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5 January 1957

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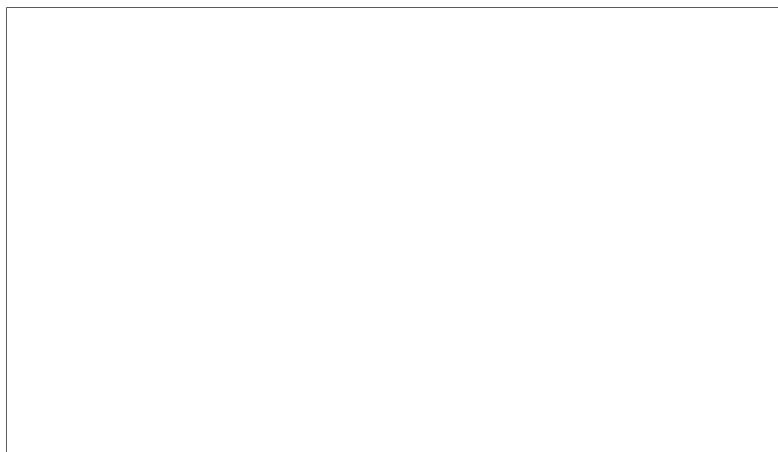
CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 17
NO CHANGE IN CLASS. X
DECLASSIFIED
CLASS. CHANGED TO: TS S
NEXT REVIEW DATE: 2005
AUTH: HR 70-2
DATE: 12-27-79 REVIEWER:

OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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Approved for Release: 2019/12/04 C03161973



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1. SHEPILOV COMMENTS ON "IMPENDING AMERICAN POLICY" IN MIDDLE EAST

Soviet foreign minister Shepilov

[redacted] he considers the "impending new American policy" a greater danger to the Arabs than the attack on Egypt as it is "subtle, deceiving and backed by money and a more powerful force," [redacted] He said the USSR would certainly react but only after the Arab governments, particularly Egypt, express their own views.

Shepilov added that Moscow saw no objection to Arab countries accepting economic aid "free from political strings" although he doubted the "intentions of the donor!"

Comment

The USSR appears concerned that new American moves might be favorably received by Middle Eastern states. Shepilov may well have introduced the idea that the USSR would provide further aid to Egypt and the Middle East to encourage the idea, already expressed in Soviet propaganda, that with Soviet aid the Arabs are capable of maintaining their independence.

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**2. NASR REPORTED CONSIDERING "DE FACTO" PEACE
WITH ISRAEL**

President Nasr of Egypt is seriously considering a plan for a "de facto" peace with Israel, [redacted]

The plan envisages a buffer zone around Israel manned by an international force. Nasr reportedly feels this would effectively halt border incidents and contribute to a period of quiet, after which a "real peace" might be discussed. The land for the buffer zone, according to the plan, would be taken from both Israel and the Arab states. The international force would not be the existing United Nations Emergency Force, since this, in Nasr's view, was created merely to ensure the withdrawal of foreign troops from Egyptian soil. [redacted]

Comment

Nasr

[redacted] probably is trying to demonstrate Egyptian reasonableness in order to persuade the United States to give him greater diplomatic support and economic assistance. In previous statements, he has clearly distinguished between a "de facto" peace and a "settlement" of the Palestine issue. He views the latter as "out of the question" at this time.

Israel, which is now primarily interested in firm security guarantees from the individual Western powers, particularly the United States, would almost certainly reject Nasr's suggestion.

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3. ISRAEL TO COUNTER EGYPTIAN COMPENSATION DEMAND WITH OWN CLAIMS

[redacted] Israel will submit to the United Nations before 6 January a statement of the damages caused Israel by Egypt during the past eight years, [redacted]

The statement will assert that damage from Egyptian infiltrators and terrorists alone amounts to about \$250,000,000, and [redacted] the total claim will greatly exceed any estimate which Egypt might make of the damages inflicted by the Sinai campaign.

Comment

The Egyptian foreign minister has been instructed by Cairo to press Egypt's claims for compensation, a move also urged by Moscow, and Britain and France as well as Israel are developing counter-claims. According to some reports, the British intend to cite the equipment seized by Egypt from British bases in the Suez as one of the items on their side. [redacted]

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4. ARAB AID FOR JORDAN UNCERTAIN

The date for the visit of the Jordanian government delegation to Cairo for the purpose of negotiating Arab financial aid to replace the \$33,000,000 annual British subsidy has not yet been fixed.

Cairo radio has announced, meanwhile, that a meeting of the chiefs of state of Egypt, Syria, Saudi Arabia and Jordan will be held in Riyadh on about 28 January--suggesting that further haggling over the terms of aid may be in prospect.

Jordan's King Hussain is reported to have little hope of obtaining Arab aid. Some reports suggest that if Jordan's allies do not make a firm commitment, the king will attempt to use the failure as an excuse to replace the ultra-nationalist Nabulsi government.

In view of the drift of political events in Jordan, the ultranationalist majority in the new legislature, and the uncertain ability of the king to command full support from the Jordanian army, it is questionable whether such a maneuver by the king could succeed.

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~~SECRET~~**5. INCREASING VIOLENCE ON YEMEN-ADEN BORDER LIKELY**

An increase can be expected in the armed violence which has been occurring since 24 December on the disputed Yemen-Aden Protectorate border. Public charges by the Yemen government that British air units have indiscriminately bombed Yemeni villages during the fighting have not, however, been confirmed.

