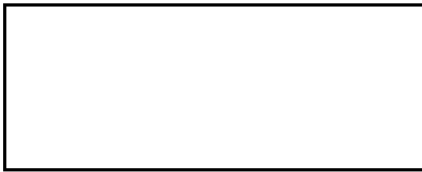


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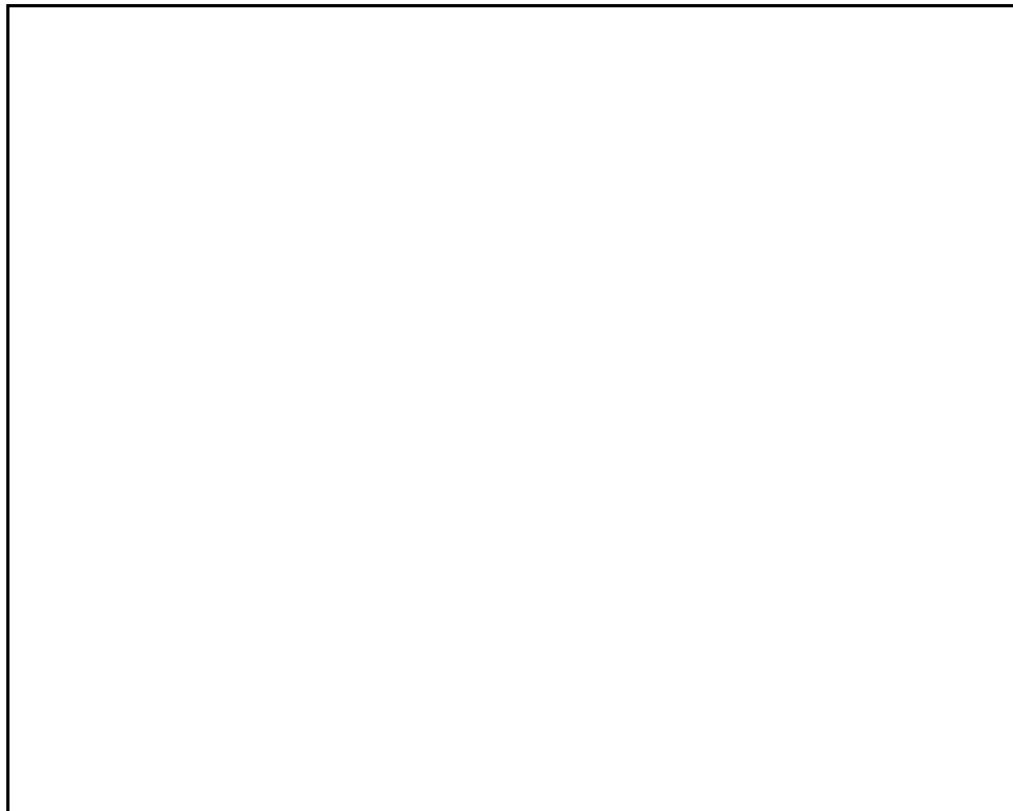
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**OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY**

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State Dept. review completed

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ANNEX--Conclusions of the Watch Report of the Intelligence Advisory Committee

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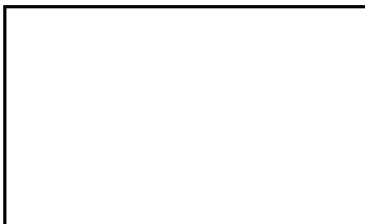
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1. MOVE TO FORCE INDONESIAN PRESIDENT INTO EXILE
MAY BE UNDER WAY
(Information as of 2400 EST, 12 Dec 57)

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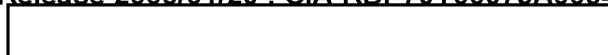


Prime Minister Djuanda's announcement that President Sukarno is "physically and mentally tired" and will leave Indonesia for a "rest in a neighboring country," perhaps within the next week, suggests that moderate elements are making a serious effort to take control of the government and check the drift toward chaos and Communist domination. Earlier indications of intensive army activity give credibility to reports that Sukarno is a virtual prisoner of the army, and that his projected "rest" may, in fact, amount to at least temporary exile. The motivation for such action undoubtedly would be the belief that the only hope of preserving a united, non-Communist Indonesia lies in getting Sukarno out of the country. There will, however, be no renunciation of Indonesia's claim to Irian or an immediate restoration of seized Dutch property.

