

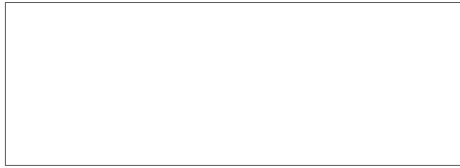
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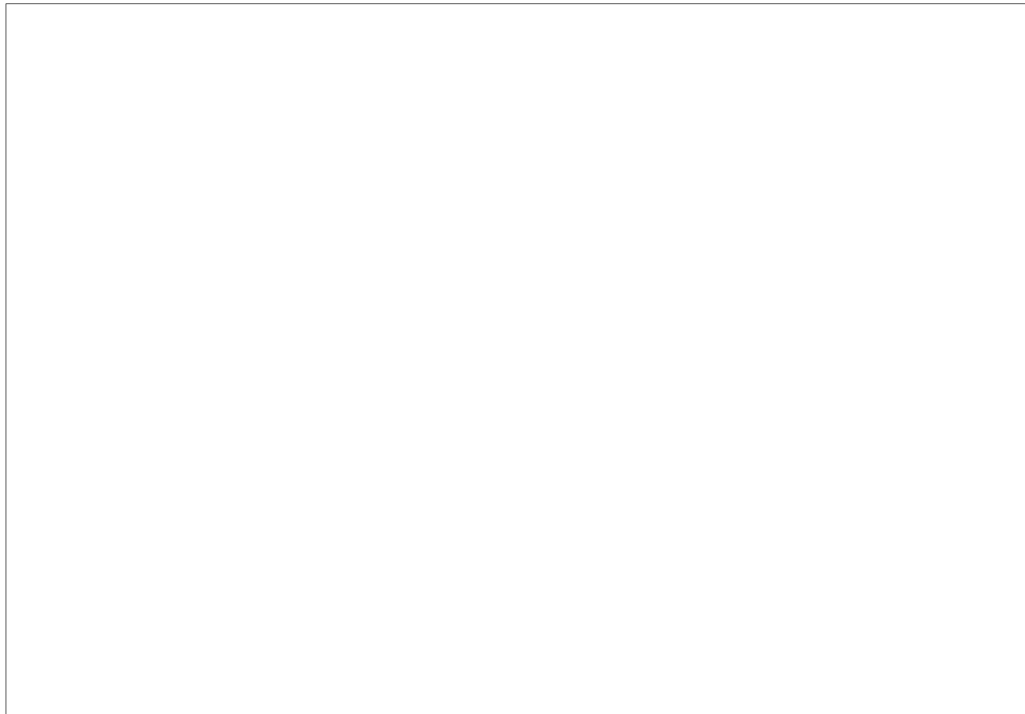


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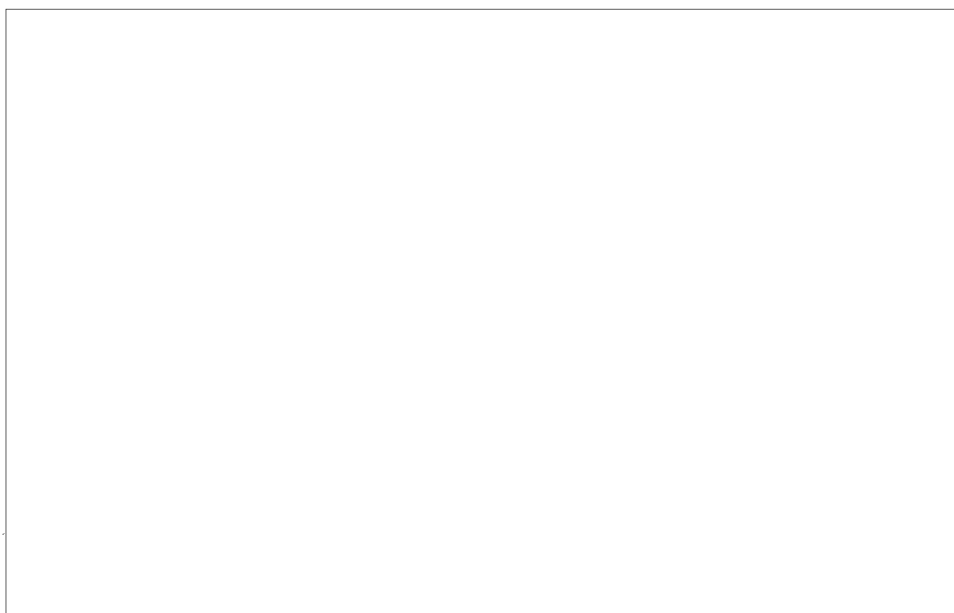
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CONTENTS

1. **RESIGNATION OF HUNGARIAN PARTY LEADER RAKOSI**
[] (page 3).

