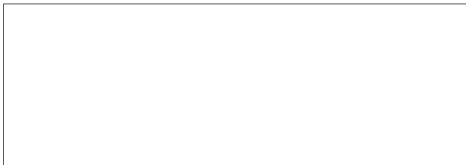


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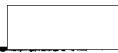
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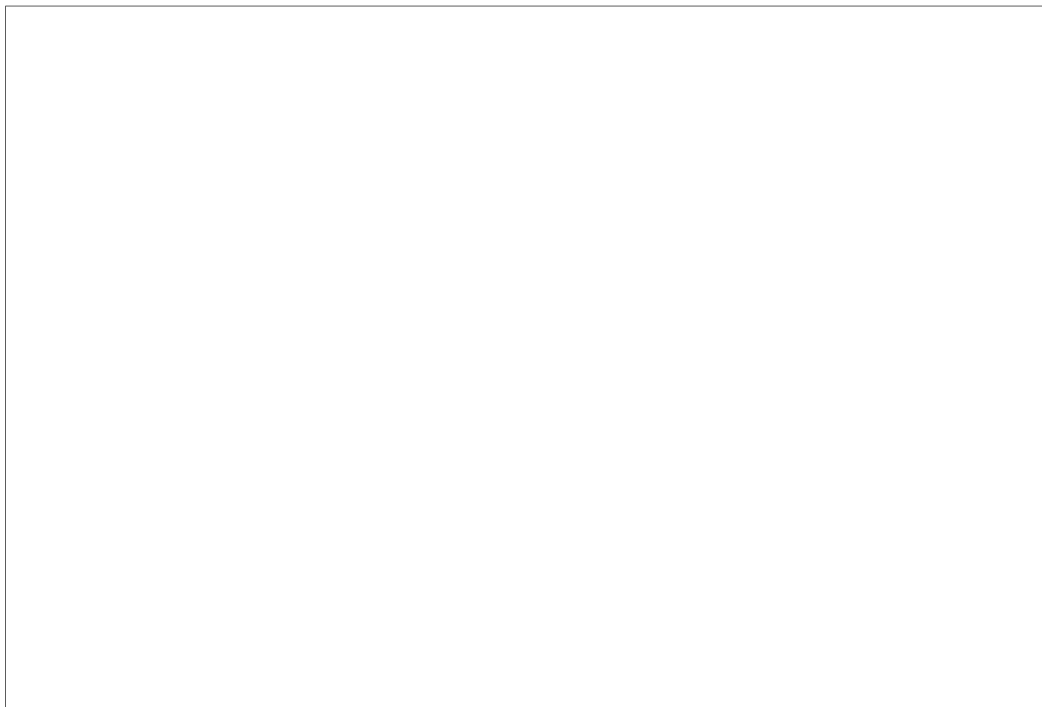
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CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 001
NO CHANGE IN CLASS A
[] DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 11 Jan 80 REVIEWER: 

OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY



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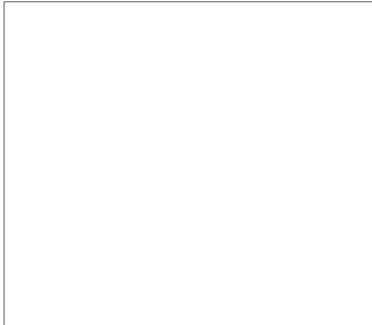
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1. COMMUNIST CHINA STEPS UP PSYCHOLOGICAL WARFARE AGAINST OFFSHORE ISLANDS



Radio Peiping's broadcast of 18 January urging Nationalist troops on Quemoy and the Matsus to defect and the heavy bombardment of Quemoy on 19 January appear to be part of an intensified psychological warfare attack on the offshore island garrisons.

The broadcast, made on the anniversary of the fall of Ichiang Island, north of the Tachens, a year ago, reminded the Nationalists that despite strong fortifications, Ichiang fell "only a few hours" after being attacked. The Nationalists' positions on Quemoy and the Matsus were termed "even more dangerous and difficult" than those on Ichiang. The broadcast scoffed at pronouncements by Chiang Kai-shek about "absolute defense" of the offshore islands and warned the garrisons not to expect support and reinforcement. It added that 500 soldiers on Ichiang had "accepted liberation" and were now enjoying "magnanimous treatment." Troops on Quemoy and the Matsus were urged to do likewise.

