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OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY

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25X1A

25X1A

25X1A



CONTENTS



25X1

no 2. SHAH OF IRAN SEEKS BACKING FOR STRONG RESPONSE TO USSR 25X1A

ok 3. TOP YUGOSLAV LEADERSHIP MAY BE DIVIDED OVER RAPPROCHEMENT WITH USSR

25X1A

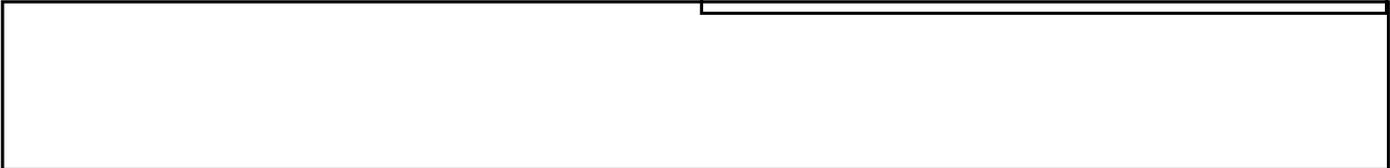
25X1A

no 4. INDONESIA ROUND-TABLE CONFERENCE ENDS (page 7).

25X1A

25X1

no 5. GREEK FOREIGN MINISTER PROPOSES COMMONWEALTH STATUS FOR CYPRUS



ok 7. NEW CURB SLOWS DECLINE IN INDIAN FOREIGN EXCHANGE RESERVES

25X1A

25X1A



25X1

Approved For Release 2002/11/19 : CIA-RDP79T00975A003300120001-1

Next 1 Page(s) In Document Exempt

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25X1A

2. SHAH OF IRAN SEEKS BACKING FOR STRONG
RESPONSE TO USSR

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The Shah of Iran was greatly disturbed by Soviet Marshal Vershinen's recent threatening remarks in the Soviet press in which Iran was included among those countries where alleged American bases could be knocked out by medium-range weapons. The Shah indicated to Ambassador Chapin on 12 September that he is ready to issue a sharp rejoinder if assured "concrete military backing" from the United States. He further indicated he might be prepared to allow American bases in Iran if his analysis of Soviet reasoning leads to a re-evaluation of Iranian defense policy. The Shah said he might even request intermediate range ballistic missile installations.

While he stated Iran would not withdraw from the Baghdad pact if increased American military aid were not forthcoming, the Shah said he would be forced to re-deploy Iranian military forces on the basis of Iran's own defense interests.

The Shah probably is genuinely concerned over Soviet intentions regarding Iran, but is also trying to exploit the tension in the Middle East to obtain substantially increased American military aid.

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3. TOP YUGOSLAV LEADERSHIP MAY BE DIVIDED OVER RAPPROCHEMENT WITH USSR

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[Redacted] the Yugoslav Communist party is moving toward a crisis over the extent and direction of improvement in Yugoslav-Soviet relations. [Redacted] even prior to the Hungarian revolution, Vice President Kardelj, backed by the Slovene and part of the Croat central committees, was opposed to the extent of rapprochement. [Redacted]

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[Redacted]

Comment Kardelj, the party's leading theoretician, has been Yugoslavia's most outspoken critic of the Kremlin and may be more suspicious of the present Soviet leaders and their objectives than Tito. Differences among Yugoslav leaders over the long-term effects of a growing rapprochement between Belgrade and Moscow would explain the recent postponement of the Yugoslav's seventh party congress from November to next April.

