



2 November 1957



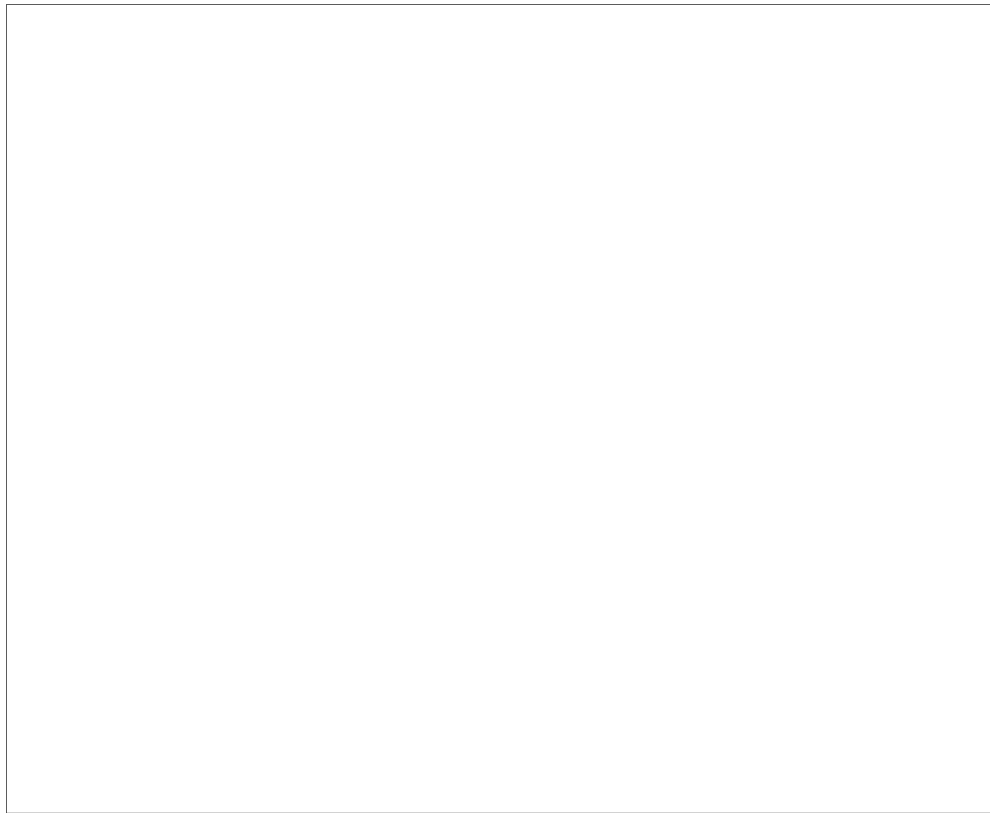
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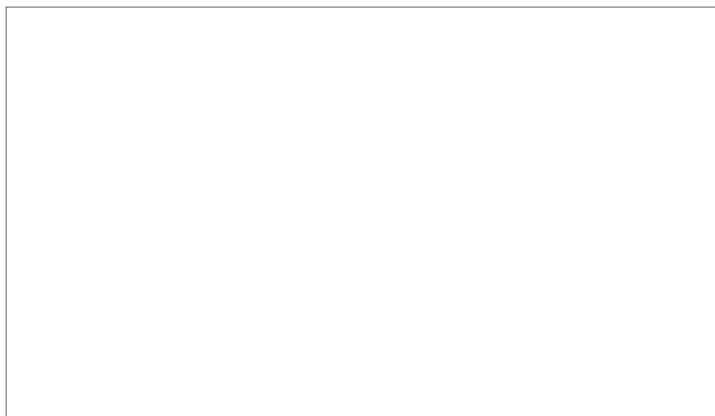
OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY



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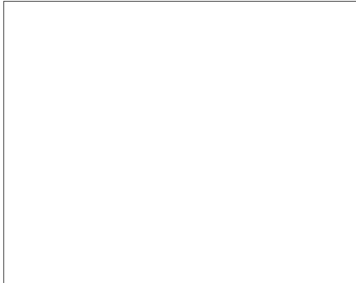
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1. EVIDENCE OF INDECISION IN MOSCOW

Comment on:



Evidences of a high-level meeting in Moscow and the continuing delay in announcing a decision on Zhukov may mean that the political struggle has flared up again and perhaps involves additional individuals and areas of disagreement. The question of Zhukov's future assignment or the statement of charges against him may still be a subject of controversy within the party's presidium or central committee.