According to press reports, the Chinese Communists on 19 January fired nearly 3,000 rounds of artillery against Quemoy, the heaviest bombardment since September 1954. 

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~~SECRET~~**2. USSR OFFERS ECONOMIC AID TO LIBYA**

[REDACTED]

[REDACTED]

Soviet ambassador Generalov offered Libya "unlimited" economic assistance "without strings" when he presented his credentials to King Idriss, according to Libyan prime minister Ben Halim.

Ben Halim told the American embassy that the Soviet offer is "dangerously attractive" to his cabinet in view of what he called American inability to give his aid requests more than "sympathetic consideration."

He also told British ambassador Graham that unless the United States and Great Britain would help Libya, he would accept help from the Soviet Union. He added that the USSR had not requested an oil concession, nor would it be granted one, and that he would restrict the activities of the Soviet embassy and prohibit the opening of a Soviet cultural office.

Comment

[REDACTED] Generalov had indicated to the chairman of the Libyan Petroleum Commission that the USSR desires to apply for oil concessions in Libya.

Ben Halim is noted for his pro-Egyptian attitude, and his policy toward Soviet approaches is likely to be influenced by Egyptian advice. (Concurred in by ORR)

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3. ARGENTINE-CZECH ARMS DISCUSSIONS REPORTED

[redacted] The Czech and Argentine governments have renewed conversations regarding the purchase of Czech arms, [redacted]

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[redacted] Czechoslovakia reportedly is offering Argentina planes, tanks and artillery at prices considerably lower than those normally offered by Britain and the United States. Similar conversations allegedly were initiated by the Peron regime before the revolution last September.

Czechoslovakia is also offering military equipment to Brazil and Uruguay, [redacted]

Comment Argentina, under Peron as well as under the provisional government, has expressed a desire to purchase military and naval materiel, preferably from the United States. Peron last August authorized a military mission to visit "industrial plants" in Czechoslovakia. Argentina, which is short of foreign exchange, may be disposed to consider Czech offers which could be paid for with its agricultural surplus.

The Czechs have arms available, and this offer would be consistent with Soviet bloc policy toward Latin America. The Satellites and the USSR have accelerated their efforts to expand their trade and influence in Latin America during the past two years. Last month the USSR reportedly offered arms to Ecuador on "easy credit terms."

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4. PARTY WITHDRAWALS MAY FORCE INDONESIAN CABINET CRISIS



A cabinet crisis is imminent in Indonesia as a result of the withdrawal of the Nahdlatul Ulama (NU) and a smaller Moslem party from the moderate Masjumi-led coalition government. The cabinet now has a parliamentary majority of only 11 votes and its survival will require the unanimous support of the Masjumi's other small-party allies, some of which are highly undependable.

The National Party, which leads the opposition, has previously demanded the cabinet's resignation, and with parliament now in session may call for a vote of confidence.

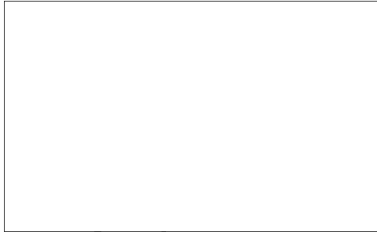
The withdrawal of the two parties from the government over the issue of Indonesian-Dutch relations is believed to have been brought about by President Sukarno. Isolated as it now is, the Masjumi will hold a weak position in negotiations for the next cabinet and may be excluded from the government to be formed after the new parliament is seated in April. Sukarno apparently would prefer a National Party-NU coalition supported in parliament by the Communists.



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5. JAPANESE-SOVIET NEGOTIATIONS RESUME



At the first session of the resumed Japanese-Soviet negotiations at London on 17 January, neither side gave any indication of willingness to make early concessions. The meeting was characterized by bitter exchanges and reiterations of previous positions on the prisoner-of-war issue.

Japanese negotiator Matsumoto, insisting that the prisoners must be returned prior to a treaty, argued that Japanese detainees merited special consideration since Japan had meticulously observed the neutrality pact with the USSR and was considering requesting Soviet mediation when the USSR unexpectedly attacked in August 1945.