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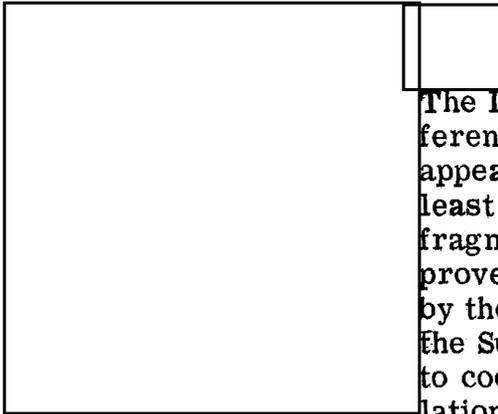
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4. INDONESIA ROUND-TABLE CONFERENCE ENDS

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The Indonesian national round-table conference concluded on 15 September and appears to have succeeded in arresting at least temporarily the trend toward national fragmentation. The final resolution approved the recommendations formulated by the various subcommittees, welcomed the Sukarno-Hatta statement of willingness to cooperate, and stated that "normal relations between the central government and the regions have been restored on the basis of the constitution and existing law, as is appropriate in a constitutional state."

Premier Djuanda announced that the conference's decisions would become the "guiding principles" for the government. He also stated that a joint committee representing both the government and the regions would be established to deal with all future problems.

The measure of the conference's success remains to be determined. It is still by no means certain that Djakarta will be able, even if willing, to meet the financial and political demands of the regions. In addition, there are no indications of progress toward meeting regional demands for the removal of Chief of Staff Nasution and for the reduction of Communist power and influence.

All available information strongly suggests, moreover, that Sukarno and Hatta are as far apart as ever despite their platitudinous statement agreeing to cooperate. Although [redacted] the conference has made Sukarno aware of the magnitude of regional discontent, there is little reason to believe he is prepared to make any significant concessions on such demands of Hatta, and the regional leaders as revising his concept of "guided democracy," repudiating his Communist support, or giving Hatta a position of real leadership in the government.

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25X1A

5. GREEK FOREIGN MINISTER PROPOSES COMMONWEALTH STATUS FOR CYPRUS

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Greek Foreign Minister Averoff suggested to NATO Secretary General Spaak on 11 September as a possible solution of the Cyprus dispute that the island become an independent member of the British Commonwealth for 20 years, after which time its status might be reconsidered. This plan has some chance of being accepted, although the Turks would probably resist it as merely a first step toward enosis. Athens may be proposing this solution to avoid a UN resolution that might preclude eventual union of the island with Greece.

Athens now feels the Cyprus dispute has weakened the eastern flank of NATO's defenses and sees the need of improving relations with Britain and Turkey. The Greek government may also fear an adverse effect on its domestic support unless some progress is made toward a settlement of the Cyprus dilemma during the forthcoming session of the UN General Assembly.

Implementation of the commonwealth proposal would offer a chance for passions to cool, permit British retention of base rights, and allow the British to keep the pro-Communist elements on the island under control.

15 Sept 57

Current Intelligence Bulletin

Page 8

25X1A

25X1

Approved For Release 2002/11/19 : CIA-RDP79T00975A003300120001-1

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25X1A

7. NEW CURB SLOWS DECLINE IN INDIAN FOREIGN EXCHANGE RESERVES

25X1A

The latest figures of the Reserve Bank of India suggest that the measures adopted by the Indian government to halt the decline of its foreign exchange

reserves are beginning to take effect. These reserves, which declined by approximately \$18,000,000 a week from the beginning of the current fiscal year in April to mid-August, declined by an average of only \$8,225,000 a week during the past four weeks, and now stand at the equivalent of \$792,500,000.

Beginning late in 1956, the Indian government adopted a policy of placing increasing restrictions on nonessential foreign exchange expenditures which culminated in a complete ban on the licensing of consumer goods imports during the third quarter of 1957. While the large backlog of such goods already contracted for prevented these measures from taking immediate effect, they should be able to hold the rate of decline near that of the past four weeks for the next few months.

This slowdown in the rate of decline will, if continued, enable the government to postpone until early 1958 asking parliament to lower the required reserve level below \$630,000,000. India, however, will still seek large-scale foreign loans for the estimated \$1 billion it needs for essential imports to fulfill the hard core of the Second Five-Year Plan (1956-61).

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