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17 January 1958



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CENTRAL

INTELLIGENCE

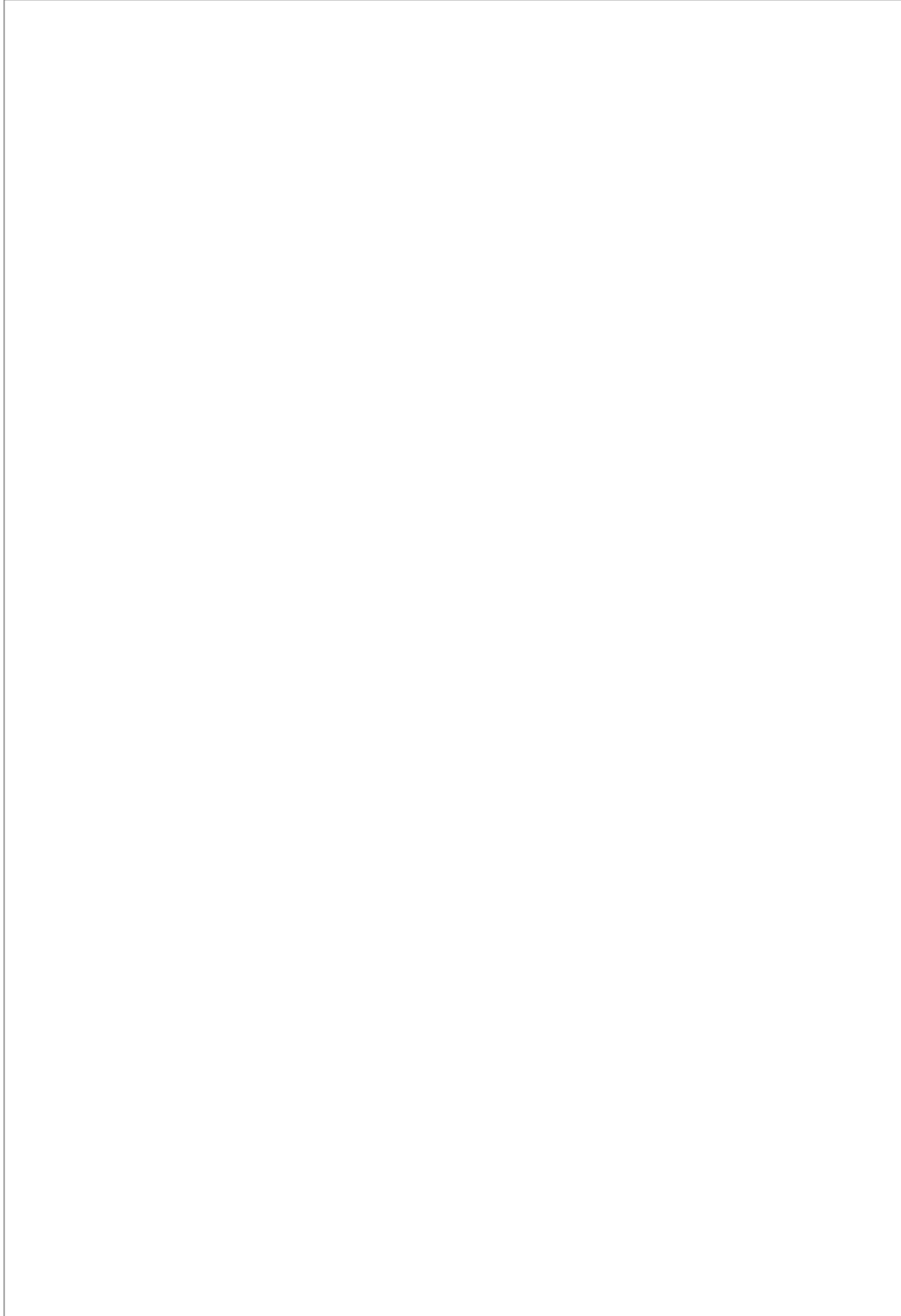
BULLETIN



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CENTRAL INTELLIGENCE BULLETIN

