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17 February 1958

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CENTRAL

INTELLIGENCE

BULLETIN



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CENTRAL INTELLIGENCE BULLETIN

17 February 1958

DAILY BRIEF

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I. THE COMMUNIST BLOC

USSR: The Soviet leaders may be currently embroiled in an internal policy dispute. The proceedings of a high-level economic conference which met early in February have not been publicized, suggesting that disagreements arose which are still unresolved. Khrushchev's machine tractor station proposals have also not received the expected propaganda build-up in the Soviet press.

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II. ASIA-AFRICA

Indonesia: The 15 February proclamation of a rival Indonesian government by Lt. Col. Hussein in Central Sumatra seems to preclude a peaceful solution of the dissident problem unless President Sukarno replaces the Djuanda cabinet with a new, strongly anti-Communist government. The prospects are that Djakarta will declare the new government illegal and try to suppress it by whatever means are available, including economic sanctions, political subversion, and perhaps military action. The viability of the dissident movement will depend on its making satisfactory economic arrangements with foreign commercial interests in Sumatra and obtaining support from other areas of Indonesia.

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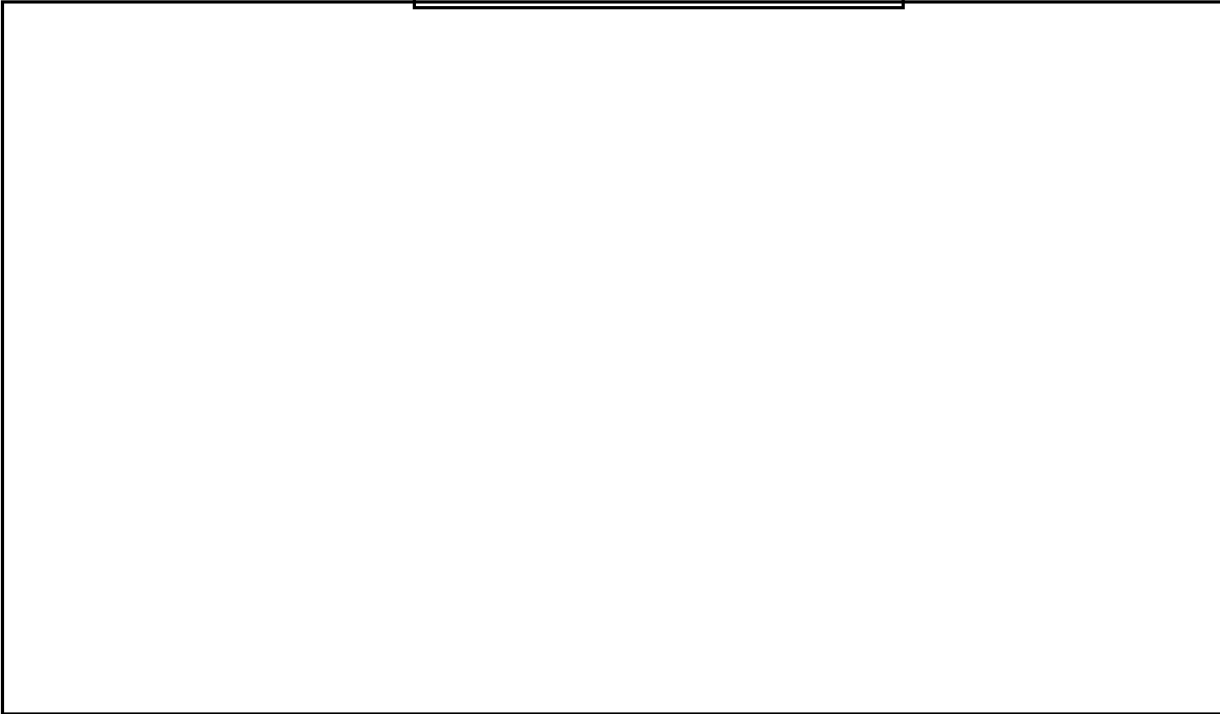
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Tunisian situation: Tension in Tunisia has subsided somewhat. France's announcement that it will accept American good offices probably will have a further moderating

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effect, but Bourguiba continues to demand total French evacuation. [redacted]



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Japan - Communist China: Strong domestic pressure in Japan for increased trade with Communist China is forcing Prime Minister Kishi to give ground in the face of demands by Peiping that diplomatic privileges be accorded a prospective Communist Chinese trade mission in Japan. Peiping has refused to conclude a new unofficial trade agreement until concessions are made on this issue. [redacted]

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Taiwan: The resignation of Chinese Nationalist Premier O. K. Yui and his cabinet on 15 February may be followed by further efforts by Chiang Kai-shek to eliminate corruption. Yui's resignation resulted from a reprimand reluctantly delivered by Chiang for "dereliction of duty" and misuse of government funds. Chiang, who had strongly supported Yui, however, probably will delay accepting Yui's resignation. [redacted]

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DAILY BRIEF

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III. THE WEST

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West Germany: The Bonn government faces deficit financing for the first time since 1952. The sizable deficit expected at the end of this fiscal year on 31 March will be increased in subsequent years by the schedule of rising military expenditures unless taxes are substantially raised. The German taxpayer is expected to show growing interest in disarmament proposals as offering an easier alternative.

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Venezuela: The legalization of the Venezuelan Communist party--now under consideration by the governing junta--could lead to serious friction between the military, who oppose the move, and the non-Communist party leaders, who seem to favor it. The political situation has remained outwardly calm since late January, but a representative group of officers advised the junta at that time that the military would withdraw its united support in the event the Communist party were recognized.

