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31 March 1958

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# CENTRAL INTELLIGENCE BULLETIN



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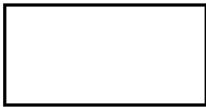
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# CENTRAL INTELLIGENCE BULLETIN

31 March 1958

## DAILY BRIEF

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### I. THE COMMUNIST BLOC

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Yugoslavia - Hungary: At their meeting in Yugoslavia on 27-28 March, Hungarian party First Secretary Kadar and President Tito probably discussed the status of Imre Nagy and the program for the Yugoslav April party congress on which the bloc has withheld any public comment. Tito undoubtedly hopes to regain influence in Eastern European Communist party developments through this first conference with a satellite leader since meeting Gomulka in September. [redacted]

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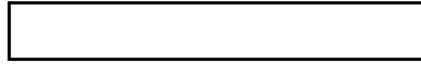
### II. ASIA-AFRICA

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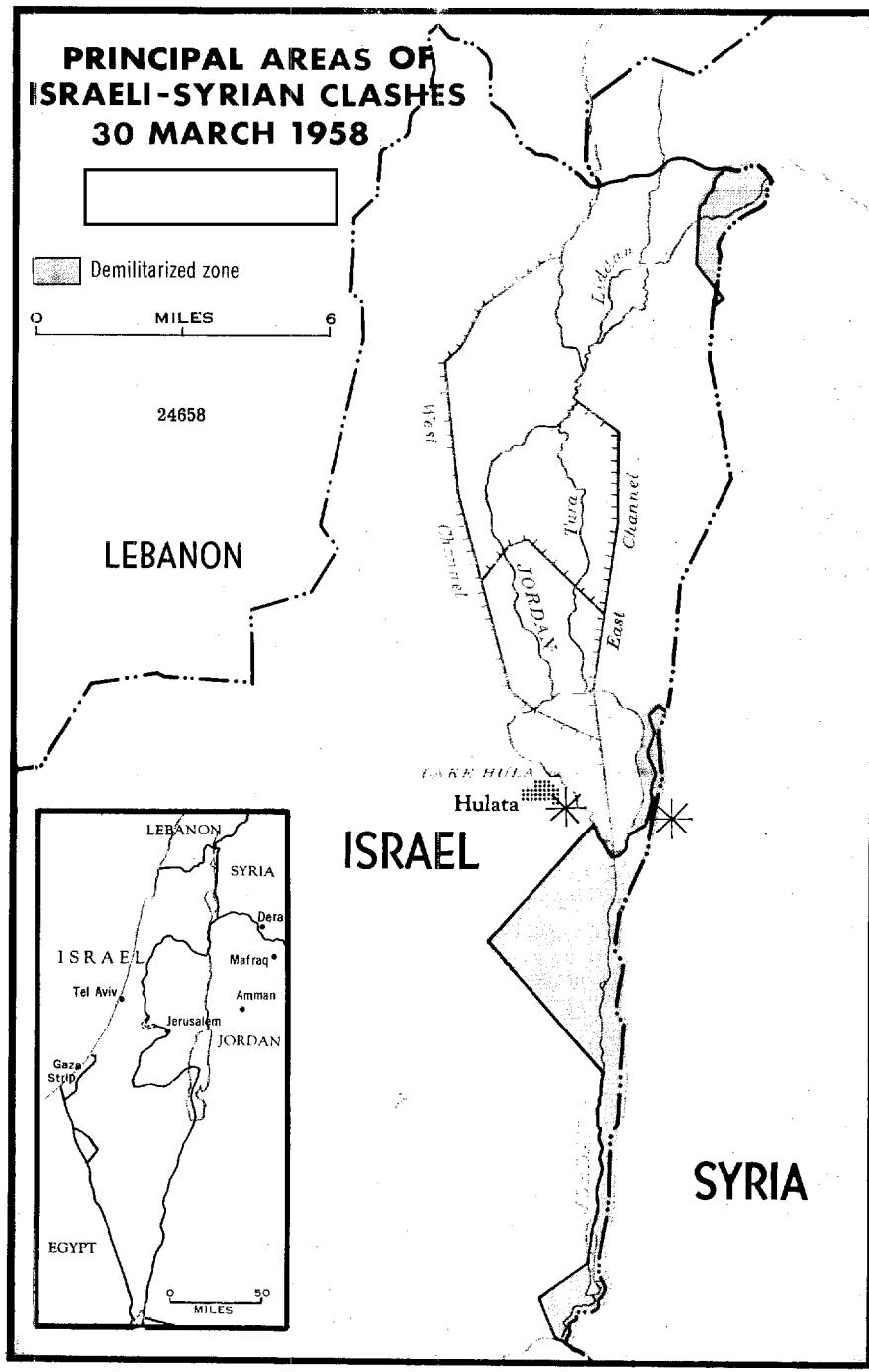


