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3.5(c)

10 December 1957

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Copy No. 138

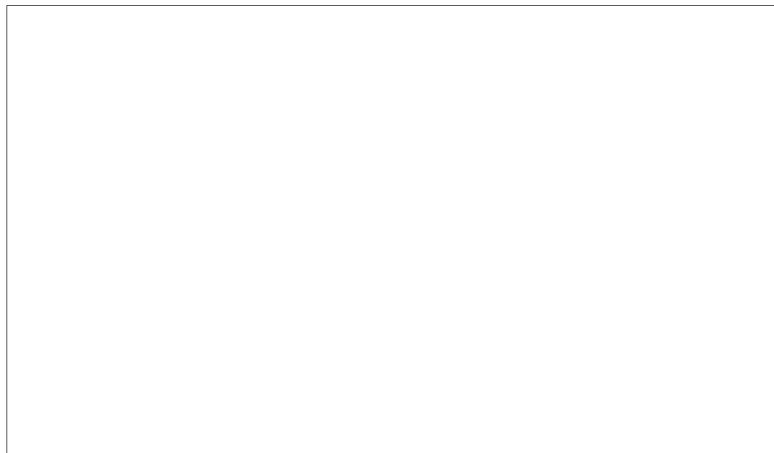
CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 32
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 14-86 REVIEWER:

OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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Approved for Release: 2019/12/10 C03177768



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1. SITUATION IN INDONESIA

Comment on:

The 8 December explosions which apparently destroyed Indonesia's largest arsenal and ammunition dump in Bandung could as well have been carried out by the Communists as by one of the antigovernment groups. The Communists would be motivated by fear that the army sooner or later would move against them as a result of their activities in the current anti-Dutch campaign. In any event, this incident is probably a severe blow to the army--still fundamentally a non-Communist force--and, following by only a week the attempt on Sukarno's life, it may well lead to further incidents.

There are growing signs that Dutch, and possibly American, petroleum interests in Indonesia may be the next target of a Communist-inspired takeover by company employees. The managing director of BPM, a subsidiary of Dutch Shell, has recently learned of pressure on the company's union from leaders of the Communist-dominated labor federation (SOBSI) to seize the installations, and SOBSI leaders are also advocating the seizure of Stanvac and Caltex.

Interference with the oil industry would have major repercussions on the Indonesian economy. Java, with about a week's supply of petroleum products on hand, would soon find its economy coming to a halt. Disruption of oil production would also remove one of the government's major sources of revenue and cause a considerable dislocation of the petroleum distribution pattern for neighboring Southeast Asian countries, particularly Singapore and Malaya. Although some Indonesian

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officials seem aware of the dangers inherent in any seizure of foreign petroleum enterprises, the Communists may, as in earlier instances, force the government's hand.

In a further move against the Dutch, Prime Minister Djuanda announced on 9 December that all Dutch estates, agricultural enterprises, and factories had been placed under the government's control. His action followed an approach by SOBSI to Dutch estate owners for direct labor control of the estates. The government's move appears to be another effort to keep Dutch property from falling completely into Communist hands, but the government will probably be unsuccessful since its available forces for occupation and control are limited.

[redacted]
the morale of rightist elements is rapidly declining in the face of the deteriorating political and economic situation. The various non-Communist factions are unable to resolve their own differences and unite against the Communists. According to a late report from the American naval attaché in Djakarta, however, youth groups affiliated with the Masjumi and Socialist parties were planning to assassinate leaders of the Communist party on 10 December. Such action might be expected to precipitate violent countermeasures by the Communists. The attaché's source stated that the plan had the support of friendly elements in the army which intended to follow up the attacks on the Communists by attempting to "gain control and protect the youth groups." [redacted]

2. DUTCH CONSIDER INDONESIA ACID TEST OF NATO COOPERATION

Comment on:

At the emergency North Atlantic Council meeting on 7 December, Dutch officials declared that they considered the situation in Indonesia an "acid test of NATO cooperation." They warned that the issue would be raised at the NATO summit meeting if the situation had not improved by that time.