2. **SOVIET AMBASSADOR DENIES FINNISH BORDER ADJUST-
MENT POSSIBLE NOW** [] (page 4).

3. **PLANS FOR ECUADORAN COUP BY 22 JULY** []
[] (page 5).

4. **NEW SYRIAN CHIEF OF STAFF APPARENTLY CO-OPERAT-
ING WITH EGYPT** [] (page 6).

5. **SOUTH VIETNAM MAY SEND EXPEDITION TO SPRATLYS**
[] (page 7).

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THE ARAB-ISRAELI SITUATION

[] (page 8)

19 July 56

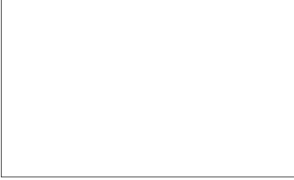
Current Intelligence Bulletin

Page 2

~~TOP SECRET~~ []

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1. RESIGNATION OF HUNGARIAN PARTY LEADER RAKOSI

 The removal of Matyas Rakosi from his post as Hungarian party first secretary and from his position on the politburo on 18 July, coupled with the election of new members to the politburo, represents a clear-cut gain for the moderate faction of the party. The selection, however, of economic czar Erno Gero as the new first secretary probably reflects Moscow's desire to restrain and control the rightist movement, while simultaneously granting some of its demands. First Deputy Premier Gero is a "hard-line" Rakosi follower and reliable Moscow-oriented Communist.

In his acceptance speech, Gero announced plans for an immediate improvement in the standard of living and stated that an open letter of apology would be sent to the Yugoslavs for past "slanders."

Although apparently supporting Rakosi at least until June, Moscow may have reluctantly decided that a combination of Rakosi's inability to handle the factionalism problem and Rakosi's traditional antipathy toward President Tito of Yugoslavia rendered him a liability. In exchange for Soviet withdrawal of support for Rakosi, permission for additional concessionary "relaxation" policies, and the granting of increased moderate representation at top party levels, moderate leaders Janos Kadar and Imre Nagy may have agreed to support efforts to restore party unity.

Kadar is one of the four new members of the politburo, only one of whom apparently represents the "hard-line" group. Two new alternate politburo members also apparently support the moderate wing.

The removal of Rakosi and the increase in the power of the "soft-line" forces are compromise measures which presumably have been adopted as a calculated risk, one that is to be minimized by the selection of Gero as party first secretary. The risk stems from the probable creation of confusion among Rakosi followers and the possible stimulation of new and outspoken demands from the intellectuals and from the party moderates, especially at lower levels. 

