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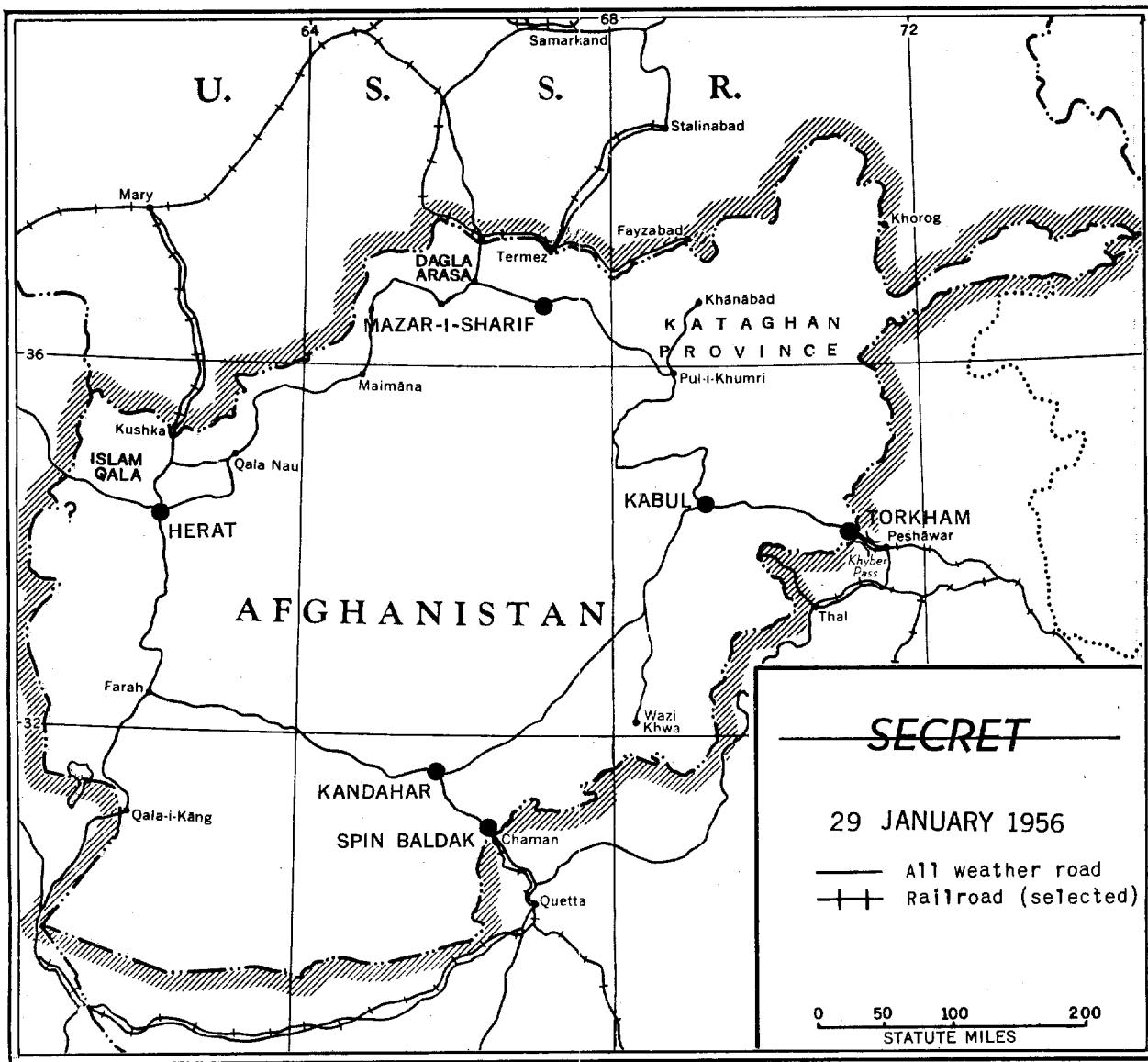
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1. SOVIET PARTICIPATION IN NEW AFGHAN FIVE-YEAR PLAN

The USSR, through projects financed under the recent \$100,000,000 credit offer to Afghanistan, apparently will play an important part in the fulfillment of the new Five-Year Plan announced by the Afghan government on 22 January.

A high-level, eight-man Soviet delegation, headed by N. A. Smelov, the deputy chief of the USSR's

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Chief Directorate of Economic Relations, arrived in Kabul on 24 January to negotiate agreements in connection with the credit offer. Economic arrangements concluded by this delegation probably will provide for use of only part of the total credit figure. Smelov is also authorized to sign military agreements.

Kabul's first Five-Year Plan, probably hastily drafted after the Khrushchev-Bulganin visit last December, includes agricultural development projects; small dams and canal projects; expansion of air service and the improvement of airfields at Kabul, Kandahar, Herat, Mazar-i-sharif, and in Kataghan province; improvement of main roads in northern Afghanistan and on the Torkham-Kabul, Kabul-Kandahar, and Kandahar-Spin Baldak routes; development of mineral resources and industry; banking reforms and the establishment of an Industrial Bank; and expansion of Kabul University.