The US embassy in Moscow reports that rehearsals for the 7 November parade, which were last held on 25 October, have not been resumed and that some military vehicles and troops are not in their normal bivouac areas. The embassy suggests that this situation could reflect concern over the attitude of the military forces in the current crisis. No unusual police activity was noted, however.

Western correspondents in Moscow have reported that a large number of automobiles, many with military license plates, were parked outside the Kremlin most of 1 November. While there is some possibility that the central committee is again in session, it is also possible that military officers have been convened, perhaps for briefing on the party's decision regarding Zhukov.

Other press reports from Moscow note that the portraits of Premier Bulganin and Deputy Premier Mikoyan and several other members of the 15-man party presidium which were put up earlier this week have been taken down. The removal of the pictures may reflect new uncertainty concerning the outcome of the power struggle.

2. POLISH OFFICIALS' VIEW OF ZHUKOV'S DOWNFALL

Comment on:

[Redacted]

[Redacted]

[Redacted]

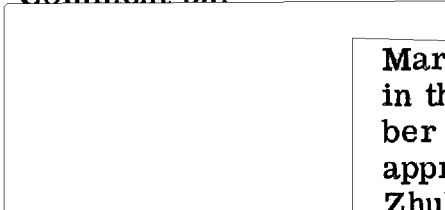
[Redacted] Khrushchev at his meeting with Tito in Rumania in August had agreed to allow Tito to "create a sphere of influence in the Balkans." In exchange for this concession to basic Yugoslav aspirations, Tito would support Khrushchev's measures to "consolidate bloc Communism." Khrushchev was unable to deliver his part of the bargain because of opposition by the military led by Zhukov.

Khrushchev and Tito are believed to have reached a broad agreement in Rumania. Khrushchev may have set forth a Soviet policy which would permit the gradual development of a looser relationship between the USSR and the satellites. Such a policy, in view of the events in Hungary and Poland last fall, would probably have been opposed by the Soviet military. This could in part have accounted for the dismissal of Marshal Zhukov. This interpretation reflects a natural Polish emphasis on Soviet-satellite relations but does not give due consideration to the more basic and general conflict between the army and party in the USSR.

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3. CHINESE COMMUNIST MARSHAL ENDORSES KHRUSHCHEV'S MOVE AGAINST ZHUKOV

Comment on:



Marshal Liu Po-cheng's signed article in the Peiping People's Daily on 30 October is an implicit Chinese Communist approval of Khrushchev's move to oust Zhukov as Soviet defense minister. With-

out referring directly to recent developments in Moscow, Liu, a politburo member and one of Peiping's best known military leaders, stressed, as do all Chinese pronouncements on party-military relations, that "absolute hegemony of the party over the armed forces" is a basic principle of the first importance.

Liu paid tribute to the Soviet armed forces, stressed Peiping's debt to Moscow as a source of "basic principles," and underlined Chinese Communist support of "socialist internationalism." His article implied, however, that the Chinese had long ago taken steps to prevent the growth of a similar problem in Communist China. Liu pointed out that the Chinese Communists, profiting by "mistakes" made in the 1920's, have consistently worked to ensure party control of the military. Liu indicated continuing Chinese Communist awareness of this problem, citing speeches made by Defense Minister Peng Tehuai and Tan Cheng, director of the Chinese Communist army's political department, during the Chinese Communist party congress last fall.

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4. THE BERLIN SITUATION

Comment on:

Recent reports of impending restrictions on the East-West Berlin sector border suggest that tighter controls are to be established. [REDACTED]

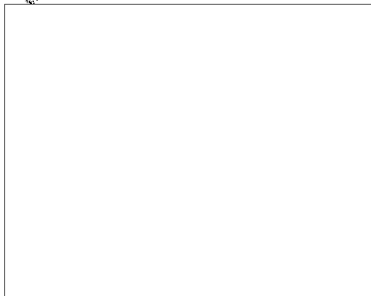
[REDACTED] Ele-
vated trains will apparently no longer cross the border but operate separately in East and West Berlin, with passengers changing at border stations now being readied for use by the East Berlin authorities. Such action would restrict freedom of movement in violation of quadripartite agreements, but would not necessarily affect Allied access to East Berlin.

The ostensible purpose of this move is to control currency, but the East German government undoubtedly welcomes this excuse to assert its authority over East Berlin. Since the currency conversion on 13 October, the new East German marks appear to have moved to the West in such quantities as to render the conversion useless without more drastic controls. [REDACTED]

[REDACTED] the party central committee had earlier considered closing the sector border to prevent the flow of new East marks to the West, but had rejected the scheme because it would have invited economic retaliation. [REDACTED]

5. TURKEY REMAINS TENSE AS PARLIAMENT CONVENES

Comment on:



Considerable tension surrounded the opening of the Turkish parliament on 1 November, with extensive military precautions undertaken in Ankara to prevent possible disorders. Martial law was declared in one town in southern Turkey, following the death of one policeman and destruction of government property during a postelection riot. Both government and opposition leaders have taken steps to quiet the potentially explosive situation.

