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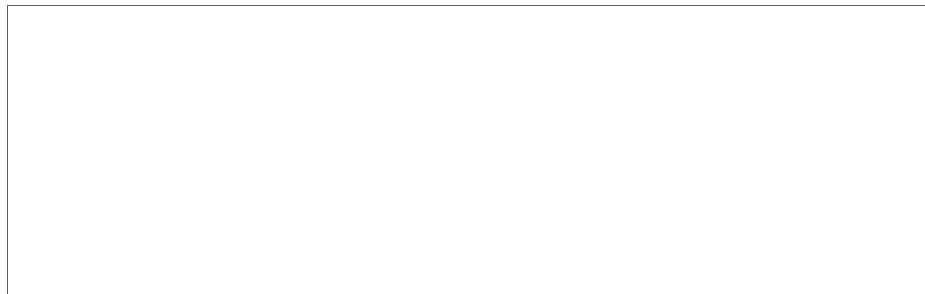
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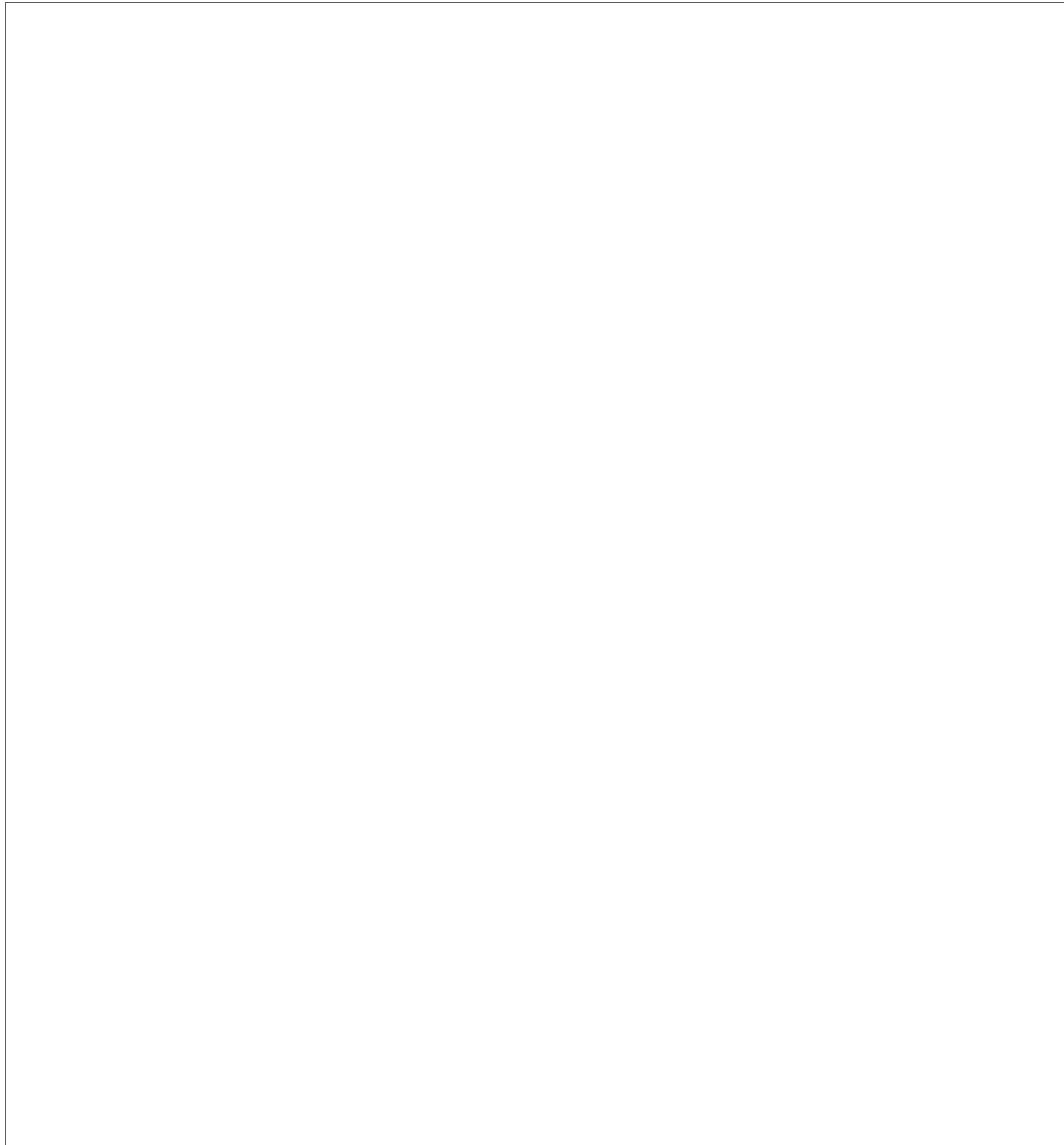
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2. COMMUNIST MILITARY CONSTRUCTION NOTED ON ISLAND NEAR NATIONALIST-HELD WUCHIUS

considerable Chinese Communist military activity on Lutzu Island, ten miles northwest of the Nationalist-held Wuchiu Islands, between Matsu and Quemoy.