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2. SOVIET AMBASSADOR DENIES FINNISH BORDER ADJUSTMENT POSSIBLE NOW



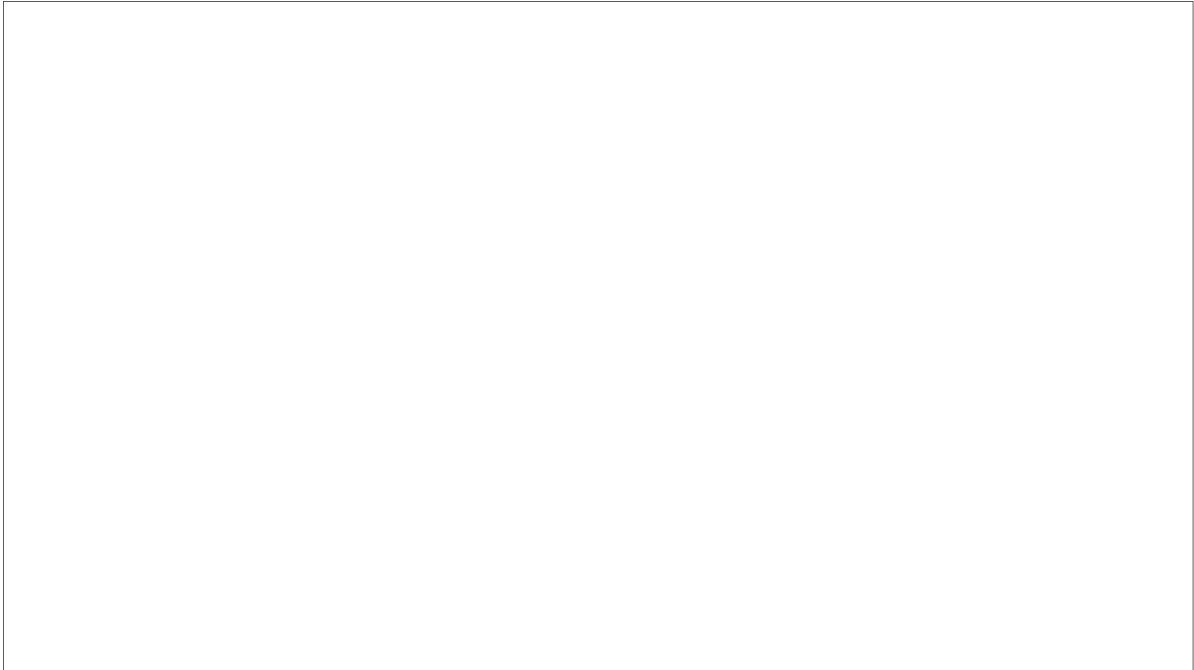
The Finnish government interprets this to mean that discussions on leasing the canal and the area west of it are feasible. Nothing was said by either side, however, about the city of Vyborg at the mouth of the canal. Finnish cabinet members and parliamentary leaders were polled on the question of leasing the Saimaa Canal and adjacent territory, and a majority opposed it as prejudicing future negotiations on the return of territory.

Kekkonen now considers that talks on Karelia are not possible during the Voroshilov visit in late August.

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3. PLANS FOR ECUADORAN COUP BY 22 JULY REPORTED



Comment Various conspiracies for a possible coup have been reported in the wake of the still undecided presidential election of 3 June in which the conservative Ponce Enriquez seems to have a slim 6,000-vote lead.

Velasco has given no overt indication that he intends to abandon constitutional procedures. In 1935 and 1947, however, he was ousted from the presidency for attempting to assume dictatorial powers.

The majority of the army, which is the key factor in Ecuadoran politics, appears inclined to support constitutional procedures. The armed forces have been reported opposed to Guevara, an imitator of Peron's tactics, while Chiriboga, a dissident Liberal, is considered lacking in any appreciable military or popular support.

19 July 56

Current Intelligence Bulletin

Page 5

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4. NEW SYRIAN CHIEF OF STAFF APPARENTLY CO-OPERATING WITH EGYPT

Comment

The new, more conservative group headed by Nizam al-Din which is now in nominal control of the Syrian army is believed to be seeking to diminish the influence of leftist, pro-Egyptian elements. However, it almost certainly does not wish to break off Syria's military alliance with Egypt against Israel. Syrian army leaders, in addition to reassuring Egypt on their own attitudes, probably will continue to work with Egypt in trying to strengthen ties among Israel's immediate neighbors and to view with suspicion the development of other ties, such as the Jordanian-Iraqi agreement, which they feel might in a crisis exercise a restraining influence on Arab actions.

19 July 56

Current Intelligence Bulletin

Page 6

~~TOP SECRET~~

~~SECRET~~

5. SOUTH VIETNAM MAY SEND EXPEDITION TO SPRATLYS



President Diem seems determined to mount a "symbolic occupation" of one or more of the disputed Spratly Islands in the South China Sea to reinforce

South Vietnam's claim to this group, according to the American embassy in Saigon. Diem's position is that South Vietnam cannot "stand idly by" while Nationalist China, the Philippines, and France actively advance their claims to the islands.

South Vietnam's interest in this connection has been intensified by publicity over the recent establishment of a Chinese Nationalist garrison on one of the Spratly Islands. An unofficial Filipino group has been active in the Spratlys and a French naval vessel is also present in the area.