Soviet ambassador Malik, angered by the Japanese statement, reminded Matsumoto that Japan had surrendered unconditionally. He implied that Matsumoto was introducing artificial obstacles in the negotiations and that Japan must make concessions if the talks were to succeed.

An official of the Japanese embassy in London has speculated that Malik may break off the talks if Matsumoto continues to insist on clearing up the POW problem before discussing other issues. Tokyo is likely, however, to compromise rather than let the talks fail.

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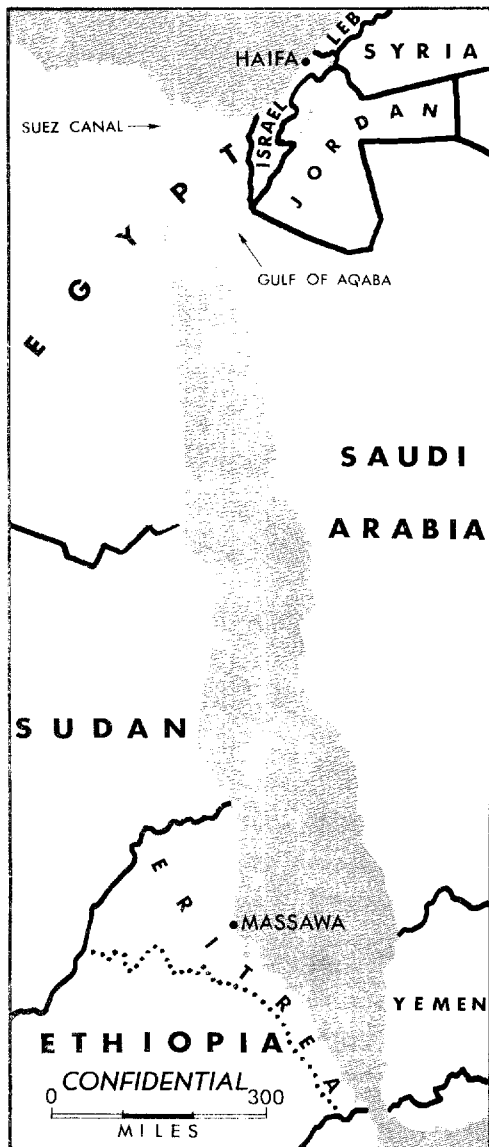
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THE ARAB-ISRAELI SITUATION (Information as of 1700, 19 January)

No military incidents have been reported.

Gulf of Aqaba forces to prevent the passage of the Dutch ship Casablanca, which reportedly sailed from Massawa, Eritrea,

on 15 January carrying foodstuffs to Israel. This appears to be only an alert in the event that the Casablanca should attempt to run the Egyptian blockade at the gulf. The Casablanca left Haifa on 7 January, passed through the Suez Canal, and arrived at Massawa on 13 January. Ships of Dutch registry regularly carry similar cargoes from Eritrea to Israel through the Suez canal.



According to the Cairo radio, Egypt and Israel have agreed to resume the meetings of the Egyptian-Israeli Mixed Armistice Commission discontinued last September.

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[redacted]

[redacted]

[redacted] political tensions in Israel are becoming more critical because Prime Minister Ben-Gurion is pushing for an early attack on Egypt and that he is becoming more difficult to restrain. This is, however, not borne out by other reports. Since the Israeli raid on Tiberias, Ben-Gurion has exhibited greater caution. [redacted]

[redacted]

[redacted] Egyptian naval personnel were scheduled to arrive on 29 December in Warsaw, where arrangements would be made for their reception and travel to a training port. [redacted]

[redacted] an initial contingent of Egyptian naval personnel had departed for training in the Soviet bloc in late December, with a larger group to follow soon thereafter. [redacted] Cairo urged the arms negotiators to hasten the arrival of T-34 tank and MIG experts. [redacted]

[redacted] 60 additional Soviet bloc technicians had arrived in Egypt in mid-December (80 to 100 arms experts and technicians had arrived in Egypt by end of November) and 50 more were scheduled to arrive between 19 and 25 December. [redacted] fast delivery of 200 sets of MIG tires, apparently as a replacement stock. It also established that Egypt had received Bangalore torpedoes from the Soviet bloc. [redacted] Bangalore torpedoes, antipersonnel mines and bazookas were to be sent on the same ship. [redacted]

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