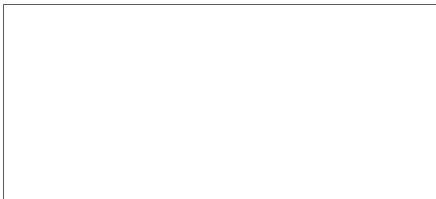


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15 February 1957




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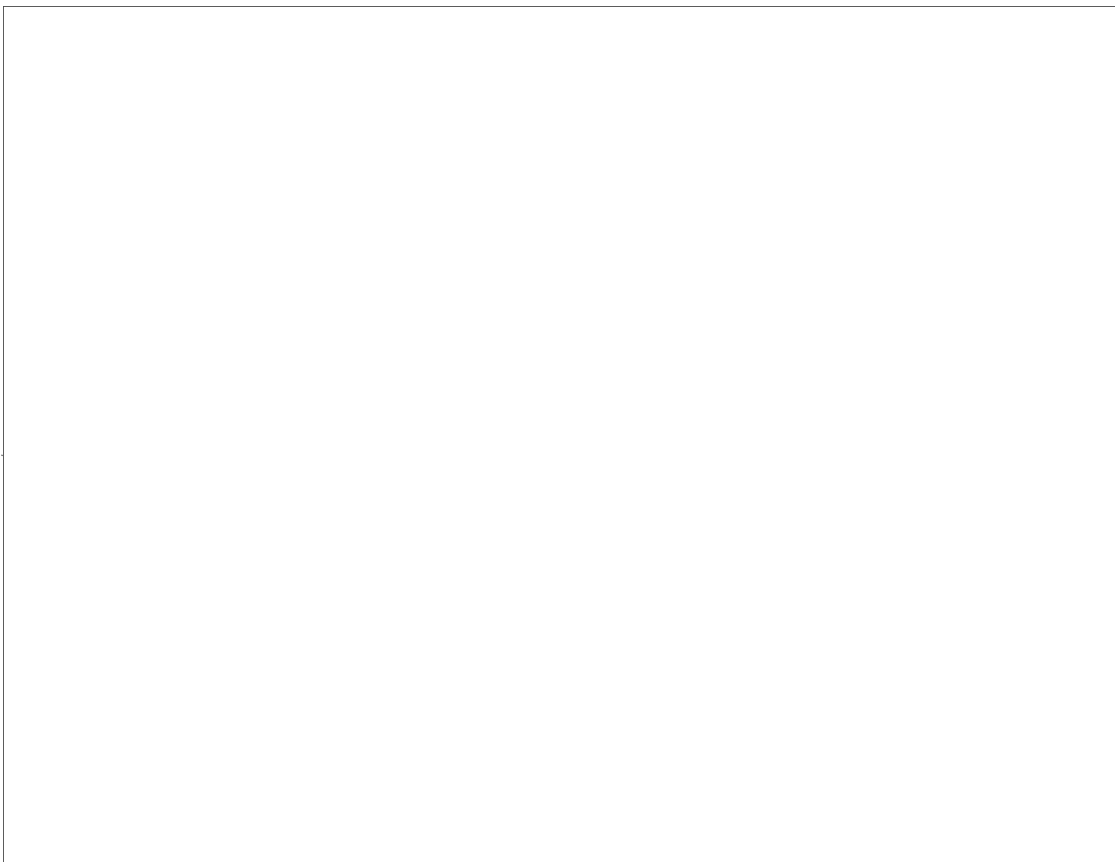
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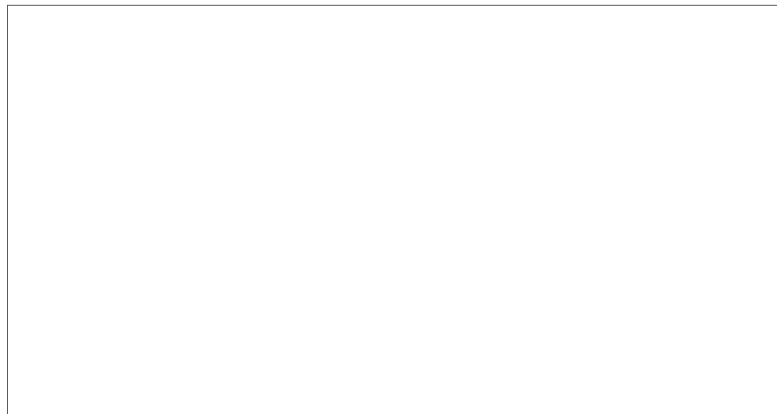
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CONTENTS

1. FURTHER INCREASE OF FRENCH-BUILT JET AIRCRAFT IN ISRAEL [redacted] (page 3).
2. KASHMIR RESOLUTION SUBMITTED TO UN SECURITY COUNCIL [redacted] (page 4).
- CID* 3. POSSIBILITY OF NEW HUNGARIAN UPRISING IN MARCH FORESEEN [redacted] (page 5).
- CID* 4. YUGOSLAV-SOVIET IDEOLOGICAL DISPUTE IMPERILS STATE RELATIONS [redacted] (page 6).
5. IRAQ SEEKS \$238,000,000 CREDIT [redacted] (page 7).
- CID* 6. CAMPAIGN TO PROMOTE ANTI-WESTERN SENTIMENT UNDER WAY IN INDONESIA [redacted] (page 8).
- CID* 7. CHINESE CUT CONSTRUCTION PROGRAM [redacted] (page 9).

