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Office of Current Intelligence**CENTRAL INTELLIGENCE AGENCY**~~TOP SECRET~~

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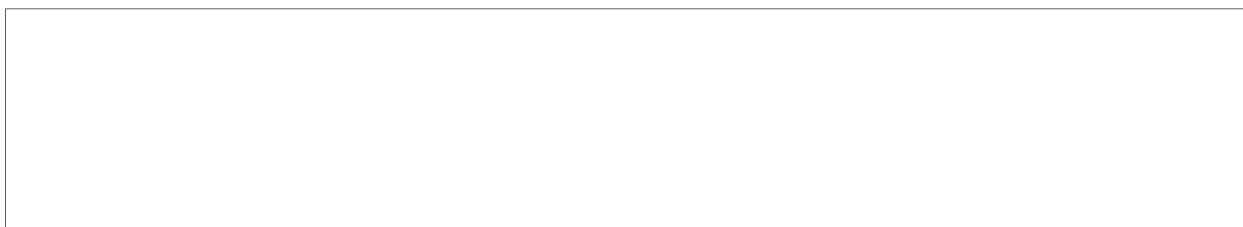
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FAR EAST

1. Tokyocurrent China policy:

[redacted] Japan is not considering recognition of Communist China and will continue co-operating with the free world as the keynote of its diplomatic policy, [redacted]

[redacted] Japan intends to continue friendly relations with Nationalist China and will withhold all comment on possible direct talks between Communist China and the United States on the Formosa problem.

[redacted] Japan would observe Western controls on trade with Communist China. He asserted that neither trade nor Japan's approach to Peiping on the repatriation of Japanese detainees involved recognition of the Communist regime.

Comment: A majority of Japanese believe that their nation must deal with and eventually recognize Communist China.

[redacted] There have been indications the Japanese government is considering steps to ease existing trade controls. In view of the above statement of policy it would appear that the Japanese proposals will be designed for action within the COCOM framework.

2. South Koreaninstructions to break off talks:~~TOP SECRET~~

Rhee's orders to break off the talks, which to date have not been acted on, may have been intended for American intelligence consumption in a maneuver to force United States concessions.

Similar threats to reject aid and institute austerity measures were leaked into American intelligence channels during negotiations over the terms of aid a year ago.

SOUTHEAST ASIA

3.

4. Indonesian government may face early vote of confidence:

The American embassy in Djakarta reports that the focus of action in the Indonesian political crisis appears to be

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[Redacted]

shifting to parliament, where debate on a no-confidence motion is scheduled to commence on 22 July. According to local press reports, the government will ask that a vote be taken that same evening.

The embassy hesitates to predict the outcome of such a vote, pointing out that although the Ali government has been "massively discredited," opposition parties are reluctant to assume the responsibilities of government prior to the general elections.

Ali's future is in the hands of the smaller parties supporting his government. [Redacted]

[Redacted]

Comment: Three of the parties in the government coalition reportedly called on Ali to resign as of 21 July. If these parties vote with the parliamentary opposition on the no-confidence motion, Ali's chances of obtaining a favorable vote will be slim. It is possible that the cabinet may resign rather than face a confidence vote.

Should the cabinet fall or resign, Vice President Hatta would probably request Ali to continue in a "caretaker" capacity until President Sukarno returns in early August.

NEAR EAST - AFRICA

5. Comment on Greek decision to resubmit Cyprus issue to UN:

[Redacted]

Greece has decided to resubmit the Cyprus issue to the United Nations and has instructed its UN delegation accordingly. Foreign Minister Stephanopoulos has announced that this step was taken on direct order of Prime Minister Papagos.

The prime minister's action was probably motivated by increasing distrust of London's intentions in scheduling the Anglo-Greek-Turkish conference on Cyprus to open on 29 August--

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nine days after the deadline for the submission of items for the UN General Assembly's agenda. Papagos probably also feared that his government's position would be imperiled unless it took immediate action on the Cyprus issue.

Recriminations over the conference opening date, which the British and Turks agreed on in advance and presented to Athens on a take-it-or-leave-it basis, are likely to intensify distrust among the three powers. Presentation of the issue to the UN decreases the prospects of a successful conference.

LATIN AMERICA

6. Comment on Argentine political situation:

Another revolt may be attempted in Argentina at any time,

"Catholic Action groups" are still not satisfied with the changes since the 16 June revolt and want Peron ousted. Naval officers reportedly have been providing civilians

with arms, and anti-Peron student groups have been organizing into armed cells during the past week.

The government's announcement on 20 July that fleet units had left Puerto Belgrano for "maneuvers" adds to the uncertainty of the military situation, since there is some doubt that the navy is under government control. Under ordinary conditions, maneuvers at this time of the year would not be unusual.

Meanwhile, Peron may have been setting the stage for his resignation when he told Ambassador Nufer on 19 July that he was not resigning "for the time being," and that he did not intend to resign "unless his resignation proved a sine qua non to the success of the pacification movement." He said he felt confident that the "pacification movement would not fail." He added, however, that if he did resign, it should not be taken to indicate disillusionment with the turn of events and that he would continue to act as head of the Peronista Party.

Peron's bid for "coexistence" among all political groups has not been accepted by the Radicals, the largest opposition party. However, there is no unity among leaders of this badly splintered party or of the embryonic pro-church parties.

Peron told Nufer that he was holding Peronista organizations under wraps for the time being, and that the powerful labor confederation would call a general strike if he asked it to.