Because of the close popular vote, part of which is being legally contested, an atmosphere of tension and instability will probably continue for an indefinite period. If the situation deteriorates, the government would not hesitate to impose general martial law despite its serious psychological impact.

It will be a new experience for Turkey's neophyte politicians to operate the National Assembly in the face of a large vocal opposition.

6. JAPANESE OIL CONCESSION AGREEMENT WITH SAUDI ARABIA AND KUWAIT EXPECTED SOON

Comment on:

An oil concession agreement for Japanese development of the Saudi-Kuwait neutral zone offshore area may be signed soon.

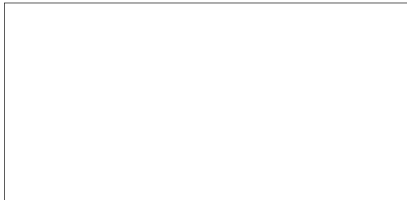
The American consul general in Kuwait reported on 29 October that the Saudis now appear to have succeeded in persuading the ruler of Kuwait, who has equal rights with the Saudis in the neutral zone, to accept the Japanese proposal instead of competing American proposals.

[redacted] the agreement apparently breaches the pattern of a 50-50 division of profits which prevails in the Middle East, and provides 56 percent for the Arab governments against 44 percent for the Japanese company. [redacted] however, when large volume discounts included in the agreement are taken into consideration, the profit split is reversed to 60-40 in favor of the Japanese concessionaire.

During the six-month negotiations, the Saudis were primarily interested in breaking the prevailing pattern of equal division of oil profits. They have believed that introduction of a non-American group into their oil development could in time be exploited to obtain better terms from the present American concessionary companies. [redacted]

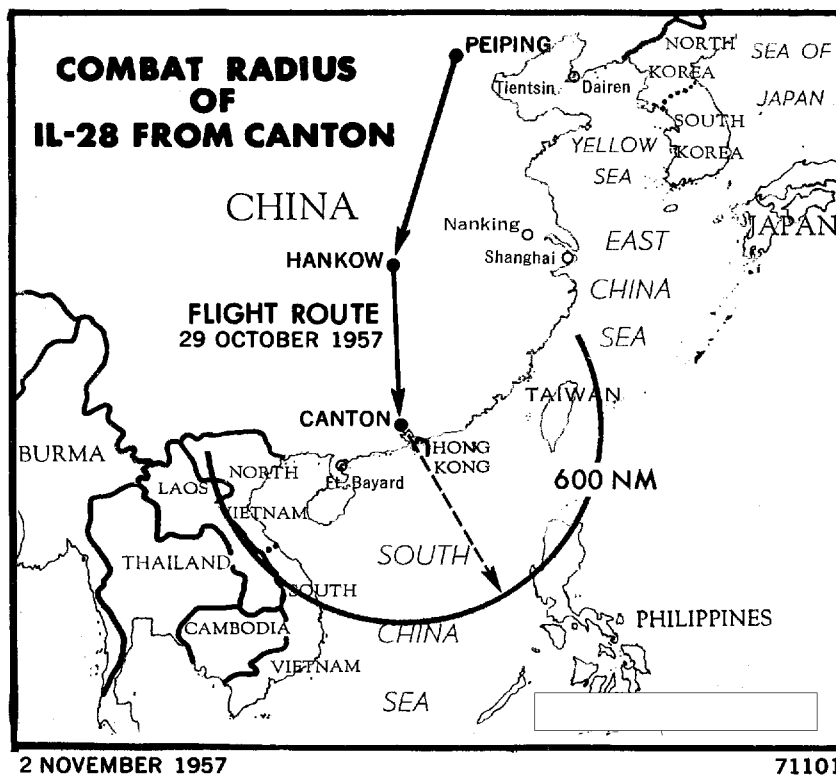
7. CHINESE COMMUNISTS MOVE JET BOMBERS TO CANTON

Comment on:



Jet light bombers were detected in an unprecedented move on 29 October from Peiping to Canton, via Hankow. While this move may be an exercise, it places up to 15 jet bombers in the Canton area for the first time and may presage the deployment of the entire 10th Air Division, equipped with an estimated 60 IL-28's, to South China.

