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1. EGYPTIANS CLAIM USSR HAS OFFERED HALF-BILLION-DOLLAR CREDIT

Soviet ambassador Kiselev has offered Cairo a credit to the extent of 200,000,000 Egyptian pounds (\$574,000,000) for Egypt's new five-year plan,

Kiselev reportedly stated that the aid would be in the form of "Soviet-built factories," and asked Sabri for details of the five-year plan so that Soviet assistance could be fully integrated with it.

Comment While it would be in Egypt's interest to exaggerate what may have been a general and unspecific Soviet proposal, Moscow is likely to increase its military aid to Egypt, which until now has been relatively small.

Nasr's statements in an interview on 16 January lauding Soviet assistance at the time of Suez and deprecating the American refusal to release frozen Egyptian funds, his "Egyptianization" of Western firms, and increasingly sharp attacks on the US proposals for the Middle East by the Cairo-controlled press suggest that Nasr believes he is backed by commitments from the Soviet Union for economic assistance.

In the face of mounting internal dissatisfaction and economic problems, Nasr may well visualize Soviet economic assistance as the only means by which he can secure his position, rationalizing away the dangers such assistance would spell for his eventual position and for the future of Egypt. Nasr has indicated he has few fears at present regarding Soviet international policy, but believes that the problem of internal Communist subversion is serious.

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2. SITUATION IN INDONESIA

Comment on:

President Sukarno's ability to carry out his plan to set up an "advisory council" to govern Indonesia under his direction depends on the support or resistance accorded him by the army and the major political parties.

The political parties will probably oppose the plan as unconstitutional, while bargaining with Sukarno over their role in the new organization, but most of the major ones probably will ultimately support him. Army chief of staff Nasution, who appears to control major army factions, reportedly has "reached agreement" with Sukarno on "solving the country's problems."

The outlying provinces, which have long opposed centralized control, might resist strongly such an assertion of one-man rule in Djakarta, possibly even to the point of withdrawal from the republic.

3. EGYPT PREPARING ARMS SHIPMENTS TO YEMEN

The Egyptian commander in chief, General Amer, has given instructions for the delivery of arms assistance to Yemen in the near future,

The arms shipment will include rifles, machine guns, bazookas and mines, and the Egyptians have requested that "one or two" Yemeni officers be sent to be trained in the use of the mines and bazookas.

Egypt has agreed to deliver the arms to Jidda from where Yemen would transport the material by ship or by air.

Comment A statement that 20 aircraft flights would be needed to deliver the arms suggests that the quantity amounts to no more than 50 or 60 tons.

According to the Egyptian press, several thousand volunteers to aid Yemen have been registered in Egypt. While Egyptian officers are training the Yemeni army under the Egyptian-Yemeni-Saudi military assistance pact of April 1956, no Egyptian volunteers are believed to have departed for Yemen.

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4. SHEPILOV REPORTEDLY URGES EARLY ASIAN-AFRICAN CONFERENCE

[redacted] Soviet foreign minister Shepilov on 9 January reportedly expressed to Indonesian ambassador Maramis in Moscow the "strong desire of the Soviet government" that Indonesia promote the calling of an Asian-African conference "at the earliest possible date." [redacted] the ambassador in his report expressed the opinion that Moscow wanted to use the conference to promote its Middle East program and to attack the Eisenhower proposals.

Although Maramis strongly recommended against promoting such a conference and desk officials in the Indonesian Foreign Ministry backed the ambassador's views, [redacted] Prime Minister Ali may act on the Soviet suggestion in order to divert attention from the present government crisis. The source added that the Soviet request was to be discussed this week by the Indonesian cabinet. [redacted]

Comment

Such a proposal may have resulted from Soviet discussions with Chou En-lai when he was in Moscow from 7 to 11 January. Most nations of the Asian-African bloc might agree without much enthusiasm to attend such a conference at this time, but India and Pakistan would oppose it.

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5. ISHIBASHI BLOCKS INCREASE OF JAPANESE GROUND FORCES IN 1957

[Redacted]

Prime Minister Ishibashi told Ambassador Allison on 16 January that it was impossible for political reasons to provide funds for any increase in Japan's

ground forces during 1957. Ishibashi stated, however, that personnel increases requested for the air and naval forces would be granted and that the budget for 1958 would provide for a 10,000-man increase in the ground forces.

Ishibashi noted that increases in other categories of military expenditures and the utilization of funds carried over from fiscal 1956 would actually make defense spending greater in 1957 than in the previous year.

Comment

The prospect of a general election this year probably is an important factor in determining Ishibashi's position. This possibility places defense expenditures at a disadvantage in competing with such politically attractive fiscal policies as tax reduction and welfare measures.

Japan's defense build-up has received increasing criticism from elements in the government party and the opposition for alleged overemphasis on ground forces. Ishibashi himself has publicly stated he favors "quality over quantity" and that he would place greater emphasis on modernizing the defense forces.

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6. RUMANIA MAY NOT PERMIT US OBSERVERS AT FEBRUARY ELECTIONS

Rumanian deputy foreign minister Lazareanu has told the American ambassador in Bucharest he personally doubts that his government will now permit the visit of Americans invited to observe the Rumanian national elections scheduled for 3 February. Lazareanu claimed that American government-sponsored attacks on Rumania through the Voice of America and Radio Free Europe and public statements by members of the US government had caused the deterioration of the relatively friendly US-Rumanian relations of last fall. He charged that Americans had endangered Rumanian internal security not only by inciting Hungarians to revolt on the Rumanian-Hungarian borders but also by making statements calculated to incite Rumanians to revolt against their own government.

Comment

The Rumanian Foreign Ministry invitation of 5 October, issued just before talks began with the US concerning long-standing problems between the two countries, was in reciprocation for invitations to observe the American elections. Lazareanu's statements are symptomatic of the generally stiffened line toward the US in all of the Satellites.

ANNEX

Watch Report 337, 17 January 1957
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.