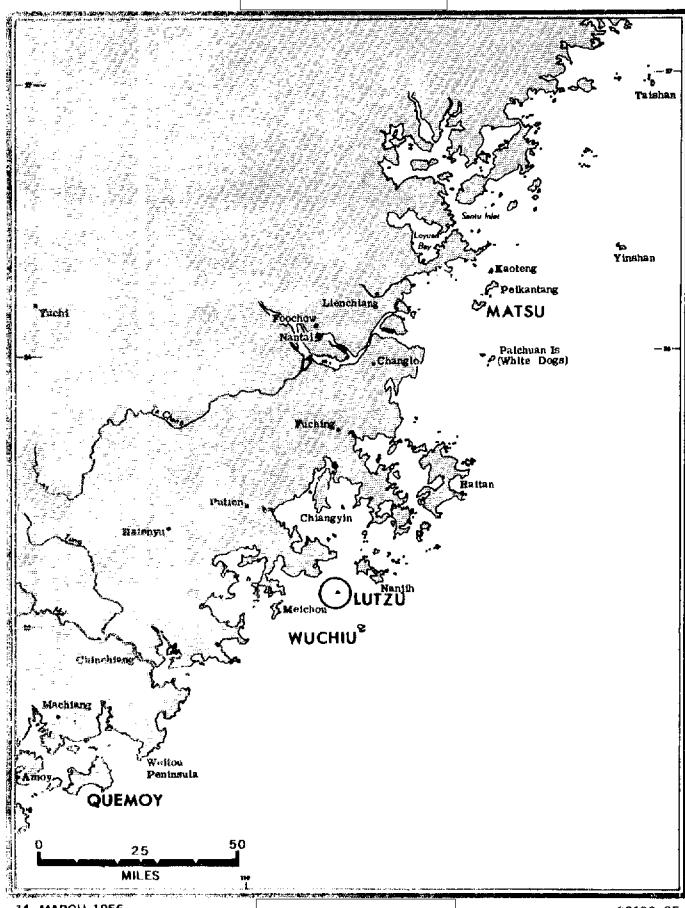
Numerous coastal defense and artillery positions have been completed and others are under construction. The island is crisscrossed by antitank ditches, and four barracks have been built.

Comment

little

Communist activity and no artillery positions on Lutzu. Some of this construction involves defensive prep-

arations, but the readying of artillery positions indicates that the Communists may be preparing to increase pressure on the Wuchius, currently garrisoned by about 500 Nationalist guerrilla forces. Chinese Communist attacks on Ichiang Island, in the Tachen group, in late 1954 and early 1955 included artillery fire from a small island immediately to the north.



The Nationalist navy has shelled Lutzu several times in recent months, fearing that the Communists might be preparing to bring the Wuchius under fire from the island.

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3. NATO BASE AT KEFLAVIK TO BE MAJOR ISSUE IN ICELANDIC ELECTION

The Icelandic Progressive Party's decision to leave the Conservative-Progressive coalition government points to an early summer election in which the status of the US-manned NATO air base at Keflavik would be the major issue. Iceland will in the interim probably be ruled by some form of caretaker government under the present Conservative prime minister.

The Progressive Party, a non-Communist, largely agrarian, party that formerly supported the base, has been led by strong popular sentiment to advocate a revision of the Defense Agreement of 1951 with the United States so that the base can be "manned by Icelanders."

The Progressives hope to form an election alliance with the Social Democrats, who hold similar views on the base. The Communists will try to expand such an alliance into an all-leftist coalition under the aegis of the Icelandic Federation of Labor, which they control.

Growing reluctance of the Conservatives to defend the base before a generally hostile public suggests that their support of the Defense Agreement in an election campaign would be lukewarm at best.

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~~TOP SECRET~~**4. USSR OFFERS TO DEVELOP YUGOSLAV COPPER MINE**

Russia has offered Yugoslavia \$50,000,000 for developing the Majdanpek copper mining complex,

[redacted] the loan is offered at two percent for 25 years with the interest payable in crude copper, finished copper, or currencies beginning the sixth year.

