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22 June 1956

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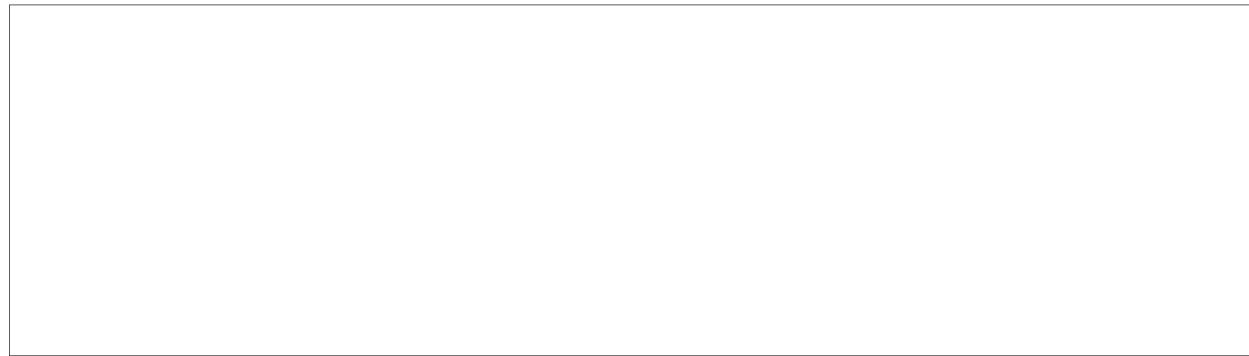
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**1. SHEPILOV OFFERS EGYPT LARGE-SCALE
ECONOMIC AID**

[REDACTED] In a meeting with Prime Minister Nasr

[REDACTED], Soviet foreign minister

Shepilov made a sweeping offer of economic aid. [REDACTED]

[REDACTED], Moscow offered to grant a 60-year credit to build the Aswan High Dam; to buy all of Egypt's cotton for sterling; to cancel Egypt's indebtedness for Soviet bloc arms already delivered; and to build a steel mill and other plants on favorable terms. [REDACTED]

Comment

Nasr would be unwilling to accept the entire series of offers, since the USSR would in effect be given a mortgage on the Egyptian economy.

Western estimates set the foreign exchange cost of constructing and equipping the dam at about \$275,500,000 and suggest that construction could be completed in about ten years. Nasr is unlikely to accept the Soviet offer at this time, but he reportedly has said he would give the West only until his departure to visit Tito on 18 July to make a firm offer.

Shepilov's proposal to cancel Cairo's debt for arms already delivered, which probably amounts to at least \$100,000,000, would be accepted by Nasr if it were made independent of the other offers.

The proposal to build a steel mill is not expected to interest the Egyptian government. Egypt will probably be self-sufficient in steel production when the 265,000-ton capacity plant at Helwan is completed in the middle of 1957. Cairo, however, is likely to give favorable consideration to Soviet aid offers for construction of other plants.

Shepilov's offer to purchase "all of Egypt's cotton" is probably exaggerated, although the Kremlin may be

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prepared to make substantial purchases. Egyptian cotton stocks on hand total about 190,000 tons valued at about \$270,000,000. Cancellation of Egypt's arms debt, which was to be paid for in cotton, would make available additional cotton which the USSR might offer to purchase for sterling. [redacted] (Prepared by ORR)

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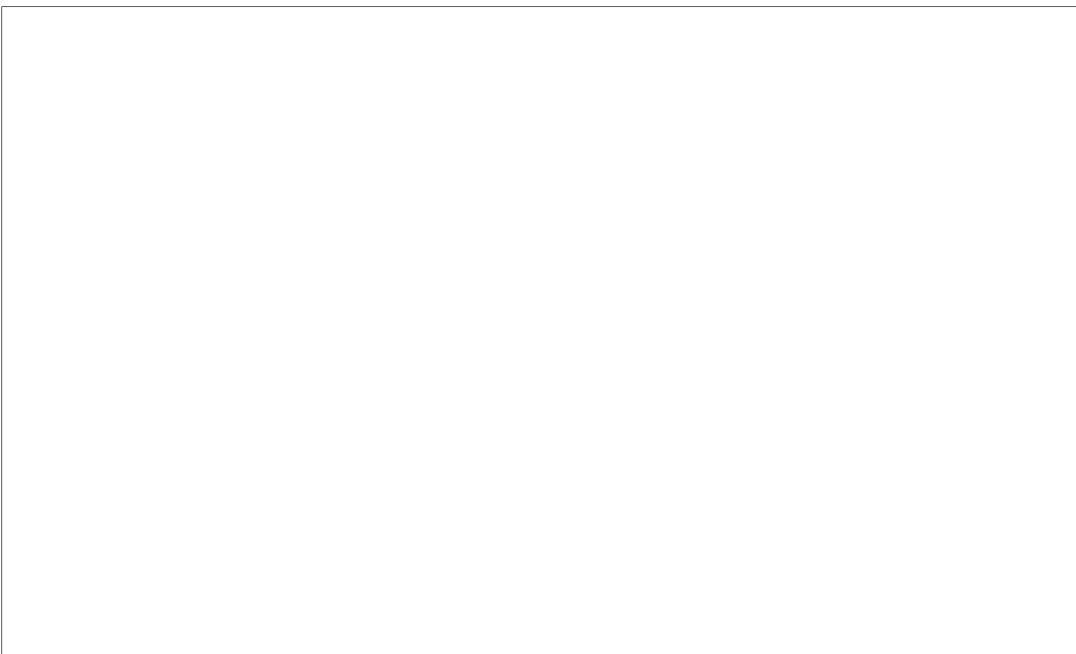
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2. INDONESIAN FOREIGN MINISTER REPORTS TO
DJAKARTA ON SUKARNO'S US TRIP



Comment

Official and public opinion in Indonesia reflects pleasure over the reception accorded President Sukarno on his American trip as well as a belief that a greater understanding has been reached regarding Indonesia's policy toward the Netherlands and its independent foreign policy. However, disappointment has been expressed over the failure to effect a change in the United States' neutral position on Indonesia's claim to Netherlands New Guinea.