While the Dutch officially confined themselves to a general request for "complete solidarity" and diplomatic intervention with the Indonesians, some of their remarks implied that they might later seek Allied support in an appeal to the UN Security Council and perhaps a freeze of Indonesian assets in NATO countries. The Dutch may be worried that some NATO member may attempt to "fill the economic vacuum" caused by Dutch expulsion; they would bitterly resent such a move.

In the meantime, the government is making plans to comply with Djakarta's request for evacuation of Dutch citizens from Indonesia. Djakarta is reported, however, to have requested that needed technicians remain. Two Dutch naval vessels reportedly en route to Indonesia are probably intended to support this action and to reinforce the garrison in New Guinea.

3. JAPAN MAY PROVIDE SHIPS TO INDONESIA

Comment on:

Following an Indonesian inquiry, Japan apparently is prepared to lease a number of small ships to Indonesia for use in its vital interisland trade and communications. These ships would replace those of Dutch ownership which are being withdrawn to escape seizure by Indonesian authorities. Press reports have indicated that larger vessels for transoceanic use may also be involved in the proposed lease.

[redacted]
[redacted]
[redacted] a private firm, the Japan Steamship Company, be designated sole handler for the coastal shipping project. Although this action probably involves condonement by the Japanese government, Japan may move cautiously out of concern over economic repercussions from the Netherlands and other quarters.

The director of Japan's Maritime Bureau has been quoted by the press as saying that 280,000 tons of shipping could be leased if a decision is made to do so. Encouraged by the recent Kishi-Djuanda agreement on reparations, Tokyo may hope to capitalize on the emergency to improve economic relations with Indonesia.

4. SOVIET PARTY CENTRAL COMMITTEE TO MEET TWO DAYS EARLIER THAN ORIGINALLY PLANNED

Comment on:

A meeting of the party central committee in Moscow, originally scheduled for 17 December, will apparently take place on 15 December.

The date of the central committee meeting was probably advanced so the committee could complete its work before the USSR Supreme Soviet session begins on 19 December. The period of time apparently allotted for the committee's meeting is still comparatively short, indicating that serious controversies are not expected to develop.

The timing of the central committee meeting suggests that the topics for discussion will be related to the work of the Supreme Soviet, which is expected to discuss and give formal approval to the 1958 state budget and probably adopt the economic plan for 1958. The Supreme Soviet may also hear a report on the international situation and Soviet foreign policy. Any changes in high-level government personnel assignments would probably be approved at this time.

5. TITO DETERMINED TO MAINTAIN INDEPENDENCE

Comment on:

The tenor of President Tito's remarks, in an hour-and-a-half conversation with American Ambassador Riddleberger on 6 December, indicates that the Yugoslav

President is determined to increase the appearance of independence in his foreign policy. The timing of the decision to reject American military aid suggests that Tito feels it necessary to emphasize to the Communist world that Yugoslavia is not tied too closely to the West.

Tito told Riddleberger that since military aid seemed to have embittered American-Yugoslav relations and affected the ability of Yugoslavia to carry out its truly independent policy, his government had decided to propose the discontinuance of such aid. Tito hoped, however, that US-Yugoslav economic relations "could continue as before" and "that eventually he could get away from grants and more toward credits and loans."

Tito professed to believe that the process of internal liberalization in the USSR will continue and that the present "hard-line" Soviet declarations do not represent long-term intentions. He refused, however, to comment on Zhukov's removal because he considered it an internal matter--a line taken earlier by other Yugoslav officials.

In justifying Yugoslavia's recent recognition of East Germany, Tito asserted this represented a logical continuation of Yugoslavia's long-enunciated independent policy. It should be accepted, he said, as based on the principle that a way must be found to settle great issues between the blocs, pointing out that it would have been done earlier except for Moscow's ideological attacks on Belgrade in early 1957.