Although Sartono, the vacillating speaker of parliament, has been named to act as president in Sukarno's anticipated absence, the real force behind the current moves is probably a triumvirate composed of Djuanda, former Vice President Hatta and army Chief of Staff Nasution. The latter two were primarily responsible for crushing the Communist uprising at Madiun in 1948.

Vigorous opposition to Sukarno's departure can be expected from leftist and Communist elements. They were the first to suggest that Sukarno postpone his previously scheduled trip to various Asian and Latin American countries in order to continue his leadership of the Irian campaign. They probably will try to use Sukarno's enormous popularity with the Javanese masses to prevent his departure. This could lead to open conflict with the army. Sukarno may also attempt to maneuver himself out of his apparent predicament. If he succeeds, he will continue to throw his weight to the Communists and facilitate the rapid expansion of their already considerable strength.

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2. EUROPEAN INTEREST IN BULGANIN LETTERS

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[Redacted]

Initial European reaction to Bulganin's recent letters indicates a widespread desire to keep open the possibilities for East-West negotiations, despite annoyance at Moscow's patent efforts to undermine next week's NATO meetings. At the same time there is emphasis on the need to fortify NATO's military position.

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In West Germany, the independent Die Welt's assertion that the notes might provide the "last chance" to reach an understanding with the Soviet Union reflects the general public uneasiness lest the establishment of NATO missile bases in the Federal Republic permanently freeze the division of Germany. The press quotes Foreign Minister Brentano as commenting favorably on the letters' "moderate tenor," and states he favors doing everything possible to bring about an international detente.

French press commentary on Bulganin's letter regards it as an attempt to exploit cracks in NATO, but is chiefly preoccupied with the question of the establishment of missile bases on French soil.

Responsible independent British papers argue against giving the impression of automatically rejecting all Soviet proposals--presumably referring to the European neutral zone idea--which they believe is worth considering. The Labor press has used the letters to reiterate its call for holding immediate talks with the USSR.

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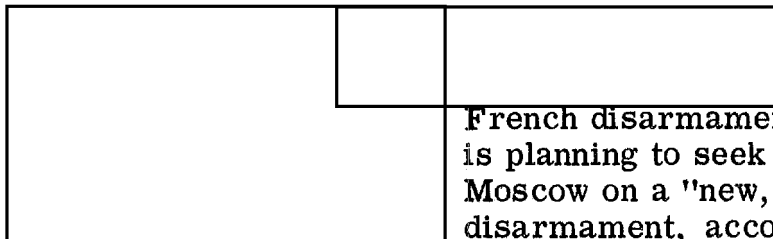
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3. FRENCH DISARMAMENT DELEGATE PROPOSES "NEW APPROACH" ON DISARMAMENT

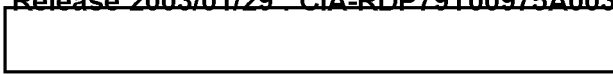
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French disarmament delegate Jules Moch is planning to seek authority to sound out Moscow on a "new, bolder approach" to disarmament, according to a French Foreign Ministry spokesman. Moch says that Soviet scientific advances have put the USSR on a plane of strategic equality with the United States, and that several key concepts in recent Western disarmament proposals--such as aerial inspection zones--are now obsolete. He maintains that the 16-18 December NATO meeting can be fruitful only if new disarmament proposals are discussed.

Moch's plan would presumably be based on his recent series of articles in the Paris daily Le Monde proposing a "thinned-out zone" in Central Europe policed by "symbolic" NATO and Warsaw pact contingents under a single "neutral" command. The French Foreign Ministry thinks such ideas are gaining ground in France, West Germany, and Britain.

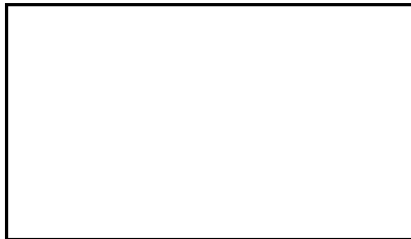
Moch has always opposed German rearmament, and his plan for a "thinned-out zone" may be based partially on a desire to avoid arming West German forces with nuclear weapons. A Foreign Ministry spokesman doubts, however, that Moch will get much support from the present government.