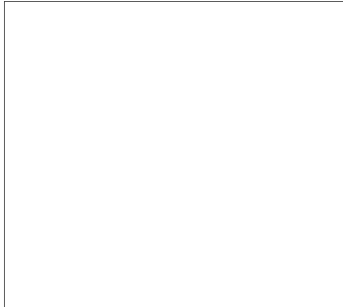
The basing of a jet light bomber division in the Canton complex would substantially increase Chinese Communist offensive capabilities against Taiwan and the off-shore islands.



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8. INDIAN GOVERNMENT MAKES DRASTIC REDUCTION IN FOREIGN EXCHANGE RESERVES


Comment on:



The Indian government, in a new move to combat its financial crisis, has decided to risk drawing down its foreign exchange reserves to a level which could have adverse internal repercussions and undermine India's international credit position.

A presidential ordinance of 31 October authorizes the government to reduce the legal reserve requirement from \$630,000,000, the level of sterling balances required since August as backing for the currency, to a new minimum of \$179,000,000. Even this minimum amount may be drawn on for a limited period, although the government apparently hopes it will not be necessary to do so.

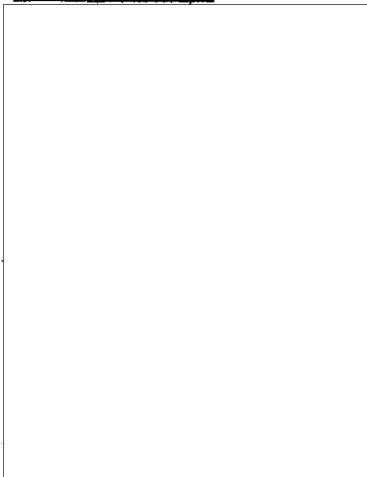
New Delhi's action may have been prompted by the report of Finance Minister Krishnamachari, who returned from a tour of Western countries in search of foreign credit apparently with "cautious optimism" but no immediate commitments. The government's reported estimate that food imports this year will have to be more than doubled as a result of the severe drought in northern India, necessitating an additional unexpected drain on foreign exchange, may also have been a factor.

In recent months, Indian financial circles have expressed the fear that any further reduction in the reserve requirements would have serious financial consequences which might involve a flight of capital. 

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**9. LAOTIAN GOVERNMENT AND PATHET LAO
AGREE ON UNIFICATION TERMS**

Comment on:



A settlement between the Laotian government and the Pathet Lao, including the entry of Pathet representatives into the Laotian cabinet, is now apparently only a formality. [redacted] Pathet chief Souphannouvong [redacted] [redacted] confronted leading deputies of Laos' two major political parties in Prime Minister Souvanna Phouma's office and announced that the Pathets had approved the political agreement as revised by the Laotian cabinet and would sign a military agreement later the same day.

Souvanna declared that in view of these developments, he would press for both cabinet approval of the agreements and the investiture of a coalition government on the following day. The American ambassador's sharp protest against such haste is probably responsible for the assembly's decision not to vote for the immediate establishment of a coalition government. Barring a last-minute hitch, the assembly will approve the agreements, and a coalition government will be presented for investiture on 11 or 12 November.



**10. GHANA MAY SOON AGREE TO EARLY SOVIET
DIPLOMATIC TIE**

Comment on:



Ghana is likely to establish diplomatic relations with the USSR in the near future, thereby affording the Soviet Union entry into West Africa which it has sought since early 1956. Such an agreement might in turn induce Liberia, which is anxious not to be outdone by its new and more prosperous regional rival, to accept a Soviet mission in Monrovia.

Although remarks made by Ghana's Prime Minister Nkrumah to the American ambassador in Accra on 10 October suggested that Ghana was not contemplating early ties with Moscow, a high government official subsequently told the embassy that it "seemed increasingly likely" that a Soviet mission would be established in Accra "soon." The British Foreign Office indicated on 30 October that earlier contacts between Ghana and the USSR on the subject of relations had been renewed and that a decision might be forthcoming "in the next few weeks." Any such talks are presumably taking place between Ghanaian and Soviet diplomats in London.

**11. POSSIBLE PREPARATIONS FOR SECOND SOVIET SATELLITE
(Information as of 0100 EST, 2 November)**

Comment on:

The precise meaning of the **KRUG** alert cannot be determined at this time, although this could be initiation of practice for a satellite launching attempt within a few days. The **KRUG** system was similarly alerted to activity on 30 September, four days prior to the launching of the first Soviet satellite on 4 October. Other range activities, which in aggregate have also indicated preparations for a launching, have been sporadic for the past week and are not currently firm enough to predict a launching date.