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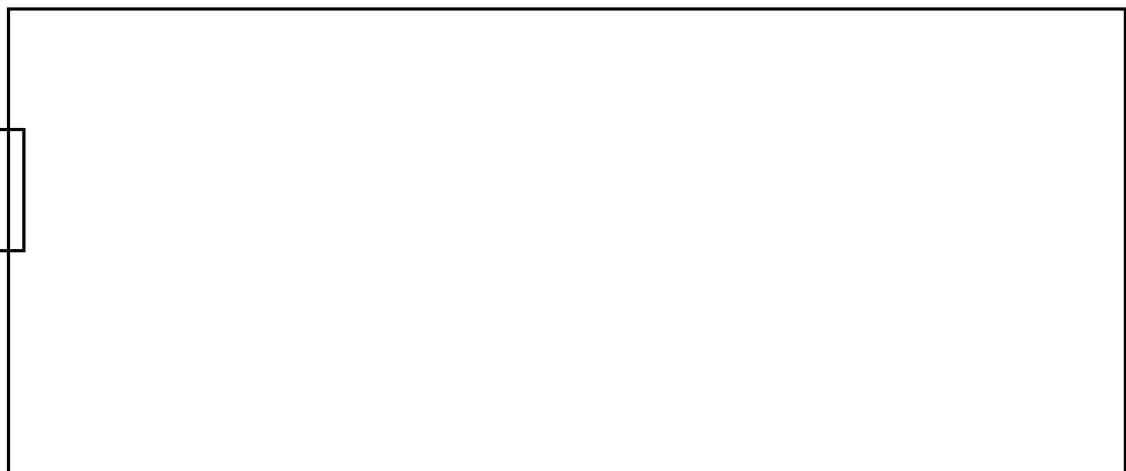
Israel-Syria border tension: Resumption of Israeli drainage operations south of Lake Hula on 30 March resulted in an exchange of machine gun, tank, and heavy mortar fire between Syrian and Israeli troops in the heaviest fighting in over a year. Both sides suffered casualties before a UN cease-fire was imposed. Further serious incidents are likely to continue in this disputed area, where the Syrians have long opposed Israeli cultivation of land.

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Anglo-Saudi relations: Britain appears increasingly eager to resume diplomatic relations with Saudi Arabia and is now exploring the possibilities with a Saudi diplomat in Geneva. London's interest derives from its fear that Faysal will use his new powers against British interests in the Arabian peninsula, and that his return to office may dim the prospects for using the Iraqi-Jordanian Federation as a counter to Nasir's United Arab Republic. [redacted] (Page 5)

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25X1A DAILY BRIEF

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*OK*

Egyptian financial situation: Recent attempts by Cairo to improve its foreign exchange position have failed to bring the expected measure of relief, and the regime apparently has now decided to sell about \$14,350,000 in gold, an action which it has been considering for several months. Lagging cotton sales plus failure to make progress in financial talks with the British have forced this move despite the unfavorable reaction likely to occur in the gold-minded Middle East.

25X1 25X1A [redacted]

Libya: The Libyan Government may accept a Soviet offer to build and staff two hospitals. It is reported that delay in official acceptance is due to the government's desire to protect its bargaining position in current financial discussions with Britain and the United States. [redacted]

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*No*

Tunisia - Algeria: President Bourguiba, in an effort to increase his influence throughout North Africa and to forestall the extension of Cairo's influence, is encouraging the leaders of the Algerian rebellion to develop the political character of their now essentially military movement. Should he succeed in his plan to establish the Algerian directorate firmly at Tunis with a status approaching but somewhat short of a formal government-in-exile, existing Tunisian-French tensions will be further exacerbated. [redacted]

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[redacted] (Page 8)

*No*

Greece: With the passage of a new electoral law by the Greek Chamber of Deputies on 29 March the caretaker government has submitted a royal decree dissolving the legislature and proclaiming general elections for 11 May. The new "reinforced" proportional representation law was supported by the two largest parties in Greece over the bitter opposition of leaders of the smaller parties, some of which may form a coalition with the Communist-front United Democratic Left for a common electoral ticket. [redacted]

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Japan - Taiwan: Prime Minister Kishi is sending his ambassador back to Taipei to seek an understanding with Chiang Kai-shek on Tokyo's handling of the controversial issue of a projected Chinese Communist trade mission in Japan flying its national flag. Kishi believes that failure to settle

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DAILY BRIEF  
25X1A [redacted]

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the issue would have an adverse effect on his own party's chances in Japanese national elections contemplated in May.