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4. MIKOYAN FORESEES SLOWDOWN IN RATE OF SOVIET ECONOMIC GROWTH

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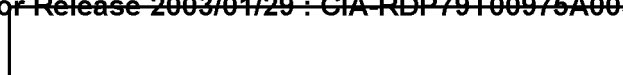


Soviet Deputy Premier A. I. Mikoyan told the Swiss ambassador in Moscow on 7 December that the average annual industrial growth rate of the USSR

would drop "in the future" from last year's 11 percent to 7 percent as a result of the "maturity" of the Soviet economy. This is the first time that a top Soviet figure has admitted that the increasingly complex economy of the USSR will experience a slowdown in its rate of growth.

Mikoyan presumably does not anticipate that the drop to 7 percent will occur before the 1960's. A drop in the rate of growth was implied by Khrushchev's recent forecasts for production of several major industrial commodities during the next 15 years.

Mikoyan's admission of a slowdown in long-term growth suggests that Soviet leaders anticipate a delay in achieving their professed basic aim of "catching up with the US" in per capita industrial output, unless they are counting heavily on a depression in capitalist countries.



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**7. ANGLO-EGYPTIAN TALKS SUSPENDED
WITHOUT AGREEMENT**

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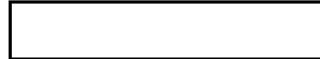


The Anglo-Egyptian talks in Rome on the conflicting financial claims arising from the Suez crisis were suspended on 12 December with no date set for resumption, evidently as a consequence of an Egyptian political decision. A British Foreign Office official had stated on 10 December that the Egyptians had threat-

ened suspension unless their latest proposals were accepted promptly. The Egyptians probably hope to gain the most favorable terms by delaying tactics. In addition, the outcome of Egyptian-Soviet economic negotiations scheduled to begin in Moscow on 17 December may be expected to influence the degree of Egyptian willingness to compromise.

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8. NEW ARAB UNREST DIRECTED AGAINST AMERICAN OIL INSTALLATIONS IN KUWAIT NEUTRAL ZONE



Political unrest has appeared in recent weeks among Arab employees of the American-owned Getty Oil Company in the Kuwait neutral zone, accompanied by at least two apparent acts of sabotage. In the last month, Saudi authorities, who share with Kuwait jurisdiction over the zone, have expelled three Arab troublemakers. In recent weeks,

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pictures of Nasir have appeared on walls and vehicles, and circulation of Egyptian periodicals has noticeably increased.

The outbreak of unrest follows the October conference in Baghdad of the Arab League Petroleum Committee. Egypt's failure at the conference to impose its views on the oil-producing states may have stimulated attempts to promote disorders there and obtain the support of the oil workers. One of Cairo's long-term objectives is to gain control of all oil revenues for the benefit of "all the Arabs."

According to the American consul general, the Egyptians have recently attempted to secure up-to-date information about oil installations in Kuwait. Security against subversive activity in Kuwait and areas under its control in the neutral zone suffers considerably from indifference of the Kuwaiti authorities. Communist activity, moreover, has increased in Kuwait in recent months. Kuwait's production and proved reserves of oil are the largest in the Middle East.



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9. SAUDI-JAPANESE OIL AGREEMENT SIGNED

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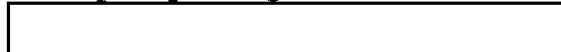


A Japanese spokesman has confirmed that his company signed an agreement with Saudi Arabia on 10 December which permits Japan to explore for oil in the Kuwait neutral zone offshore area of the Persian Gulf. The contract, which breaches the 50-50 division of profits prevailing in the Middle East, still must be ratified by King Saud. In addition to yearly rental payments, the Japanese company will give Saudi Arabia 56 percent of its net profits from all phases of the operation--crude oil production, transportation, refining, and retail marketing. A comparable agreement with Kuwait, which has joint rights in the concession area, is expected shortly.

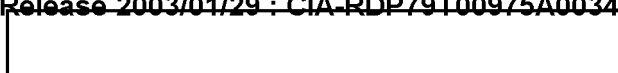
The principle of sharing profits from the integrated operation, not solely from crude production, was an important element in the Saudi demands. The Saudis may be expected to use the terms of the Japanese agreement in an attempt to obtain a similar profits-sharing scheme on transportation, refining, and marketing of the crude produced by the Arabian-American Oil Company.

The agreement provides for a maximum of four years' exploration. If oil sufficient for commercial production is discovered, the Japanese company will receive a 40-year lease, at the end of which all facilities within the concession area will become the property of Saudi Arabia and Kuwait.