The USSR is known to be interested in participating in many of the above projects. The new Afghan plan probably will utilize Afghan government funds and Western aid as well as Soviet financing. The Morrison Knudsen company is already at work on Kandahar airport and at present seems unlikely to be supplanted by a Soviet organization either there or in its Helmand Valley project. Morrison Knudsen, which constructed the Kandahar-Spin Baldak highway some years ago and is now at work on roads east and south of Kabul, may also be requested to undertake much of the planned roadwork in southern Afghanistan. Certain projects may also be assigned to West Germans. [redacted]

(Prepared jointly with ORR)

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2. USSR MAKES NEW OVERTURES TO JAPANESE PREMIER

[Redacted]

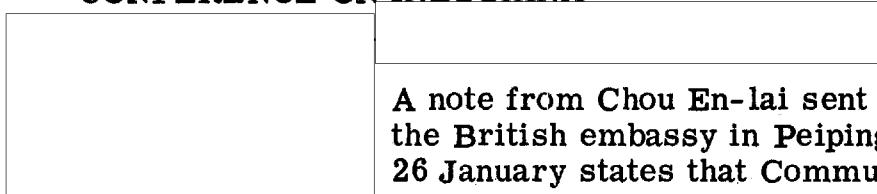
The Japanese press on 27 January published an informal Soviet proposal to Premier Hatoyama which included an expression of intent unilaterally to terminate the state of war with Japan around 30 January. The proposal reflects Khrushchev's views expressed to a Japanese parliamentary delegation in Moscow last September, when he said that termination of the state of war, repatriation of prisoners of war, and establishment of diplomatic relations would be the initial steps of a Japanese-Soviet settlement and should occur as a series of related actions.

The USSR will probably insist that repatriation of prisoners be made contingent on establishment of diplomatic relations. The Soviet desire to avoid discussion of controversial questions at this time has been evident at the Soviet-Japanese negotiations in London.

The Japanese Foreign Ministry has thus far remained firm in insisting that the establishment of Soviet-Japanese diplomatic relations must be preceded by a settlement of the other unresolved issues. Hatoyama and his close advisers have favored a settlement along the line of the present Soviet proposal in the past, however, and they may have decided to release the proposal to the press in hopes of eventually creating a favorable public reaction.

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3. PEIPING REQUESTS ANOTHER GENEVA CONFERENCE ON INDOCHINA



A note from Chou En-lai sent to the British embassy in Peiping on 26 January states that Communist China "strongly condemns the continued disregard of the Geneva agreements by the Ngo Dinh Diem government" and "deems it necessary that another Geneva conference on Indochina be convened" to discuss the question of the implementation of the Geneva agreements. The Chinese Communists propose that the three member countries of the International Control Commission--India, Poland, and Canada--be invited to participate in this conference.

Comment

The British Foreign Office has confidentially informed the American embassy in London that if Moscow should support Peiping's note, Britain will stall by citing the need to get the views of all governments concerned.

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**4. KUBITSCHEK'S PROBABLE FINANCE MINISTER LOOKS
TO USSR AS SOURCE OF INDUSTRIAL EQUIPMENT**

Comment The campaign speeches of President-elect Kubitschek, whose inauguration is scheduled for 31 January, included statements favoring Brazilian relations with the Soviet bloc. Brazil now has diplomatic relations with Poland and Czechoslovakia and formal trade relations with Hungary. During the past year both public and congressional opinion in Brazil has indicated considerable interest in expanding these relations.

The incoming administration is expected to rely primarily on the United States for foreign aid in its extensive economic development plans. Kubitschek's interest in finding supplementary sources for such aid, however, was indicated during his recent tour of Western Europe.
(Concurred in by ORR)

THE ARAB-ISRAELI SITUATION

(Information as of 1700, 29 January)

Only minor incidents have been reported.

Egypt has moved some 36 Centurion and 30 Valentine tanks during the past few days from the Canal Zone into the Sinai peninsula,

[redacted] the movements are probably the result of Egyptian army demands for a more balanced force in Sinai.

[redacted] the move increases the danger of new fighting.

[redacted] if Egypt now has operational Soviet T-34 tanks on hand, it can gamble on a loss of Centurions to Israeli forces.

Saudi Arabia has two squadrons of armored cars in Tebuk near the Jordanian frontier with an estimated strength of 24 armored cars and 100 men.

[redacted] informed Jordanian circles believe the Saudi troops are in Tebuk to divert part of the Jordanian Arab Legion away from internal police duties.

[redacted] an Israeli request to France for 30 AMX tanks, 50 rocket launchers, 10,000 rockets, 25 75mm guns and eight 155 mm howitzers will be supported by France at the 31 January meeting of the Near East Arms Co-ordinating Committee in Washington.

[redacted] Egypt has received 250 T-34 tanks, 150 MIG's, and 40 IL-28 bombers

from the Soviet bloc. These figures are much higher than those generally accepted.

Syria has recently allotted 54,000,000 Syrian pounds (about \$25,000,000 at the official rate of exchange) for the purchase of arms

Three quarters of the money came from a Saudi Arabian loan. Syria plans to purchase 105 Sherman tanks from France and to use the balance of the money for the purchase of arms from "the other side," presumably Czechoslovakia.