Comment

Yugoslavia to date has declined to export copper ore to the Soviet bloc.

In their current negotiations with the French for financing the Majdanpek projects, Yugoslav officials have said that although Soviet terms are more favorable, they prefer to deal with the West.

[redacted] Yugoslavia proposed to France and the United States that France supply an \$18,000,000 credit at 5 percent to cover imported equipment, and that local costs, equivalent to \$40,000,000, be supplied from US-held dinars acquired through Yugoslav counterpart payments.

Yugoslavia, Europe's largest copper ore producer, has for many years sought to modernize the Majdanpek complex. The \$50,000,000 Soviet offer would presumably cover the entire cost of the project, including local expenses as well as foreign exchange purchases. Last September the USSR was reportedly willing to supply foreign exchange credits, but refused to finance local expenditures.
(Concurred in by ORR)

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5. BURMESE COMPLAIN TO PEIPING ABOUT FAILURE TO PROVIDE GOODS FOR RE-EXPORT

[redacted] the Chinese Communists had not carried out Chou En-lai's "repeated assurance" that Chinese goods would be made available to Burma for re-export to other countries. [redacted]

[redacted] proper lists and prices on such goods had not been provided and asked the Burmese ambassador in Peiping to "intervene" with the foreign trade minister and, "if advisable," with Chou En-lai.

Comment

Peiping's stalling on the question of goods for re-export probably stems from a desire to deliver a maximum amount of goods for consumption in Burma. China is trying to develop a market for light manufactured and industrial items there as well as in other South and Southeast Asian countries. The Burmese also are concerned over China's re-export of Burmese rice to Ceylon.

Burma could probably itself absorb all of the approximately \$15,000,000 worth of Chinese goods it is committed to take through next September in exchange for rice deliveries, but it would prefer to realize some foreign exchange from the transaction. Its balance-of-payments position promises to be extremely tight again this year.

In trade negotiations with Pakistan, Burmese officials have cited their dissatisfaction with barter arrangements--a feature of Burmese trade with the Communist bloc. (Concurred in by ORR)

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6. BRITAIN TO ASSIGN NEW OFFICERS TO THE ARAB LEGION

London will relieve those officers assigned to the Arab Legion to whom Jordan originally objected, but will detail new officers to the Legion, according to a British War

Office official. Approximately the number serving before Glubb's dismissal on 1 March will thus be maintained.

Comment

The British are evidently still examining the possibilities of continuing to maintain some special influence in Jordan, but it is likely that officer replacements would be in advisory rather than command positions. The American embassy in London believes that the British are unlikely to terminate the subsidy for the present.

Despite pressure from Egypt, Syria and Saudi Arabia, Amman has said it wants to use British officers and retain the annual subsidy.

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7. GENERAL STRIKE IN BAHREIN

The general strike now in effect in the Persian Gulf sheikdom of Bahrein is primarily political in motivation, aimed at the local ruler and his British

adviser. The strikers are led by the "Higher Executive Committee," a reformist group which is demanding the dismissal of the adviser and the immediate arrest and trial of the "persons responsible" for ordering local police to fire on demonstrators on 11 March, an action which resulted in five deaths. The current flare-up was preceded by mob violence during the visit of British foreign secretary Selwyn Lloyd on 2 March.

The "Higher Executive Committee's" basic demand is that it be recognized as a body which the ruler should consult concerning the government of the sheikdom. The ruler has so far resisted this demand, and appears to be relying on British naval and air force units which were reinforced 12 March.

Foreign employees have maintained the operations of the American-owned Bahrain Petroleum Company. The strike is relatively peaceful, but unless the reform group's demands are met at least in part, further violence seems almost certain.

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THE ARAB-ISRAELI SITUATION (Information as of 1700, 14 March)

The Jordanian chief of staff [redacted]
[redacted] has issued an order to all Arab Legion brigades and National Guard units that the same restraint exhibited by the Legion on the border in the past would be observed and fire would not be returned unless absolutely necessary.

[redacted]
The return to Egypt of some of the Egyptian military personnel who have received training in the Soviet bloc is scheduled for the latter part of March. Some 200 Egyptian naval officers and noncommissioned officers have been receiving training under Soviet supervision in the Polish port of Gdynia, and some Egyptian army and air personnel are also believed to be training in Czechoslovakia.

[redacted]
Agents for Israel are reportedly negotiating the purchase of 34 British Vampire jet fighters each from Sweden and Norway,

[redacted]
pressure is building in Israel for purchase of Soviet arms. He believes such a deal may be in the making.

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