17 January 1958

DAILY BRIEF

SIRAS

I. THE COMMUNIST BLOC

The USSR, as well as certain Western nations including the US, will probably be approached by Ceylon for a total of \$60,000,000 in loans at 2-percent interest to rehabilitate flood-damaged areas. Moscow normally grants loans at this low interest rate and currently has a large economic mission visiting Ceylon. The USSR has already offered to aid the Ceylonese rubber industry and to purchase rubber at premium prices. [redacted]

mutually
c. 10 The Czech regime is having increasing difficulty in controlling opposition among local party and government officials in the Slovak region. Slovak nationalists are attempting to use Prague's economic decentralization program for their own local benefit at the expense of nationwide goals. [redacted] (Page 1) (MAP)

The initial Sino-Soviet bloc reaction to President Eisenhower's reply to Bulganin's letter of 10 December repeats the Soviet line that the United States Government is not interested in negotiations and stands alone in opposing a summit meeting. [redacted]

NO The USSR has refused an Afghan request for aid on a grant basis. Moscow insists that the \$15,000,000 allotted to Afghanistan for oil exploration and development be treated as a loan, due in five annual installments starting in 1962. [redacted] (Page 2) (MAP)

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II. ASIA-AFRICA

ok A showdown between the Indonesian central government and dissident leaders may be precipitated if Jakarta agrees to deliveries of extensive military equipment from the Soviet bloc. An Indonesian military purchasing mission is now seeking arms in Eastern Europe. Debate on the \$100,000,000 Soviet economic loan agreement, including a provision for cooperation on peaceful uses of nuclear energy, is about to commence in the Indonesian parliament. [redacted] (Page 3)

Political tension in Syria remains high. Foreign Minister Bitar, a leader of the civilian socialist-nationalist group, has gone to Cairo, probably to counter arguments for a military coup advanced by the group headed by Syrian Chief of Staff Bizri, who talked to Nasir on 15 January. Vice Premier Azm, the leading pro-Communist civilian, has been meeting with Deputy Chief of Staff Nafuri and chief of army intelligence, Sarraj. Azm has announced a new "progressive" party will be formed. [redacted]

NO Syria appears to be expanding its support of the Algerian rebels. Damascus has apparently agreed to furnish military instructors and will probably agree to a rebel request for Syrian passports to facilitate the transit of Algerian scientific students to bloc countries. [redacted] (Page 4)

NO Turkey's rejection of the latest British proposals for a Cyprus solution demonstrates that Turkey's Cyprus policy has hardened. Greek-Turkish tension on Cyprus has increased, and any misstep might result in outbreaks. [redacted] (Page 5)

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DAILY BRIEF

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The Shah has reiterated to both the British ambassador and General Maxwell Taylor that Iran's future policy toward the West will be dependent on decisions taken at the Baghdad Pact Ministerial Meeting on 27-31 January. The Shah's warning is in line with his repeated attempts to obtain more American military aid and his recent threats to leave the pact. [redacted]

The appointment of a provisional Cambodian government headed by conservative Penn Nouth on 16 January has ended the administrative crisis following Prince Sihanouk's dissolution of the national assembly on 8 January. The political orientation of this cabinet, which presumably is intended to last until new general elections are held within two months, is consistent with Sihanouk's recent anti-Communist statements. [redacted]

III. THE WEST

Guatemalan President Flores seems determined to preserve order during and after the bitterly contested elections of 19 January, and has announced that army leaders are preparing to back him up with force if necessary. There is some question, however, of the army's willingness to use force against the sustained mob violence threatened by both the rightist presidential candidate Ydigoras and by extreme leftist leaders if Cruz Salazar is declared the winner. It refused to act decisively in similar circumstances last October. [redacted]

ok The French, German, and Italian defense ministers are to meet on 21 January to work out details of a tripartite agreement for the production of jet planes, missiles, and nuclear warheads--the last to be manufactured in France with German and Italian technical assistance. Earlier details of such an agreement, which will be extended to the Benelux countries but exclude Britain, omitted the nuclear warhead proposal. [redacted]

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DAILY BRIEF

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OK
 West German Foreign Ministry officials favor offering India new credits of \$72,000,000 for economic development programs, besides postponing payments on the principal of India's \$144,000,000 debt. For political reasons Bonn would like to encourage further private investment in India by German firms. Bonn states that German firms are short of funds, and urges joint Western financial aid. [redacted] (Page 7)

ND
 Britain will resume financial negotiations with Egypt on 30 January in Rome. Although the British representatives have considerable flexibility in their proposals, the negotiations will take some time, and the British are going to insist on prior concessions. Egypt appears ready for an agreement, and the British are looking forward to an eventual resumption of diplomatic relations with Cairo, which they believe will improve their relations with other Arab states. [redacted] (Page 8)