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### III. THE WEST

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Brazil: Brazil's foreign exchange crisis is expected to result shortly in defaults on some foreign obligations. In that event, the Kubitschek administration may publicly blame the United States for its predicament. A Communist-backed campaign that "American imperialism" is responsible for Brazil's financial plight will probably receive new impetus from the dramatic reappearance on 26 March of Communist party chief Luiz Carlos Prestes, who has just emerged from ten years in hiding.

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Tito Confers with Hungary's Kadar

Official commentary on the 27-28 March meeting in Yugoslavia between Tito and Hungarian party leader Kadar discloses only that views were exchanged in a "friendly atmosphere" on questions of mutual interest between the two parties. Kadar has long sought a meeting with Tito, and the Yugoslav leader may have concurred at this time in order to discuss with some member of the bloc the program for the 22 April congress of the Yugoslav party. The program, published on 13 March, has so far received no public comment from the bloc. It contained many concepts which have recently been labeled "revisionist" in official bloc publications.

The Yugoslavs regard Kadar as the most acceptable of Hungary's current leaders, and Tito may believe that a meeting with him will strengthen Kadar and the moderate faction in the Hungarian party against their powerful opponents who advocate a return to even harsher policies than those enforced by Kadar. The Yugoslav ambassador in Budapest told a US Legation official there on 6 March that Hungary's position would be "definitely worsened" if Kadar did not remain in control. Tito has met with no satellite leader since his September conference with Poland's Gomulka, and probably regards his meeting with Kadar as another step toward regaining a position of influence among the Communist parties of Eastern Europe.

It is probable that the case of former Hungarian Premier Imre Nagy was discussed in an effort to reach some agreement which would not unnecessarily jeopardize the possibility of further Belgrade-Budapest rapprochement. The eventual disposition of Nagy has cast a continuing shadow over Yugoslav-Hungarian relations since the fall of 1956, when Nagy was abducted by Soviet police despite the Kadar regime's assurance that he could depart in safety from his refuge in the Yugoslav Embassy. [redacted]

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Anglo-Saudi Relations

The British Foreign Office sent a high-level representative to Geneva on 26 March to discuss UK-Saudi relations in response to an approach by the former Saudi ambassador to London, who is now in Switzerland. Like the British, the Saudis have also recently displayed increased interest in resuming relations, but they insist discussions must also cover the question of Buraimi, the oasis which has been occupied by British-led local forces since late 1955. London believes peninsular stability requires that the Buraimi issue be settled by the claimants--principally King Saud and the Sultan of Muscat--and refuses to make any prior commitments itself. Saud insists the Sultan must agree on a solution such as arbitration before a meeting is held. While London feels unable to put pressure on the Sultan, the increased use of land mines by Saudi- and Egyptian-supported Omani rebels in the Sultan's domain, and the forthcoming visit of the Sultan to London--now scheduled for May--have added urgency to the search for a settlement.

If the Saudis continue to reject formal resumption of relations on British terms, London may suggest sending only a consular or commercial representative to Jidda.

Although the British formerly considered Faysal easier to deal with than Saud, they now appear concerned lest he align himself vehemently with "Nasirite" foreign policy in attacking the British position in Aden. The governor of Aden said on 24 March he believes Faysal's rise means Saudi alignment with the UAR. This would eliminate any chance of creating a successful opposition movement in Yemen and thus of curbing the expected subversion campaign against Aden. It would also weaken prospects that the rival Iraqi-Jordanian Federation could serve as a counterweight to Nasir's UAR.

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Egyptian Financial Situation

Recent attempts by Cairo to improve its foreign exchange position have failed to bring the expected measure of relief, and the regime apparently has decided, after several months of consideration, to sell about \$14,350,000 in gold in the near future. Lagging cotton sales plus failure to make progress in financial talks with the British have forced this move despite the unfavorable reaction likely to occur in the gold-minded Middle East.

Egyptian cotton sales have been extremely slow despite price cuts up to 30 percent for sales to hard-currency countries. Although bloc purchases are apparently on the same level as last year, sales to nonbloc countries have thus far failed to respond to Egyptian price reductions. Cairo's latest move on 26 March, a reduction in the export tax on cotton, was largely a response to a similar Sudanese move taken four days earlier.

The introduction of "export account pounds"--worth about \$2.10 compared with the official rate of \$2.87--has not yet met with marked success. Egypt's working foreign exchange balance--which amounted to over \$150,000,000 in June 1956, the last month before Western restrictions came into force--are now probably on the order of \$5,000,000 or less. The proposed gold sale, amounting to about 7.5 percent of Egypt's currency backing, will provide only transitory relief and Cairo will probably be forced to find alternative sources of badly needed foreign exchange. Egypt's critical foreign exchange may be one of the subjects discussed by Nasir in his reported forthcoming visit to Moscow. [redacted]

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[redacted]

Libyan Attitude on Soviet Hospital Offer

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The Libyan Government appears to have reluctantly decided to accept a Soviet offer, first reported last year, to build, equip, and staff two hospitals and train Libyan personnel in their operation. No official announcement has been made, but [redacted] recent press reports that agreement has been reached and suggests that the delay in acceptance is due to the government's desire to avoid damaging its position in financial discussions now going on with Britain and the United States. Libya is endeavoring to ensure continuation of British aid at a high level in spite of London's desire to reduce its commitments in the area.