Sukarno will tour the Soviet Union and Communist China, probably in August and September. The Indonesian Foreign Ministry has announced that no decision on the Soviet offer of economic and technical assistance is likely until Sukarno returns from those trips.

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3. BURMESE COMMUNISTS REPORTEDLY ADOPT PEACEFUL TACTICS

Comment on:

[Redacted] The Burma Communist Party, which has been fighting a guerrilla war against the Burmese government for eight years, has decided to pursue its objectives through a "moral offensive," according to an Indian press report. The report also alleges that a party spokesman said the first step in implementing the new technique was to be an order for the return of all land, houses and other properties seized by the party.

The military fortunes of the Burmese Communists have been steadily declining for at least five years, while the pro-Communist National United Front made a strong showing in the recent parliamentary elections using "legitimate" methods. Consequently, the insurgent Communists are now more aware than ever that much more is to be gained by peaceful methods than by a continuation of violence. Recent pronouncements by both the Ceylonese and Indian Communist Parties deplored the use of force may also have influenced the Burmese Communists.

Burma's new premier Ba Swe has publicly stated that he intends to suppress rebellion "once and for all." In the past, however, he is reliably reported to have been negotiating with Communist leaders, and his new government may well be tempted to grant lenient terms to obtain a quick settlement of the long-standing rebellion. [Redacted]

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**4. CHINESE COMMUNISTS ANNOUNCE "TRIAL"
PRODUCTION OF JET PLANE ENGINES**

[Redacted] Communist China has succeeded in a
"trial" production of jet plane engines,
according to a statement to the People's

Congress in Peiping on 21 June by the chairman of the
National Economic Commission.

Comment

The USSR has lent considerable assist-
ance to the Chinese aircraft industry
since early 1955. [Redacted]

[Redacted] (Prepared by ORR)

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5. VIET MINH ANNOUNCES TROOP REDUCTION

Comment on:

The North Vietnam regime's announcement on 21 June that its armed forces will be reduced by 80,000 men follows last month's Soviet and North Korean announcements of planned troop reductions. The announcement stated, however, that of this number, 50,000 men had already been demobilized during the two years since the signing of the Geneva agreements.

The Viet Minh is engaged in a recruit-training program and it may be that the demobilized men will be entirely replaced by recruits. Even if the Viet Minh carried out its demobilization plan as announced, its troop strength, would remain double that of South Vietnam. In any event, the receipt of modern arms from the Soviet bloc and the continuing reorganization of the army have significantly increased Viet Minh military capabilities during the past two years.

The troop reduction announcement will probably become part of the Viet Minh propaganda campaign for the "peaceful unification" of Vietnam. Viet Minh willingness to reduce armed forces will be contrasted with the intransigence of the Diem government on such questions as the holding of unification elections scheduled for July 1956 by the Geneva agreements.

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6. SAUDI ARABIA SEEN TURNING AWAY FROM WESTERN TIES

Comment on:



Ambassador Wadsworth believes that Saudi Arabian policy is all but dominated by Egyptian and anti-foreign nationalist influences opposed to renewal

of the Dhahran air base agreement with the United States. King Saud is practically alone in resisting these pressures, but is committed to a program for strengthening Saudi military forces for which he wants additional funds.

Both Wadsworth and the British ambassador are under the impression that top Saudi advisers have presented the United States and Britain with unreasonable demands which they hope will be refused, and that the onus for failure would thus be placed on the Western powers. This hostile attitude, plus the king's genuine desire to build up his army, in Wadsworth's opinion, explains the Saudi "suggestion" that the United States give either \$250,000,000 worth of arms or the money to buy them in return for continued use of the Dhahran field. King Saud has argued that if this "suggestion" is refused, he will be "forced" to turn elsewhere--Egypt and the USSR.

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7. USSR OFFERS SCHOLARSHIPS TO PHILIPPINE STUDENTS

Moscow has offered "one scholarship each year for five years to Philippine students for college or postgraduate study in the USSR beginning 1 September." The offer was made to the Philippine ambassador to Thailand by the Soviet ambassador.

Comment With this approach to the Philippines, Moscow has made offers to all the Asian members of SEATO. Offers of educational training have recently been extended to Thailand and Pakistan, as well as India, Burma and Egypt.

If the Philippine government rejects this offer, as is probable, ultranationalist circles, led by Senators Recto and Laurel, would exploit this to "prove" their contention that the Philippines is too dependent on the United States. In any event, the Filipinos are likely to welcome this indication of Soviet interest as they press for concessions in the forthcoming negotiations on American bases.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 21 June)

Egypt has no intention of risking war
with Israel "at the moment," [redacted]

[redacted] training in the use of Soviet bloc
arms has been delayed because of delays in delivery of some
of the equipment, and the state of transport is such that no
large-scale movements could be attempted successfully at
present [redacted]

The two previously unidentified installations at Kibbutz Havogrim in the Syrian-Israeli demilitarized zone are now reported by UN Truce Supervision Organization observers to be two concrete pillboxes equipped with firing ports. The chairman of the Israeli-Syrian military armistice commission expressed the opinion that construction other than the pillboxes would be allowed to stand. General Burns, UN truce chief, will decide after further investigation on the question of a violation of the armistice agreement and an order to destroy the pillboxes.

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