peiping supports the Kremlin on the main points in the dispute, but observes that "some part" of the Yugoslav "criticism of brother parties is reasonable."

The summary reaffirms the Chinese Communist view that the "road to socialism"--for Peiping or any other Communist regime--necessitates essential fidelity to the Soviet model in constructing a new society, and a close alliance with the Soviet party and state. It thus rejects key features of Yugoslav domestic and foreign policies.

The statement supports previous indications that Peiping, regarding its own relationship with the Soviet Union as ideal, favors this type of relationship in Eastern Europe wherever practicable. The Chinese reiterate that the Soviet Union has been guilty of "great-nation chauvinism" in the past, that there are "many helpful lessons" to be learned from recent "setbacks" in the international Communist movement, and that certain mistakes have not yet been corrected.

Peiping's statement, like Soviet and other Chinese comment in recent weeks, emphasizes the need for bloc unity, under Soviet guidance, above other considerations at this time. The Chinese apparently see their own role as one of helping to keep quarrels in the family, while exercising a moderating influence on all parties.

This latest Chinese pronouncement should make clear to the Yugoslavs that there is no Titoist tendency

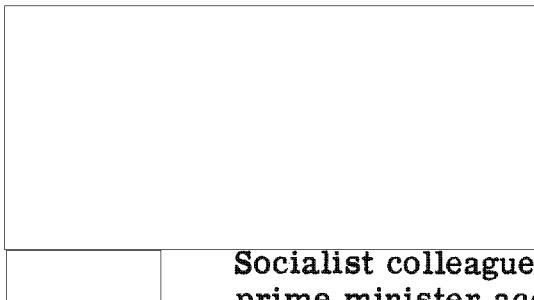
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in the Chinese Communist leadership, and to the Poles that the Chinese--while supporting Polish freedom within the bloc--do not approve all features of Gomulka's program. At the same time, the statement advises Moscow once more that the Chinese regard the Kremlin as fallible, and that Peiping is not fully content with Soviet policies in Eastern Europe.

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8. POLITICAL CRISIS MAY BE IMMINENT IN BURMA



Prime Minister Ba Swe

[redacted]

joined other Socialist leaders in opposition to the return of U Nu to the prime ministership. His

Socialist colleagues consider Ba Swe's performance as prime minister acceptable and are said to fear the return to power of Nu.

There have been numerous recent reports that Nu planned to reassume the prime ministership early in 1957 and that Ba Swe, who allegedly finds the office somewhat burdensome, was disposed to defer to him. Ba Swe's apparent decision to throw his weight behind the strong anti-Nu faction led by Deputy Prime Minister U Kyaw Nyein virtually precludes the possibility of Nu's return to office under present political alignments in the ruling party, the Anti-Fascist People's Freedom League (AFPFL).

Nu himself is reported to have conceded loss of control of the league's executive committee, which meets on 29 December, when he learned of Ba Swe's decision to oppose him. He is said to be prepared, however, if rebuffed in his bid for the prime ministership, to bring down the government when parliament convenes in late February or early March. In such an effort Nu would probably muster considerable voting strength from representatives of the Communist-dominated National United Front, racial minorities, and the AFPFL itself.

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ANNEX

**Watch Report 334, 28 December 1956
of the
Intelligence Advisory Committee**

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet Bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet Bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. A deliberate initiation of hostilities in the Middle East is improbable in the immediate future.



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