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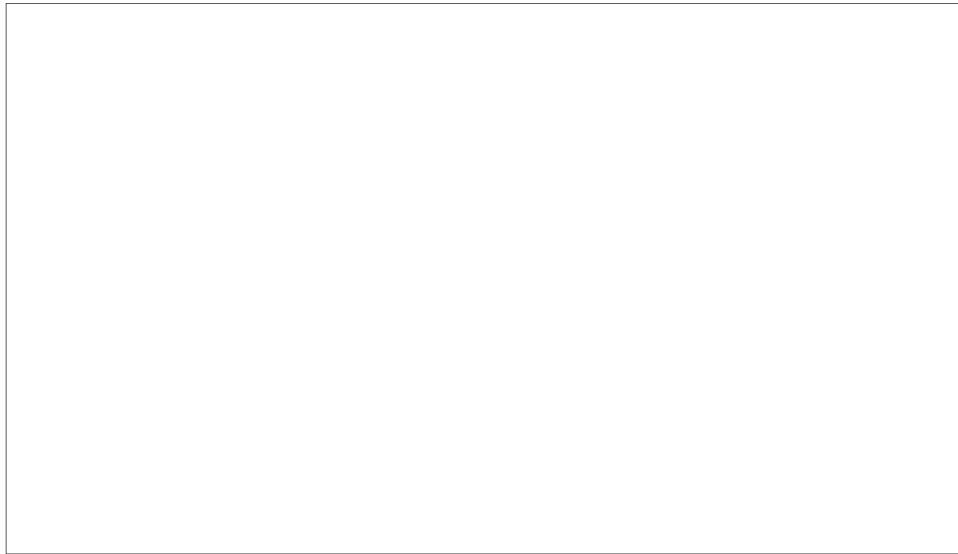
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~~TOP SECRET~~

1. MILITARY COUP REPORTED PLANNED IN INDONESIA**Comment**

Increasing army resentment toward the government has been reported in recent months, and a territorial commander probably friendly to the junta attempted unsuccessfully on 13 August to arrest the foreign minister on charges of corruption. President Sukarno is known to be disturbed at the attempted arrest, but there is no other report as yet that he plans to postpone his departure for Moscow on 26 August.

Current army resentment arises from transfers of high army officers, corruption among high government officials, distrust of the National Party, which heads the cabinet, and the government's failure to implement administrative reforms.

Colonel Lubis, who reportedly has tried to co-ordinate opposition to the chief of staff and to army transfers, relinquished his post as deputy chief of staff on 20 August, and has agreed to accept a command in North Sumatra. While some further demonstration of dissatisfaction by army elements is probable, it is unlikely that a coup will be attempted in the near future.

2. INCREASED EGYPTIAN FINANCIAL DIFFICULTIES

Comment on:

Government and business circles in Cairo are beginning to experience financial problems as a result of the threat of war over the Suez issue, as well as the British and French freezing of Egyptian assets.

[redacted] the head of Egypt's Foreign Exchange Control Department had pleaded for immediate settlement of Japanese credits and for payment in dollars.

[redacted] the Egyptians "would appear to be in considerable straits." In addition, Italian banks are refusing to exchange Egyptian currency.

[redacted] cash withdrawals from banks have continued since the end of July, particularly from French and British accounts, thus weakening the cash position of most Egyptian banks.

3. EGYPT ADJUSTS TO SUEZ PILOT SHORTAGE

The reduction of Suez Canal convoys on 15 August to one a day in each direction because of a pilot shortage is reducing the backlog of vessels awaiting passage, even though the shift in schedule added a few hours to the normal transit time, according to the American ambassador in Cairo. He reported on 18 August that the number of vessels passing through the canal was being maintained at a normal level.

The American naval attaché in Cairo reported on 17 August that eight new Egyptian pilots went to work the previous day, bringing the total number of Egyptian pilots hired since nationalization to 23 and increasing their number to 55. Egypt was previously reported as planning to assign 15 Egyptian naval officers to pilot duty. There are also reports that Nasr may employ West German pilots and technicians.

4. NEHRU CONCERNED OVER INDIAN NATIONAL ELECTIONS

Prime Minister Nehru is concerned over his party's prospects in the 1957 Indian national elections,

Comment

the ruling Congress Party realizes it probably will have trouble obtaining a majority in the election. West Bengal, Andhra, Madras, and Bombay constitute about 40 percent of the total vote and their loss would threaten the Congress Party's position in the national government.

India's chronically disorganized leftist parties have already begun planning a united campaign, but the Congress Party, preoccupied with the states reorganization problem, has as yet made little preparation for the elections. However, Nehru's personal prestige may be able to regain the allegiance of some of the doubtful states before the elections.

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THE ARAB-ISRAELI SITUATION
 (Information as of 1700, 21 August)

A Jordanian military spokesman said 30 Israelis attacked a village near Jenin with mortar and automatic weapons and wounded three Jordanian National Guardsmen. The spokesman said two Israeli soldiers were killed in the hour-long clash "inside Jordan." (Press)

Jordan claims that Israel has placed heavy armament, including tanks armed with 75-mm. guns, near the armistice line in the Hebron area, and has thus violated the armistice agreement. Jordan has asked for an emergency meeting of the Mixed Armistice Commission to discuss this complaint.

The American air attaché in Rome reported that 17 Mystere Mark IV jet fighters with Israeli markings landed at Brindisi, Italy, on 18 August, destined for France. The attaché stated that the reason for the return of these aircraft to France was unknown. Several months ago Israel received 24 Mystere IV jet fighters from France.

Israel has canceled its order for excess Meteor jet aircraft from the Netherlands for lack of funds, according to information received by the American air attaché in The Hague. The attaché believes a more likely reason for the cancellation is that Israel, in anticipation of trouble in the Middle East, believes F-86 jet fighters will become available from other sources. The attaché had previously reported that the Netherlands had agreed to sell Israel 10 surplus Meteor jets which were to be delivered this summer.

Cairo press reports on 17 August that two Soviet vessels had arrived at Alexandria [redacted]
 [redacted] the vessels are apparently unloading only

at night. There is no firm evidence that Soviet deliveries have been stepped up. These latest arrivals have been widely publicized by the Egyptian government, apparently to indicate Soviet support of Egypt in the Suez crisis.