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DAILY BRIEF

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I. THE COMMUNIST BLOC

Possible Soviet Policy Dispute

The unusual reticence of the Soviet press concerning recent high-level economic meetings and policy proposals suggests that the Kremlin leaders are again in disagreement over their domestic economic policy. The work of a recent nationwide conference of sovnarkhozy chairmen and oblast party secretaries has been treated with noticeable reserve. Speeches made at the conference by Khrushchev and planning boss Kuzmin have not been published or commented on. Discussions of the proper apportionment of resources and investment funds and the problem of centralized political control may have revived old disagreements.

Although there have been isolated moves to implement Khrushchev's proposal to transfer Soviet agricultural machinery from the machine tractor stations to the collective farms, this radical step has been largely neglected in Soviet propaganda.

The fact that most Soviet leaders have been out of public view since 8 February suggests that economic problems are currently being scrutinized at the highest level.

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II. ASIA-AFRICA

Djakarta Likely to Take Strong Measures Against Dissidents in Sumatra

The Indonesian Government in Djakarta will almost certainly resort to strong measures in an effort to suppress the rival regime proclaimed in Central Sumatra on 15 February. Such measures would include economic sanctions, political subversion, and perhaps military force. Army Chief of Staff Nasution and a majority of the cabinet are [redacted] in favor of quick military action which could involve air strikes, a limited naval blockade, and commando raids.

President Sukarno's 16 February statement following his return to Djakarta ignored the Sumatran problem, but it seems likely he will advocate a strong policy against the dissidents. In this he will be strongly supported by the Indonesian Communist party.

Sumatra has in its favor the reluctance of large elements of both the army and civilian groups to take up arms against fellow Indonesians. Lt. Col. Barlian in South Sumatra, for instance, has so far refused to support the rival government, but has indicated he would refuse to permit central government forces access to Central Sumatra through his own command. Two of the three army territorial commanders in Java reportedly would order their troops not to participate in a civil war.

The viability of the rebel government depends on its ability to counter Djakarta's and the Communist party's efforts at subversion and to win economic and political support. The dissidents hope to make business arrangements with foreign economic interests in Sumatra and are counting on support from other areas of Indonesia and, if possible, from foreign countries. [redacted]

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Japan to Compromise on Trade Mission Exchange
With Peiping

Japanese Prime Minister Kishi is moving toward de facto recognition of Communist China in order to satisfy strong domestic pressures for increased trade with the China mainland. Kishi informed Ambassador MacArthur on 14 February that these pressures, which are widespread and represent all political elements, were forcing him to compromise on terms for an exchange of permanent trade missions.

Behind this pressure is Peiping's refusal to conclude a new private trade agreement unless the trade mission issue is settled. Communist China has insisted that members of its proposed mission in Japan be accorded full diplomatic privileges and not be fingerprinted as required by present Japanese law.

Kishi plans to relax the fingerprint requirement and to extend certain diplomatic privileges which presumably would include guarantees of personal safety and immunity against arrest, use of communication codes, and freedom to travel throughout Japan. He has insisted, however, that the number of Chinese representatives be limited to 15 and that these measures should not be interpreted as an indication of Tokyo's willingness to grant formal diplomatic recognition.

Japanese economic interests believe that the drop in Sino-Japanese trade to \$126,000,000 in 1957, or 16 percent less than the previous year, is due to the absence of a new trade agreement. Meanwhile, Peiping has consistently inserted new issues with political overtones into the trade picture and indicated that, unless they are resolved, the Sino-Japanese trade potential cannot be realized.

Chinese Nationalist Cabinet Offers Resignation

President Chiang Kai-shek of Nationalist China may feel compelled to take stronger measures against official corruption as the result of the resignation of Premier O. K. Yui and his cabinet on 15 February. Yui's resignation resulted from a reprimand reluctantly delivered by Chiang for "dereliction of duty" and misuse of government funds, for which Yui was impeached last December by the Control Yuan, the inspectorate branch of the government. Chiang had strongly opposed Yui's impeachment.

While Yui's resignation probably does not foreshadow any change in Nationalist policy, it appears symptomatic of weakening Kuomintang party discipline and increased harassment of the administration by the inspectorate and legislative branches of the government.

Yui has long desired to give up the premiership, but heretofore President Chiang has always refused his request. This time the President will be likely to accept Yui's resignation, but probably not until sufficient time has elapsed to cushion the administration's loss of prestige. Chiang may have trouble, however, finding an acceptable successor to the premiership, a post subject to strong harassment from the Legislative and Control Yuans.



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III. THE WEST

West Germany's Budgetary Deficit

The West German Government, largely because of rising defense expenditures, faces deficit financing for the first time since 1952. It will end the current fiscal year on 31 March with a deficit which American officials feel may reach \$960,000,000. The American Embassy in Bonn feels that, with defense costs expected to rise from \$3 billion this year to \$3.8 billion in fiscal 1959-60 and \$4.7 billion in fiscal 1960-61, the deficit will continue to rise substantially unless "politically unacceptable" measures such as high taxes are adopted.

The 1958-59 budget has been approved in principle by the Bonn cabinet and will be debated by the Bundestag in early March. It makes no provision for payment of support costs to foreign troops. The West German Government plans a loan to compensate for the deficit in this budget, and one top official in Bonn has indicated [redacted] next year will see a sharp increase in German taxes to meet rising military costs. The American Embassy feels, however, that the German taxpayer is likely to be increasingly interested in limited disarmament as an easier alternative to the defense burden. [redacted]

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