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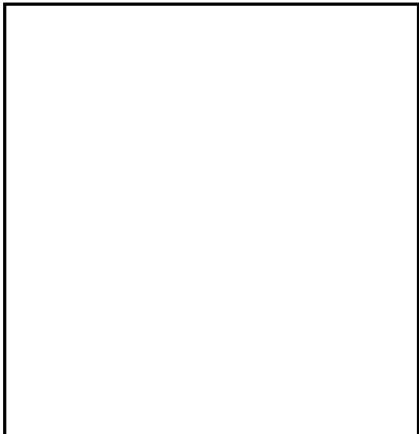
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2. **INDONESIAN GOVERNMENT PLANNING CONCESSIONS TO PROVINCIAL GOVERNMENTS**

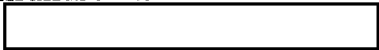
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The Indonesian government is making a belated effort to eliminate the chief sources of Sumatran disaffection. As a prelude to granting greater autonomy, the Home Affairs minister has announced that legislation is being drafted to set up six Sumatran provinces to replace the present three. A law has already been passed by parliament, and is awaiting Sukarno's signature, providing

that provincial governors be locally elected rather than government-appointed as they are now. Djakarta has also indicated a willingness to make additional funds available to outlying provinces. It is likely that other provinces will seek to take advantage of the central government's conciliatory attitude.

The government is also continuing its efforts to avoid bloodshed. The government radio in Medan, North Sumatra, has announced the suspension of all licenses permitting civilians to carry arms in the Siantar area. The order presumably is an effort to disarm Communists who had been armed by the local regimental commander. It is highly unlikely, however, that the government can reclaim these arms, and the possibility of conflict between the Communists and the dissident forces of Colonel Simbolon remains.



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## 3. SOVIET-EAST GERMAN AGREEMENTS

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In an effort to boost the prestige of the East German regime, Soviet and East German leaders announced on 7 January their intention to work out an agreement "which will regulate the questions deriving from the presence of Soviet troops on the territory of the German Democratic Republic." This agreement, expected to be patterned on the one recently concluded by the Soviet Union and Poland, would cover legal jurisdiction over Soviet forces and the cost of their maintenance during their "temporary" stationing in East Germany. It would probably give East Germany a nominal voice in the disposition of Russian troops.

Reaffirming East Germany's sovereign right to control its air space, the communiqué termed the existing quadripartite agreements on the use of air corridors between West Germany and Berlin by aircraft of the Western Allies "of a temporary and restricted nature" not affecting East Germany's sovereignty. Although it did not deny the validity of these agreements, the statement suggests that East Germany may attempt to exert control over Western commercial air travel to Berlin.

Soviet economic assistance to East Germany will take several forms. Most important is a credit of 340,000,000 rubles (\$85,000,000 at the official rate) to be given East Germany in gold and free currency for the purchase of goods on the world market. This credit may be extended as part of the 10-year loan, possibly amounting to \$250,000,000, which the USSR granted East Germany last July. Both countries will also undertake in 1957 to increase trade with each other by 30 percent. The USSR will increase its exports to East Germany of coke, oil, ferrous rolled metal, timber, and other industrial raw materials and foodstuffs, all desperately needed by East Germany.

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*AR* 5. EGYPT AND SYRIA STEP UP CAMPAIGN TO GAIN  
ISRAELI WITHDRAWAL FROM GAZA

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Egypt and Syria are increasing their efforts to force an Israeli withdrawal from the Gaza strip. Cairo radio on 6 January quoted Nasr as stating that if Israel refused to return Gaza to Egypt, British and French vessels would not be permitted to transit the Suez Canal.

The Egyptian ambassador in Damascus said on 4 January that Egypt might suspend clearance of the canal if Israel remained in Gaza "unreasonably long." He said Cairo had no objection to Syria's position that repair of the sabotaged Iraq Petroleum Company pumping stations and a resumption of the flow of oil are dependent on Israeli compliance with UN resolutions.

Ambassador Moose reports that Syria intends to use the oil issue to create difficulties for the United States and for Iraq. In answer to the ambassador's question whether Syria is using the issue to exert pressure on the United States, Prime Minister Asali stated that Syria wants the United States to be "impartial" between the Arabs and Israel. Asali asserted that the United States could put "irresistible" pressure on Israel to withdraw promptly. He added that the pumping stations, even if repaired, could be stopped later "if necessary."



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6. LAOTIAN PREMIER REPORTED TAKING ACTION AGAINST NEW COMMUNIST ACTIVITY

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Prime Minister Souvanna Phouma is disturbed over reports of subversive activity by Communists among the Chinese and Vietnamese communities in Laos, and has

[Redacted]

ordered Laotian police to suppress it, [Redacted]

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The prime minister has given orders to reorganize the Chinese school in Vientiane, a base for Chinese Communist activity, under Laotian teachers. [Redacted]

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Comment

Many of the Chinese teachers in Vientiane are Communist sympathizers, and several groups of young Chinese students are reported to have left Laos since June 1956 for study in Communist China.

The Laotian government's accommodation of the Pathet Lao and Souvanna Phouma's visit to Peiping and Hanoi in August have probably stimulated Communist activity among the Overseas Chinese and Vietnamese. The new South Vietnamese legation in Vientiane is attempting to counter this activity among the Vietnamese.

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[Redacted]