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3.5(c)

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3.5(c)

~~TOP SECRET
SECURITY INFORMATION~~

~~TOP SECRET SECURITY INFORMATION~~**SUMMARY****GENERAL**

1. Ceylon to sell Peiping another 50,000 tons of rubber in 1954
(page 3).

FAR EAST

- ~~✓2.~~ Rhee blocking implementation of American aid program (page 3).

SOUTHEAST ASIA

- ~~✓3.~~ Civil war seen possible in Indonesia (page 4).

NEAR EAST - AFRICA

4. [redacted]
5. Iraq favors Turkey for UN seat despite Arab League opposition
(page 5).
- ~~✓6.~~ Egypt to send troops to Israeli border (page 5).

3.3(h)(2)

7. French charge Austrian leaders are "completely neutralist"
(page 6).
8. [redacted]

3.3(h)(2)

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3.5(c)

- 2 -

~~TOP SECRET~~

1 Oct 53

3.5(c)

~~TOP SECRET~~
SECURITY INFORMATION

GENERAL

1. Ceylon to sell Peiping another 50,000 tons of rubber in 1954:

[redacted]

As a result of talks just concluded in Peiping, Ceylon has agreed to exchange 50,000 tons of rubber for 270,000 tons of Chinese rice in 1954, according to the Ceylonese minister of agriculture and food. The embassy calculates that Peiping will be paying a premium of \$12,000,000 to \$13,000,000 over world market prices.

3.3(h)(2)

Comment: The quantities of rubber and rice to be traded next year are the same as in 1953. The embassy estimated that this year China is paying a premium of about \$15,000,000.

Ceylon's acceptance of Peiping's attractive barter offers is apparently due to its financial problems. As a result, China will continue to receive sufficient raw rubber despite a UN embargo on shipment of strategic goods to China.

FAR EAST

2. Rhee blocking implementation of American aid program:

[redacted]

President Rhee is insisting on South Korea's prior approval on all contracts allocated under the US aid program, according to American economic co-

3.3(h)(2)

ordinator Wood. Although not specifically stated, Wood believes that the demand is motivated by a desire to eliminate or boycott procurement from Japan, and to maximize economic ties with the United States. He adds that this issue is a major block to a comprehensive economic agreement.

- 3 -

1 Oct 53

~~TOP SECRET~~

3.5(c)

~~TOP SECRET~~
SECURITY INFORMATION

Comment: American commitments to maintain Japan's special dollar earnings at a high level for two more years were predicated on sizable purchases there for Korean reconstruction. If Rhee succeeds in blocking such expenditures, it would seriously weaken Japan's ability to increase its defense effort, to repay American aid rendered during the occupation, and to meet its obligations arising out of the peace treaty.

SOUTHEAST ASIA

3. Civil war seen possible in Indonesia:

[redacted] [redacted] 3.3(h)(2)
 the revolt in North Sumatra reflects a Moslem resurgence in Indonesia which has resulted from the maneuvers of the new Communist-influenced government. [redacted] the government is moving further to the left and the opposition, in turn, is moving toward an Islamic state. Either the cabinet will soon fall or the country will be thrown into a holy war on a nationwide scale.

Comment: Elements in the Masjumi, the government's principal political opposition, who favor "direct action" have become stronger as a result of recent events. While the outbreak of civil war at this time does not appear likely, the security situation will probably continue to deteriorate.

NEAR EAST - AFRICA

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3.3(h)(2)

~~TOP SECRET~~ [redacted]

~~TOP SECRET~~
SECURITY INFORMATION

3.3(h)(2)

5. Iraq favors Turkey for UN seat despite Arab League opposition:

Iraqi prime minister Jamali states that his government is willing to support the Turkish bid for the UN Security Council seat now held by Greece despite the Arab League's opposition to Turkey. He is ready to do this in order to cultivate Ankara's friendship and to oppose communism.

3.3(h)(2)

Jamali stated that most of the Arabs believe that a Satellite would occasionally side with them in the United Nations, particularly on the North African question, but that Turkey would undoubtedly follow the lead of the United States and France.

Comment: Turkey appears to have about 35 of the maximum 40 votes needed for election. Iraqi support of Turkey indicates that Arab League control of its members is not firm, even on major issues. Moreover, Iraq's decision indicates an increasing interest in participating with Turkey and Greece in a defense line extending to the Persian Gulf.

6. Egypt to send troops to Israeli border:

Egyptian vice premier Nasr told American ambassador Caffery that Egypt "must immediately" send armed forces to the Israeli border because 300 Israeli troops had occupied the demilitarized zone on 28 September and were fortifying it.

3.3(h)(2)

~~TOP SECRET~~
SECURITY INFORMATION

3.5(c)

Nasr said that "at least for the present" Egyptian troops will not enter the zone, but that he fears the public reaction when the Israeli move is known.

Comment: Tel Aviv has denied occupation of the demilitarized zone. [redacted] however, [redacted] the past three months Israel has made various incursions into the zone. These actions, [redacted] represent a [redacted] "major move" by the Israelis to gain control of it.

3.3(h)(2)

Egypt is preoccupied with its efforts to settle the Suez dispute with Britain and probably wishes to avoid trouble with Israel.

WESTERN EUROPE

7. French charge Austrian leaders are "completely neutralist":

[redacted] French foreign minister Bidault and defense minister Pleven informed Ambassador Dillon that Austrian chancellor Raab, foreign minister Gruber, and state secretary Kreisky, who have been consulting with them in Paris, were "complete neutralists and could not be counted on by the Western powers."

Ambassador Thompson in Vienna comments that the French reaction may in part be accounted for by French resentment at current Austrian unwillingness to make concessions in response to France's agreement to pay its own occupation costs.

Comment: The basically pro-Western Austrian government seems at present committed to a policy of foregoing future military alliances, of accepting even onerous economic terms in return for a state treaty, and of eliminating insofar as it can any obstacles to the resumption of treaty negotiations. France's failure to follow a strong line on the treaty may have encouraged the Austrians to seek French support of this policy.

- 6 -

1 Oct 53

3.5(c)

~~TOP SECRET~~

~~TOP SECRET~~ SECURITY INFORMATION

3.5(c)

8.

- 7 -

~~TOP SECRET~~

1 Oct 53

3.5(c)