The British on 29 December protested Yemen's dissemination of "misleading" information and stated that British-led ground forces had routed Yemeni raiders who crossed the border. The recent increase in tension in the area has been largely due to Egyptian and Soviet encouragement accompanied by the arrival of Soviet-bloc arms in Yemen as well as a continuing trickle of Saudi arms. The dispute between Britain and Yemen concerns the location of the border between the two territories, and arises partly from Yemen's belief that oil deposits may be discovered in the disputed area.

Britain's military strength at Aden appears adequate to withstand any Yemeni incursion. In addition to 1,900 ground forces, there are 15 jet fighters. [redacted]

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6. AFGHANISTAN MAY HOPE FOR SECURITY GUARANTEE
UNDER PROPOSED NEW US MIDDLE EAST POLICY

Comment on:

The unusual interest displayed by Afghan Foreign Ministry officials in whether or not Afghanistan is one of the countries to be covered by the proposed new American policy in the Middle East suggests that Kabul may hope to be given a security guarantee without having to acknowledge it formally.

Afghanistan requested American military assistance in 1954 and at that time even showed some willingness to consider association with a "northern tier" defense arrangement. Since large-scale Soviet aid started shortly thereafter, its official policy has been one of strict "neutrality."

Kabul's present interest may be inspired partially by the increasing pace of Soviet activity in Afghanistan and by recent Soviet actions in Hungary.

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7. JAPANESE PREMIER MAY CALL EARLY
GENERAL ELECTION

[Redacted]
[Redacted] Japanese prime minister Ishibashi,
Liberal-Democratic Party secretary general Takeo Miki and Chief Cabinet Secretary Hirohide Ishida have decided to call for a general election by dissolving the lower house of the Diet on 21 January.

Comment

The possibility of early elections has been rumored in Tokyo.

The factional strife which hampered Ishibashi in the formation of his cabinet threatens to weaken his authority and this might persuade him to dissolve the Diet and seek a popular mandate. Control of the party machinery and campaign funds in an election would presumably enable Ishibashi to increase the number of his party supporters in the Diet and consolidate his position as leader. He may also feel that the conservative cause generally would be favored by the booming economy, the recent ending of the state of war with the USSR, and Japan's entry into the UN.

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8. SUMATRAN PROGOVERNMENT COMMANDER RECRUITING LEFTIST LABORERS FOR MILITARY SERVICE

Lt. Col. Machmour, pro-Djakarta commander of the Second Regiment in North Sumatra, is calling up rubber estate workers and labor leaders for military service, according to American sources there.

The American consulate at Medan believes Machmour, faced with the unreliability of his command, has decided to arm Communists and leftists against the possibility of popular action in support of the rebel commander, Colonel Simbolon.

Comment Estate workers in the Siantar area, where this regiment is based, are members of a Communist-dominated labor federation. Machmour reportedly has been friendly with the local Communists; his use of them presumably has the approval of central government authorities in Medan and indicates their willingness to accept Communist support.

Colonel Simbolon, who is in the Siantar area, may decide that the formation of an armed Communist force calls for early preventive action.

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9. PEIPING MAY SLOW INDUSTRIALIZATION

[redacted] has told the consulate general in Hong Kong that serious revisions are being made in China's Second Five-Year Plan (1958-1962). The revisions, which are to be presented to the central committee in February, are said to include lowering of the over-all rate of investment and the reduction of heavy industry's share of total investment in favor of agriculture. The benefits derived from the revisions are in large measure to be passed on to the Chinese peasant.

[redacted] concern in Peiping over mounting peasant dissatisfaction was an important factor in this decision; recent events in Eastern Europe also strongly influenced it.

The consulate general believes that these statements may generally reflect current thinking in Peiping.

[redacted]

The economic policies laid down by Peiping for the First Five-Year Plan--and projected for the second--enabled the nation to make impressive advances toward industrialization, and the general tone of official pronouncements from Peiping has been one of satisfaction with the way things were going. There have been, however, recent signs of concern over the rapid growth of heavy industry at the expense of light industry and better living standards, particularly for the farm population.

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10. BURMA TO REDUCE RICE EXPORTS TO SINO-SOVIET BLOC

The Burmese government is reliably reported to have reached agreement with the USSR and other Communist countries with which Burma conducts barter trade for a substantial reduction of rice exports to these countries during the current calendar year. According to reports reaching the American embassy in Rangoon, rice exports to the Sino-Soviet bloc in 1957 may total as little as 250,000 tons. The bulk of the reductions would apply to the USSR and the European Satellites, as Burma is said to be well satisfied with its trade relations with Communist China.

Under its reported new policy with respect to barter trade, Burma will ship only enough rice to countries with which it has barter agreements to pay for goods they can sell Burma in competition with other countries.

Comment

Such a rice export schedule would constitute a substantial disengagement on the part of Burma from its uneconomic and unpopular barter trade with the bloc. Exports to the bloc during the Burmese fiscal year ending 30 September approximated 500,000 tons.

Rangoon's change in policy has been engendered by greatly improved prospects for cash sales of rice.

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Watch Report 335, 4 January 1956
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.

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