Although the expedition apparently is not imminent, as naval orders to implement Diem's directive have not yet been issued, Diem's wish to take some face-saving action adds a further complication to an already delicate situation.

19 July 56

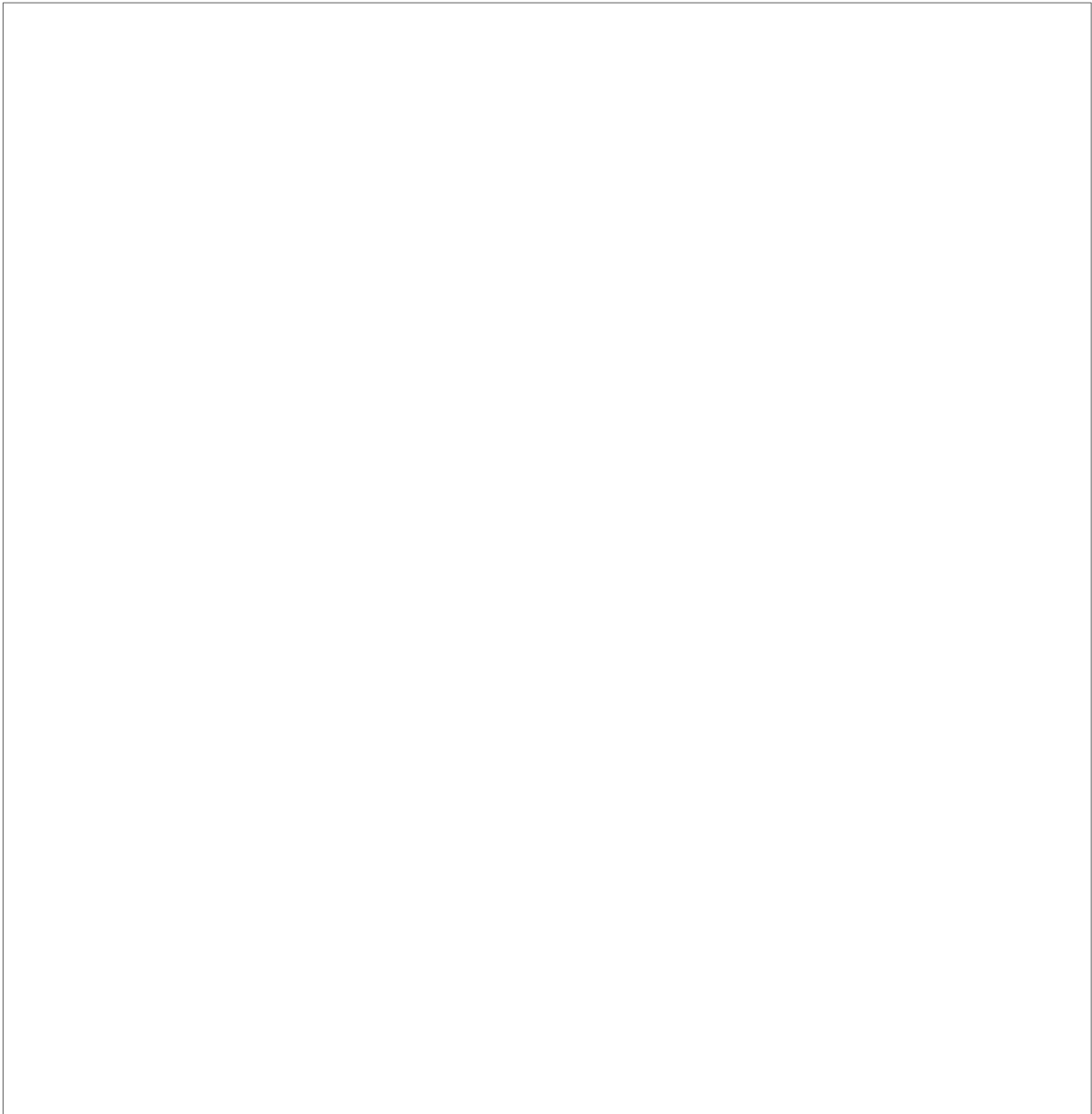
Current Intelligence Bulletin

Page 7

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 18 July)



19 July 56

Current Intelligence Bulletin

Page 8

~~TOP SECRET~~