Libyan negotiators have previously used threats of accepting alleged large-scale Soviet aid offers to increase their bargaining power with the West. [redacted]

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[redacted] Egypt is offering Libya a \$28,700,000 subsidy to join the United Arab Republic. The pronounced internal pressure favoring acceptance of badly needed medical facilities probably will compel the generally pro-Western Libyan Government to accept the present Soviet offer. [redacted]

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Bourguiba Seeking to Enhance Political Character of  
Algerian Rebel Movement

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Tunisian President Bourguiba [redacted]

25X1X [redacted] one of his government's chief projects is to persuade the executive committee of the Algerian National Liberation Front (FLN) to establish itself permanently in Tunis, to drop its clandestine existence, and to give the primarily military FLN a political character similar to that of the pre-independence Neo-Destour and Istiqlal parties in Tunisia and Morocco.

Bourguiba observed it was in Tunisia's interest to avoid formation of an Algerian government-in-exile, but said the the FLN could and should establish a "shadow cabinet" whose members would concern themselves with such matters as foreign affairs, finance, and economic development. Highest priority, said Bourguiba, should go to efforts to ensure that Algerian cadres--limited numbers of whom are already undergoing "on the job" training in some of the Tunisian government departments--would be able progressively to assume administrative control after Algerian independence or autonomy is won.

Ambassador Jones in Tunis believes Bourguiba's program for the FLN is motivated by his desire to make the Algerian nationalists more acceptable internationally, to prepare them for ultimate assumption of control in Algeria, and to maximize Tunisia's future influence in North Africa. If realized, it is almost certain to add new complications in Tunisian relations with France. [redacted]

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Kishi Sending Emissary to Chiang Kai-shek

Japanese Ambassador Horinouchi is returning to his post in Taipei on 30 March with instructions from Prime Minister Kishi to seek an understanding with Chiang Kai-shek on Tokyo's handling of the private trade agreement with Communist China. Kishi is attempting to find a mutually acceptable solution for the controversial issue of flying the Chinese Communist flag over a projected trade mission in Japan.

Prospects for an understanding are not good. Chiang has insisted that any solution allowing the flag to be flown is unacceptable to him. He has already suspended many commercial contracts with Japan and has threatened to sever diplomatic relations if the flag is flown. Kishi's present position is that he will not recognize the Communist "right to fly the flag" but that he cannot legally prevent it. Although Peiping has remained silent during the Tokyo-Taipei dispute, the Chinese Communists stressed during the trade agreement negotiations that Japanese Government concurrence in the flag provision is necessary before the agreement can become effective or before trade can be increased.

Kishi told Ambassador MacArthur on 27 March that he is delaying decision on the flag issue and other provisions of the trade agreement with Peiping in order to reach an understanding with Chiang first. He said he attaches great importance to healing the breach with Taiwan, but that his government cannot take steps which would, in fact, upset the trade agreement. He said he is anxious to find a solution to this problem as well as to the fishery dispute with the USSR and the deadlock with South Korea prior to elections which he is contemplating for May. He believes that if these issues are still pending, conservative election chances would suffer. [redacted]

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Brazilian Communists Move to Exploit Foreign Exchange Crisis

Despite drastic import restrictions and an all-out campaign to bolster the world price of coffee, Brazil's dollar reserves have dropped to a new low and, according to the American Embassy in Rio de Janeiro, the government may be forced within the next several days to ask postponement of commercial obligations and payments due on debts to US banking and government institutions. While the Kubitschek regime is basically pro-US, it may, if it does default, state publicly that Brazil's recent requests for stand-by assistance had met an "unsympathetic response" in Washington.

Brazil's Communist party has been effectively charging that the country's worsening foreign exchange crisis is due to "American imperialism" and to the government's refusal to act quickly to re-establish trade and diplomatic ties with the USSR. Party chief Luiz Carlos Prestes stressed these issues in a dramatic press conference on 26 March that marked his first public appearance after ten years in hiding.

A federal court ruled on 19 March that a ten-year-old order for Prestes' preventive arrest was not "necessary or justifiable" for the completion of his sedition trial. The court action has been appealed by the government, but Brazilians will probably feel the ruling adds weight to the party's recent announcement that it has abandoned revolutionary aims and will work through constitutional means. Some politicians in nearly all parties, hoping for Communist support in the October congressional and gubernatorial elections, have already expressed support for Communist legality and for new ties with the Soviet bloc.

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