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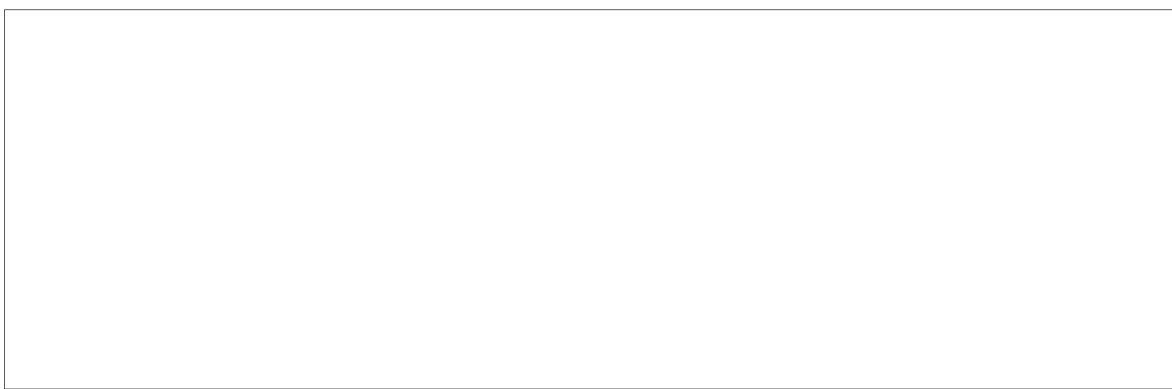
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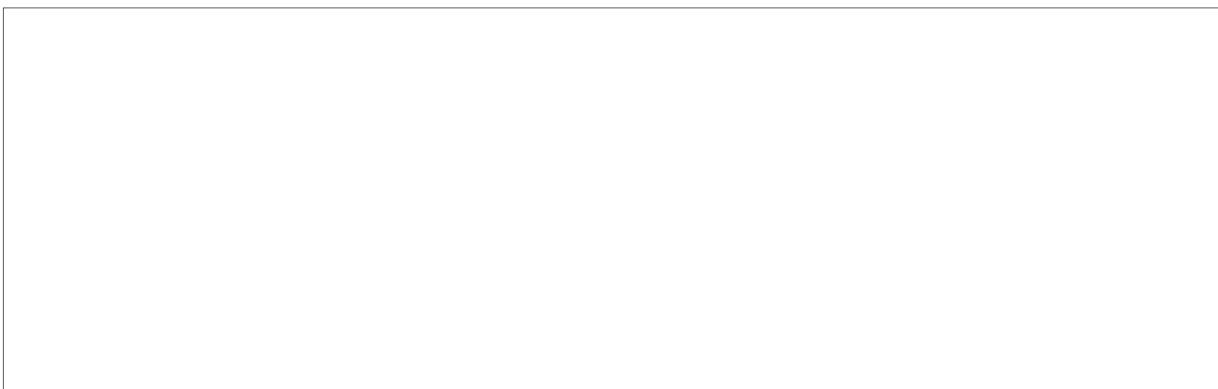


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3. Grandval expects solution to Moroccan dynastic issue within three weeks:

Resident General Grandval told American diplomatic agent Holmes on 27 July in Rabat that he expected to produce a solution to the Moroccan dynastic issue within three weeks. Grandval envisages the departure of Sultan Ben Arafa and his replacement with a regency council. These steps would be publicly approved by former sultan Ben Youssef and would be immediately followed by negotiations for the formation of a Moroccan government and the drafting of a constitution for a limited monarchy.

Grandval admitted that pressure against his liberal program was growing in Paris and Morocco and named Marshal Juin as one of the opponents. He pointed out, however, that the real stumbling block was El Glaoui, who, though not strong without French support, could not be easily dropped and was capable of causing real trouble.

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Comment:

Juin, backed by French industrialists in Morocco, is influencing El Glaoui to keep Arafa on the throne. Juin resigned early this month from the Faure government's top-level co-ordinating committee on North Africa, apparently because he could get no assurance that Arafa would be retained.

The Moroccans are unlikely to accept a regency council without a guarantee of autonomy.

EASTERN EUROPE**4. Comment on Tito's 27 July speech:**

[redacted]
Yugoslav president Tito in a speech at Karlovac on 27 July restated Yugoslavia's policy of aloofness from power blocs and pointed up Belgrade's determination to pursue an independent course, in co-operation with countries like India, Burma, and Egypt. His tone toward the West was sharper than that taken by any Yugoslav leader in recent months, while he demonstrated increasing confidence in his country's relations with the USSR.

He made the strongest disclaimer to date of any fear of attack from the Soviet Union, citing this as the reason for his disinclination to emphasize the military aspects of the Balkan pact.

Although he characterized President Eisenhower's "blueprint" proposal as "unrealistic" and only an "ideal" at this stage, Tito made enthusiastic references to the President.

Relations with the USSR and the West

In his discussion of every subject, whether internal or international, Tito revealed a preoccupation with economic problems, particularly the worsening Yugoslav balance of payments position. He expressed more interest in

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continuance of economic than of military aid from the West, but said that either kind must be given without strings, emphasizing that Yugoslavia will not alter its stand in the controversy over American inspection and supervision of the utilization of aid.

Tito spoke with considerable gratitude of the Soviet cancellation of Yugoslavia's prewar debt of \$90,000,000. All past claims, even Yugoslav ones for a far higher total for damages accruing from the post-1948 Soviet blockade, have apparently been wiped out. He contrasted Soviet generosity with West German unwillingness to reach an agreement on wartime debts and with Western insistence on large interest payments on past loans. Tito appeared to be trying to use what was in fact a rather academic concession by Moscow to show the West that he can bargain with both sides successfully.

Relations with the Satellites

Tito charged that "certain men in the neighboring Satellites . . . especially in Hungary" are not pleased with the improvement in Soviet-Yugoslav relations and are "intriguing under cover" against Yugoslavia. He said they are telling their followers that the Soviet gestures toward Yugoslavia are only a maneuver, and are still arresting men who favor friendship and co-operation with Yugoslavia.

Tito charged that "these men," who arranged false trials in the past and sentenced innocent men such as Lazlo Rajk in Hungary to death, are afraid to admit their mistakes and to follow a new path. "These men," Tito concluded, "will inevitably fall into their own political traps" and will not succeed in causing relations between the Soviet bloc countries and Yugoslavia to deteriorate again.

Tito's charges seem designed to test the intentions of Soviet leaders, in view of the promises they reportedly made in Belgrade to bring about changes in the Satellites. This portion of the speech may have been prompted by his dissatisfaction with the Satellites' caution in endorsing the Soviet-Yugoslav rapprochement, and particularly with the indications of renewed campaigns in Poland, Hungary, and Albania against "nationalist" deviationists within the parties.

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Tito appears to be aiming particularly at Hungarian party boss Rakosi, who played a leading role in the Cominform's ouster of Tito in 1948. The Hungarian regime, in an apparent effort to cover Rakosi's position, after the visit of the Soviet leaders to Belgrade publicly blamed the imprisoned former security chief Gabor Peter for the deterioration in Hungarian-Yugoslav relations.

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5. New Indonesian cabinet may be formed before Sukarno's return:

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Indonesia's Vice President Hatta is trying to select a cabinet formateur and get a new cabinet accepted before President Sukarno returns from Mecca,

Comment: The possibility of a "business" or caretaker cabinet rather than the usual parliamentary cabinet has been frequently advanced by the former opposition parties. It would have a limited program--presumably holding elections on schedule and trying to settle the army crisis, and would have the additional advantage of not requiring Sukarno's personal participation.