ANNEX--Conclusions of the Watch Report of the Intelligence Advisory Committee [redacted] [redacted] (page 10).

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1. FURTHER INCREASE OF FRENCH-BUILT JET AIRCRAFT IN ISRAEL

Comment on:

[REDACTED] Israeli air strength has been increased by the arrival of "36 bombers" in Israel at the end of January. [REDACTED]

Recent reliable information reports 63 French-made Ouragan jet fighter-bombers in Israel in early February--in contrast with a previous high of 33 in mid-November. This sharp increase may reflect awareness, from the experience of fighting in Sinai, of Israel's need to modernize its ground attack elements.

Forty-five French-built Mystere IV swept-wing jet fighters were also reported in Israel as of the second week in February. Since this figure is somewhat below a high of 66 such aircraft at the end of October, it probably reflects withdrawal of supporting French air elements.

It is apparent that the French, in possible anticipation of a new Soviet arms agreement with Egypt, have not heeded the UN resolution of 2 November calling for a ban on shipment of war materiel into the area. [REDACTED]

~~SECRET~~

2. KASHMIR RESOLUTION SUBMITTED TO UN SECURITY COUNCIL

Comment on:

India has already strongly objected to the US and UK against the resolution on Kashmir submitted by them to the UN Security Council on 14 February. The resolution poses serious problems for India, which is opposed to any step which may lead to a change in the status quo.


The resolution contains references to Pakistan's suggestion that UN troops be placed in Kashmir and requests the president of the council to examine with the governments of India and Pakistan this and any other proposals likely, in his opinion, to contribute to the demilitarization of the state or to the settlement of the dispute.

The 10-0 vote in the Security Council on the plebiscite resolution on 24 January and the anti-Indian tenor of subsequent press and diplomatic comment from both European and Asian nations suggest that the council would strongly favor the new resolution. Though the USSR may object to the wording of the resolution, it seems unlikely to use its veto merely to oppose study of any helpful proposal. An abstention by the USSR presumably would leave India with the choice of co-operation or open defiance. There are numerous signs that India is unusually nervous over its position.

Pakistan has stated it is not "fully satisfied" with the text but accepts the resolution as a step forward.

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3. POSSIBILITY OF NEW HUNGARIAN UPRISING IN MARCH FORESEEN

 In the opinion of the American legation in Budapest, the war of nerves which the Hungarian populace is waging against the regime and the Soviet occupation

forces may conceivably develop into an open revolt on 15 March, a traditional national holiday. The legation notes that "all logical analysis" argues against another full-scale uprising but observes that logic in this case may be "inadequate." It comments that any uprising would inevitably bring defeat and consequent further loss of resistance leadership and destruction of communications between underground groups.

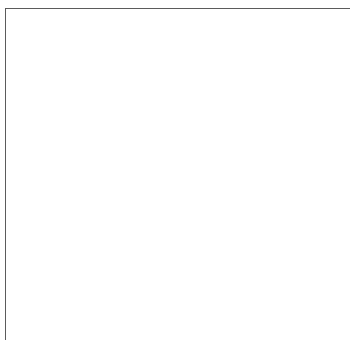
Comment Despite regime warnings that ruthless action will be taken against any form of outbreak, certain Hungarian resistance quarters have apparently been agitating for a full-scale renewal of the rebellion on 15 March. Other elements, however, fear that a new uprising would be unwise and are calling for silent demonstrations on that date as a means of proving popular solidarity against the regime.

The Hungarian regime has arrested many leaders of the rebellion, outstanding intellectuals and a number of the principal figures of former workers' councils, but it has proceeded relatively slowly in coercing industrial workers upon whose labor the reconstruction of the country depends. Some workers--many of whom may still possess arms--apparently hope that a second rebellion would bring about Western intervention.

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4. YUGOSLAV-SOVIET IDEOLOGICAL DISPUTE IMPERILS STATE RELATIONS

Comment on:



The ideological dispute between the USSR and Yugoslavia appears to have reached a deadlock which is likely to affect general relations between the two nations. Until now both Moscow and Belgrade have publicly declared their desire to keep the ideological differences from affecting interstate relations in view of the damaging repercussions such a development could cause. Soviet foreign minister Shepilov, however, declared in effect on 12 February that further development in Yugoslav-Soviet state relations will be contingent on modification of Belgrade's ideological views. Belgrade's Borba replied on 13 February that the Yugoslavs will not compromise their convictions, and further asserted that it was up to the USSR to desist from attacks on Yugoslavia. Implicit in this was the warning that a deterioration of all relations--both party and state--can probably be prevented only if the USSR backs down.