IV. SIGNIFICANT INTELLIGENCE REPORTS AND ESTIMATES

Watch Committee Conclusions. [redacted]

[redacted] (Page 9)

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DAILY BRIEF

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I. THE COMMUNIST BLOC

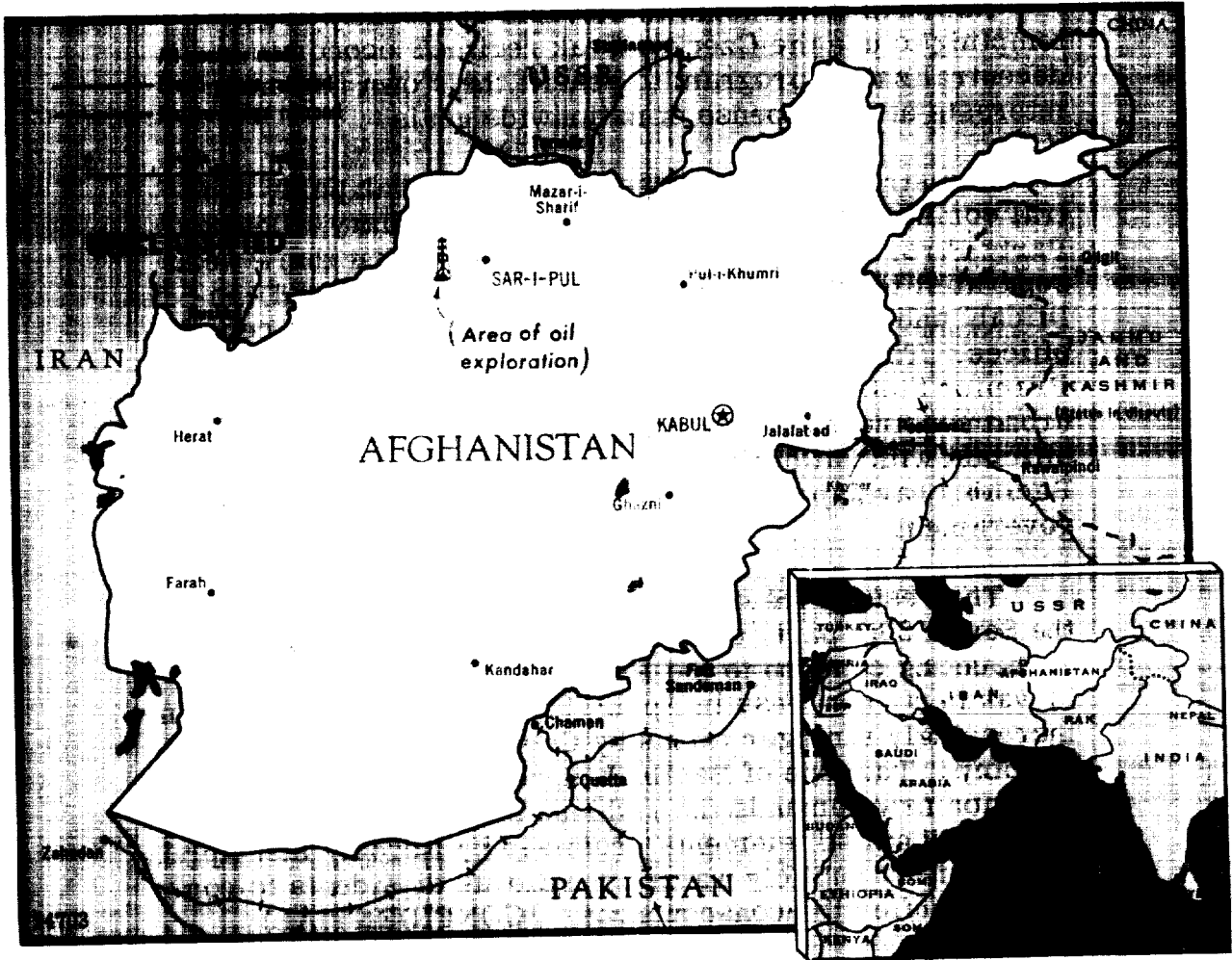
Slovak Nationalism Increasing Problem for Czechoslovak Regime

Nationalist elements in Slovakia apparently are attempting to use the Czechoslovak regime's economic decentralization program to benefit their own regional interests at the expense of nationwide goals.