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**6. EAST GERMANS MAY ASSERT SOVEREIGNTY OVER
WESTERN COMMERCIAL AIR TRAFFIC TO BERLIN**

Comment on:

The East German regime, apparently with Soviet support, is

planning

an official assertion of its sovereignty

in the air corridors between the Federal Republic and West Berlin. Such action would have the dual objective of halting the transport of refugees to West Germany by commercial carriers, and compelling the three Western airlines now flying to Berlin--one from each of the Allies--to negotiate agreements with the German Democratic Republic setting forth the conditions of operation.

The East Germans might contend that only Allied military aircraft are covered by existing four-power agreements and demand that all commercial carriers obtain permission from the East German government for Berlin flights. The East Germans have the capability of using military aircraft or electronics interference devices to impede Western flights. An overt threat against the Western airlines--particularly if it jeopardized the safety of the aircraft--would probably cause them to stop flights to West Berlin.

The USSR will probably restrain the East Germans from taking any action which might precipitate a major crisis at this time.

7. SPAIN PROTESTS TO MOROCCO OVER IFNI HOSTILITIES

Comment on:

Spanish Foreign Minister Castiella told Ambassador Lodge on 8 December that Spain had protested to the Moroccan government on 7 December over Rabat's failure to control the irregular Moroccan forces attacking Spanish forces in Ifni. Spain had also asserted that responsibility for continuation of the two-week-old hostilities must be borne by Rabat.

According to Castiella, the Spanish protest note and the Spanish navy's show of force at Morocco's port of Agadir, also on 7 December, were based on Rabat's failure to cooperate in stopping hostilities. He added that Spain did not intend to make war on Moroccan territory.

Spain has now decided, according to Castiella, to restrict its military position to a defense perimeter around the city of Sidi Ifni, where he implied there are about 10,000 Spanish troops. However, Spanish forces will conduct retaliatory raids beyond this perimeter, although still within Ifni's borders.

On 7 December, Morocco urged the United States to intercede with Spain and, on 8 December, Moroccan Acting Foreign Minister Benjelloun said his government will take no action against Spain "except on the gravest provocation."

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8. THE CYPRUS SITUATION

Comment on:

A 24-hour general strike on Cyprus, called by the underground organization, EOKA, marked the 9 December opening of the United Nations' debate on the future of the island. Riots and violence between police and demonstrators flared throughout Cyprus for the third consecutive day. At least 75 persons have been injured, but no fatalities have been reported during this latest period of violence. British troops, for the first time in several months, used gunfire to disperse Cypriot demonstrators.

At the United Nations, initial attempts to work out a compromise on the Cyprus issue failed when Greek Foreign Minister Averoff introduced a draft resolution on 6 December supporting the right of self-determination for Cyprus. The debate began with speeches by British Minister of State Noble and Averoff. Noble suggested a "compromise" solution and pressed for talks among Britain, Greece, and Turkey. Averoff called for direct British negotiation with representatives of the Cypriots, denied that Turkey was an "interested party" in the dispute, denounced Britain for refusing to permit Archbishop Makarios to return to Cyprus, and warned that disappointment with the British position will lead to new uprisings on the island.

Whether there is a heated debate and concurrent worsening of Greek-British relations will depend largely on whether or not the Greeks press their charges of alleged British atrocities against the Cypriots.

9. ANTIGOVERNMENT CANDIDATES SUCCESSFUL IN LOCAL MALAY ELECTIONS

Comment on:

The growing effectiveness of left-wing opposition in Malaya to the ruling Alliance party, especially in urban areas, first noted in a by-election on 23 November, was further illustrated by the victory

of 19 of 37 anti-Alliance candidates in scattered municipal elections throughout the country on 7 December. The most important gain registered by opposition elements was in Penang, the federation's second largest city, where the left-wing Labor party of Malaya won four out of five contested city council seats.

These results underscore the danger to Malaya's fragile political stability, particularly in view of the fact that the victorious opposition candidates based their campaigns on a racial rather than an ideological or economic basis. The success of the appeal to race fears and prejudice will almost certainly promote its continued use in future local and national elections--a situation which could lead to a marked trend toward a further polarization of communal interests and intensification of mutual antagonism.