The Yugoslav ambassador in Poland, just back from consultations in Belgrade, called Shepilov's remarks about Yugoslavia "stupid" and "foolish" and stated that Belgrade-Moscow relations are deteriorating.

It must now be becoming increasingly clear to the Yugoslavs that a "comradely" dispute with the USSR is being ruled out, and that any repair of the rift will require a complete change in attitude by one of the parties. Presumably Yugoslavia and the USSR will develop a relationship based merely on "coexistence" between differing systems--something akin to the relationship in the years immediately following Stalin's death.

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5. IRAQ SEEKS \$238,000,000 CREDIT

Iraq's Prime Minister Nuri Said on 10 February instructed his deputy prime minister now in Washington to try to obtain a \$238,000,000 credit from the United States, the International Bank for Reconstruction and Development, or from both. Nuri Said commented that the shutdown of the Iraq Petroleum Company (IPC) pipelines may cost the Iraqi government \$28,000,000 in reduced oil revenues by 31 March and that the total cost might reach \$238,000,000 should the pipelines remain inoperative through March 1958.

The prime minister added that the credit would be drawn against as needed until pumping is resumed, at which time Iraq would repay the loan within the shortest possible time.

Comment

This request suggests Iraq has decided that its pressure on Syria to reopen the pipelines is futile.

Despite the sharp reduction in oil revenues, Iraq's fiscal position remains sound. The Central Bank's gold, sterling and foreign exchange holdings totaled at least \$400,000,000 at the end of 1956. In addition, the Iraq Development Board had a reported cash surplus of as much as \$200,000,000 on 31 December.

The request for a \$238,000,000 credit is apparently designed to ensure that Iraq's economic development program is not interrupted by the current cutback in oil revenues. Since Iraq has been accumulating oil revenues faster than they are spent, repayment of such a proposed credit could be made from these surplus funds.

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6. CAMPAIGN TO PROMOTE ANTI-WESTERN SENTIMENT
UNDER WAY IN INDONESIA



Indonesian sentiment against the Dutch has visibly increased in the past few days largely as a result of a deliberate government propaganda effort, according to the American ambassador in Djakarta. The government evidently hopes to divert public attention from domestic problems and at the same time demonstrate mass support for its claim to Netherlands New Guinea in the forthcoming debate at the UN. The Communists and extreme nationalists, meanwhile, have exploited and expanded the campaign into an attack on Western "subversion," particularly on the part of the United States.

The ambassador states that hints by an Indonesian Foreign Ministry official of violence against Dutch property and citizens in Indonesia should not be taken lightly.

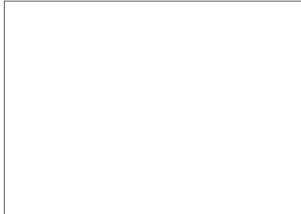
Comment

The Ali government's effort to shift the blame for all of Indonesia's problems to foreign influences is a reflection of its increasingly precarious position. Under the circumstances, the current propaganda campaign of both the government and the Communists may be a prelude to mass demonstrations and violence directed against Dutch and other foreign interests.

~~CONFIDENTIAL~~

7. CHINESE CUT CONSTRUCTION PROGRAM

Comment on:



China's construction program this year is to be considerably smaller than the extensive program undertaken last year, according to the official People's Daily. Investment is to be limited to around one third of total governmental revenues as against roughly 45 percent last year. The reduction was made necessary by serious shortages of critical raw materials and funds which developed as a result of over-investment in 1956.

Chou En-lai had foreshadowed such a move as early as last November when he called for "suitable retrenchment" in 1957 spending to be accompanied by an energetic austerity campaign, which is now gaining momentum throughout China.

Peiping apparently hopes that these reductions will not affect the major heavy industrial projects, or cause postponement of the promised gradual rise in living standards. Most of the present cuts will have to be absorbed by what Peiping still regards as less essential building. A foreign press source in Peiping reports that in 1957 projects involving expansion of cotton mills, sugar refineries, and meat-processing plants are being postponed, and no nonindustrial building, except schools and housing, is to be permitted. According to the journal of the State Planning Commission, 1957 investment will have to be concentrated in such lagging industries as iron and steel, electric power and building materials, sectors in which serious shortages have developed.

~~CONFIDENTIAL~~

ANNEX



Watch Report 341, 14 February
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. A deliberate initiation of hostilities in the Middle East is improbable in the immediate future. The crucial issues of Israeli withdrawal and Suez Canal control, as well as rising tension within Jordan, constitute possibilities for violence.