In a strongly worded speech to the Slovak party central committee plenum meeting of 9-10 January, Slovak Party First Secretary Bacilek complained that there were separatist tendencies in various sectors of cultural, political, and scientific life, and even in some of the central offices. The dismissal on 13 January of Slovak Deputy Premier Stefan Sebesta, responsible for industrial and urban construction, probably is the first step to remove officials with nationalistic tendencies, who, according to Bacilek, have appeared at the highest levels of the Slovak government.

The resurgence of separatism within Slovakia since the Soviet 20th party congress in February 1956 has been of mounting concern to the Prague regime, and since the Slovak party congress in April 1957 has been condemned in increasingly stronger terms by Czech party boss Antonin Novotny. The tone of Bacilek's speech indicates that the situation now demands the ruthless stamping out of "bourgeois nationalist" elements promised by Novotny last April when he first publicly warned the Slovak dissidents to conform or suffer the consequences.

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USSR Refuses to Change Payment Terms of Afghan
Oil Exploration Agreement

The USSR has turned down an Afghan request that financing of the joint Soviet-Afghan agreement for exploration and development of oil resources be changed from a loan to a grant basis, [redacted]

[redacted] The Afghan Embassy in Moscow reported on 5 January that in accordance with the original proposal the \$15,000,000 cost of the project must be treated as a loan repayable in five annual installments starting in 1962, probably at 2.5-percent interest.

The agreement, announced last summer and signed in Kabul on 7 January 1958, stipulates that Moscow is to furnish technicians and equipment from the USSR, Czechoslovakia, and Rumania to explore oil resources in northern Afghanistan.

Afghanistan had informed the USSR and the US in December that economic difficulties forced it to seek grant aid instead of loans, excepting projects already agreed upon.

[redacted]

[redacted]

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II. ASIA-AFRICA

Indonesia

A final break between Indonesia's dissident leaders and the central government may be precipitated if Djakarta concludes an agreement for the delivery of arms from the Soviet bloc. [redacted] such an acquisition, even through Egypt, could be the signal for the declaration of a rival Indonesian government by the dissidents. [redacted] the dissidents feel that the arrival of Soviet arms would upset the existing "balance of forces" between Djakarta and the regions and that a showdown should be precipitated before the dissidents are placed on the defensive. The Indonesian arms purchasing mission has just arrived in Prague, after talks in Belgrade, and will proceed next to Warsaw.

A further factor in this situation may be the Indonesian parliamentary debate, beginning about 18 January, on ratification of the \$100,000,000 Soviet economic loan agreement, which includes a provision for cooperation on peaceful uses of nuclear energy. Ratification would open the way for the arrival of Soviet technicians and probably would be viewed by the dissidents in much the same light as an arms deal.

[redacted]

[redacted]

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New Syrian Support for Algerian Rebels Indicated

Syria appears to be furnishing increased support to the Algerian rebels in their struggle against France. [redacted]

[redacted] the Syrian Embassy [redacted] was expecting the arrival of three Syrian officer-instructors Damascus had agreed to send to Tunis--presumably to train rebel troops at bases in Tunisia or Algeria. [redacted] the instructors were urgently needed and asked that they be sent as soon as possible. [redacted] appreciation "for all Syria was doing to further the cause of Algerian liberation," also requested twenty Syrian passports to enable Algerian students to go to scientific institutes "in Czechoslovakia, China, or some other country."

Syria, which has in the past been an important source of military, financial, and diplomatic assistance to the Algerians, is also reported to have made new supplies of arms available. [redacted] the first of two shipments of good quality heavy weapons, including mortars and bazookas, was due to reach Alexandria by ship this week en route to Algeria via Tunisia. [redacted]

~~TOP SECRET~~ [redacted]

Turks Reject British Proposal for Cyprus Solution

Turkey's abrupt rejection of Britain's latest proposals for a Cyprus solution, emphasizes the stiffening of the government's Cyprus policy since the return of Fatin Rustu Zorlu as foreign minister.

Ankara insists that the offer of self-determination "on absolutely equal terms" for both Greek and Turkish Cypriots be implemented immediately.

The British offer, delivered to the Turkish Foreign Ministry for its informal comments, had provided for a seven-year period of self-government, after which the Greek and Turkish Cypriots could determine separately their own future status.