Japan hopes to obtain through the agreement an assured source of crude oil and to conserve foreign exchange. The Japanese company, which is essentially a promotional firm without engineering, transportation, refining, or marketing facilities, may face serious difficulty in raising funds for the operation. The company spokesman said that technical assistance for oil prospecting would be sought from American consultants.



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**10. INDO-PAKISTANI CANAL WATERS DISPUTE
REACHING CRITICAL PHASE**

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[REDACTED]

The canal waters dispute between India and Pakistan may again develop into a critical situation in view of the failure of the International Bank for Reconstruction and Development to negotiate a settlement between the two countries after seven years of continuous effort. Since the bank's mediation has apparently failed to produce even the usual short-term interim agreement continuing the traditional use of canal waters, India may now seriously consider unilateral diversion of waters.

The dispute concerns the equitable distribution for irrigation purposes of the waters of six rivers, all of which flow through Pakistan but on three of which India controls the headwaters. India desires to divert the flow of these three rivers to feed irrigation canals in its Punjab State, thus leaving an insufficient amount of water to supply Pakistan's own canal system. Bilateral negotiations between the two countries prior to 1951 failed to reach a solution as have the bank's efforts since 1951. The urgent need of both countries for increased agricultural production to keep ahead of growing populations makes water supply a critical issue.

There is some possibility that an interim agreement may be reached during talks between Indian and Pakistani finance ministers scheduled for late December, but the difficulties in the way of even an interim agreement are considerably greater than before. [REDACTED]

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11. AFGHAN KING'S VISIT TO PAKISTAN POSTPONED
BY KARACHI

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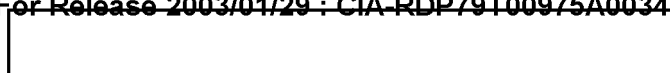
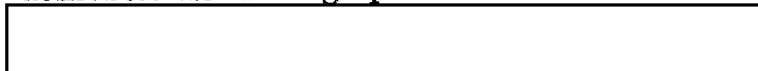


Pakistan's last-minute request for indefinite postponement of Afghan King Zahir Shah's visit to Karachi, which had been scheduled to begin on 10 December, may interrupt the gradual

rapprochement which has been taking place between the two countries. Karachi's reason for the postponement was the political crisis which occasioned the fall of the government on 11 December.

Relations between the two countries had gradually improved following a period of strained relations resulting from the sacking of the Pakistani embassy in Kabul in March 1955 and the subsequent Pakistani economic blockade which forced Kabul to increase its ties with the USSR. One of the main features of the rapprochement had been a diminution of Afghan propaganda advocating creation of a separate state for Pushtoon tribesmen living in Pakistan. Postponement of the royal visit emphasizes that continuing political instability impairs Pakistan's ability to execute its domestic and foreign policies and lowers Karachi's prestige.

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12. SECRET TRIAL OF GENERAL MALETER MAY BE UNDER WAY IN HUNGARY

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A secret trial of the principal military figures in Imre Nagy's revolutionary government--Minister of Defense General Pal Maleter, General Istvan Kovacs, and Budapest police chief Sandor Kopacsi--is to begin on 13 December, according to a usually reliable source of the American legation in Budapest. The source says Maleter probably will be sentenced to death.

Comment

The sentencing of Maleter would probably precede a trial of Nagy.

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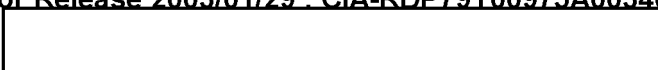
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Nagy has been brought to Budapest in preparation for the trial.

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the final decision to try Nagy was made during the Communist conference in Moscow. A death sentence for Maleter would demonstrate to the Hungarian public the determination of the regime to continue a policy of repression.

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ANNEX

Watch Report 384, 12 December 1957
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.
 1. A deliberate initiation of hostilities in the Middle East is unlikely in the immediate future. However, tensions in the Middle East continue to create possibilities for serious incidents.
 2. There is no evidence of Sino-Soviet intention to become militarily involved in the Indonesian situation.* However, the Communists are exploiting growing economic chaos and political instability, and the opportunity is developing for a Communist takeover of government on Java, particularly if the army does not maintain law and order in the face of labor union seizure of the means of production and distribution.