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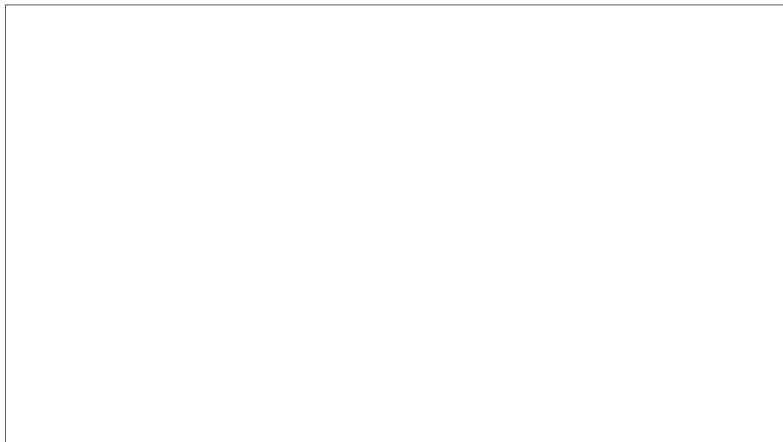
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1. MACMILLAN'S CALL FOR A NON-AGGRESSION PACT

Comment on:

Prime Minister Macmillan's radio speech of 4 January, advocating a non-aggression pact with the Soviet Union and an eventual summit meeting, reflects the sensitivity

of the Conservative government to public demands for efforts-- beyond the moves outlined in the 19 December NATO communique-- to achieve a reconciliation of major disputes with Moscow. Macmillan seems to anticipate that by such an initiative he can increase public support for a defense program. Macmillan restricted and hedged his proposals to reduce any alarm of fellow NATO members over not being consulted. The British government presumably intends to incorporate the ideas in Macmillan's formal response to Bulganin's note of 10 December now being prepared. The reply is to be discussed at the North Atlantic Council meeting on 8 January.

The Soviet news agency TASS on 4 January reported Macmillan's proposal, criticizing his "rude anti-Soviet attacks" and his defense of British foreign policy. The Soviet leaders probably will assert that only the United States now stands in the way of an East-West accommodation. Moscow is also likely to contend that an East-West heads of government conference would be the best forum for discussing Macmillan's ideas and that favorable reaction in Europe and Asia has improved the prospects for holding such a conference.

Free world reaction to the Macmillan proposal was nearly unanimously favorable. French Foreign Ministry sources were quoted as hailing Macmillan's "bold initiative," in Rome, authoritative sources welcomed the proposals for a non-aggression pact but emphasized the need for adequate guarantees. Bonn's favorable comment was more restrained, reflecting the government's fear of any new steps toward an over-all settlement not hinged on German reunification--a topic which Macmillan's speech ignored. Enthusiastic approval came from the press in Cairo, Tokyo, and New Delhi.

2. BONN STUDYING POLISH PROPOSAL FOR ATOM-FREE ZONE

Comment on:

Bonn is "studying" the proposal made by Polish Foreign Minister Rapacki on 9 December for an atom-free zone in Central Europe.

[redacted] While Chancellor Adenauer has publicly described the plan as an "illusion," [redacted] it is now being examined in connection with the West German reply to Bulganin's note of 10 December, which included similar proposals. The Bonn Foreign Ministry is reported to prefer the Rapacki plan if such a topic is discussed in East-West talks, since

it feels this is less directly linked with a West German agreement with East Germany than the Bulganin proposal.

Bonn's answer, expected to be sent in mid-January, will present a detailed explanation of the West German position on the points raised by Bulganin, in an attempt to narrow differences between East and West, according to the West German ambassador to Tokyo.

Bonn's more favorable attitude toward the Rapacki plan is a reflection of mounting public pressure for East-West talks on specific issues rather than on generalities. President Heuss' New Year's message supporting George Kennan's call for a return to secret diplomacy was well received. The American Embassy in Bonn comments that Heuss' remarks are symptomatic of increased enthusiasm in intellectual circles for a way out of the current impasse.

**3. INDONESIAN LOAN REPAYMENT SUSPENSION MAY
PROVOKE DUTCH RETALIATION**

Comment on:

[redacted] protesting an Indonesian government decision to suspend payments of redemptions and interest on a large Dutch loan.

[redacted] the \$74,000,000 loan made by the Netherlands was not part of the 1949 round-table agreements. [redacted] while annulment of the round-table agreements could be justified as retaliation over the West Irian issue, Indonesia's suspension of its obligations under this separate loan would impair the country's international standing and its efforts to enlist foreign support for its economic and financial measures against the Dutch. [redacted] the Dutch are considering counter-measures.

[redacted] the Dutch need only to modify their guarantee to back up Indonesian purchases abroad to create great difficulties for Indonesia, and that "it would be even worse if they annul it."

[redacted] Sjarfuddin, governor of the Bank of Indonesia, does not approve of the government's decision to renege on its loan obligations but was forced to go along. Sjarfuddin, a prominent Masjumi party leader who recently denounced the government's economic excesses against the Dutch, might be chosen to form a new cabinet.

4. POSSIBLE IRAQI CABINET AND ARMY SHAKE-UP

Comment on:

Authoritative Iraqi sources expect the month-old Mirjan cabinet to fall about 10 January, [redacted]

[redacted] The personalities involved in an anticipated simultaneous shake-up of the top army command indicate that pro-Western influence will remain dominant.

The changes, if they occur, probably would be the product of disagreements within the cabinet between hold-overs from the previous Ali Jawdat cabinet and new members brought in by Mirjan. Iraqi strong-man Nuri Said is planning to absent himself from the country during the shake-up, in order not to give the impression that he is behind it. [redacted]