On Cyprus, Turkish Cypriot support has solidified around Fazil Kutchuk, who plays on the fears and prejudices of his followers and who appears to have the full support of Ankara. Increasing tension has heightened the probability that the Turkish Cypriots now will develop an efficient underground organization, thus increasing the seriousness of any outbreak of violence. Seventy-nine percent of the local police are Turkish Cypriots whose loyalty to the British Government might quickly vanish in the face of serious intercommunal warfare.

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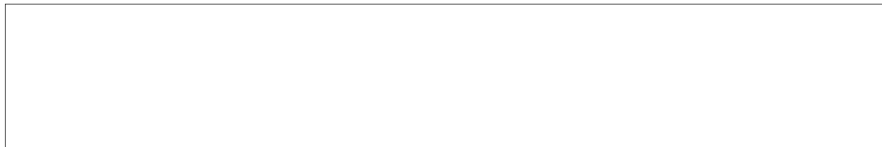
III. THE WEST

Italy, France, and Germany May Produce Nuclear Warheads Jointly

The French, German, and Italian defense ministers will meet on 21 January to work out details of the tripartite arrangement for production of jet planes, missiles, and nuclear warheads to which they agreed during the Paris NATO meeting.

According to Italian Defense Minister Taviani, the agreement calls for all three countries to produce jet planes, and one type of missile body under an American license. Nuclear warheads, however, are to be manufactured only in France, with German and Italian technical assistance, and tested in the Colomb-Bechar proving ground in the Sahara. Early December reports of such an agreement failed to mention the nuclear warhead proposal, which was apparently added on French initiative during the NATO talks.

Present plans call for the tripartite agreement to be extended eventually to the Benelux countries, but to exclude Britain. It therefore appears that Western European thinking on common defense production has not been clarified, as the Netherlands still supports NATO sponsorship of such a program and the British favor proposals "in a WEU context."



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~~CONFIDENTIAL~~Bonn to Offer Additional Economic Aid to India

The West German Foreign Ministry, in negotiations with India scheduled to begin on 20 January in Bonn, is prepared to offer new credits up to \$72,000,000 to finance the purchases of priority items for India's five-year plan. Bonn will also grant India's previous request to defer until after 1961 payments on the principal of its present \$144,000,000 loan. The new credits would be handled by a special organization or trust fund, with 10 percent of the burden carried by private German firms and the rest by the government.

West German Foreign Ministry officials emphasize the political importance of providing assistance to India, and would like even further investments by private German firms in India. They stress Germany's shortage of investment capital, however, and suggest association with the United States in a joint economic aid program for India.

The new German financial offers would strengthen the political prestige of Indian Finance Minister Krishnamachari, who toured Western Europe and the United States last fall seeking foreign aid. ([redacted])

[redacted]

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Anglo-Egyptian Financial Talks to Resume
On 30 January

Britain will resume negotiations with Egypt in Rome on 30 January on releasing blocked sterling funds in return for Egyptian compensation for property seized during the Suez hostilities. [REDACTED]

Although Egypt appears ready for a financial agreement now, negotiations will probably take some time. The British cabinet has authorized its negotiators to work out an agreement [REDACTED]

[REDACTED] Egypt has agreed to begin negotiations in February with a committee representing the company stockholders.

Britain is probably motivated by the belief that resumption of diplomatic relations with Egypt will induce Saudi Arabia and Syria to restore relations also, thus permitting Britain to become more active politically in the Middle East. London's independent efforts for a rapprochement with King Saud have been unsuccessful so far. [REDACTED]

[REDACTED] the absence of Anglo-Egyptian diplomatic relations makes it difficult for any Arab leaders to cooperate openly with Britain. [REDACTED]

[REDACTED]

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IV. SIGNIFICANT INTELLIGENCE REPORTS AND ESTIMATES

Watch Report 389, 16 January 1958
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. 1. A deliberate initiation of hostilities in the Middle East is unlikely in the immediate future. However, tensions in the Middle East continue to create possibilities for serious incidents.
- 2. There is no evidence of Sino-Soviet intention to become militarily involved in the Indonesian situation. However, there are continuing opportunities for an expansion of Sino-Soviet bloc influence in Indonesia as evidenced by Indonesian purchasing missions still negotiating for bloc military equipment. Although Indonesian Communists are exploiting political instability and economic deterioration, which continue to provide opportunities for a Communist take-over on Java, there is no evidence that this is likely to take place in the immediate future.

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