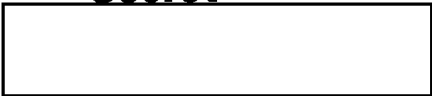


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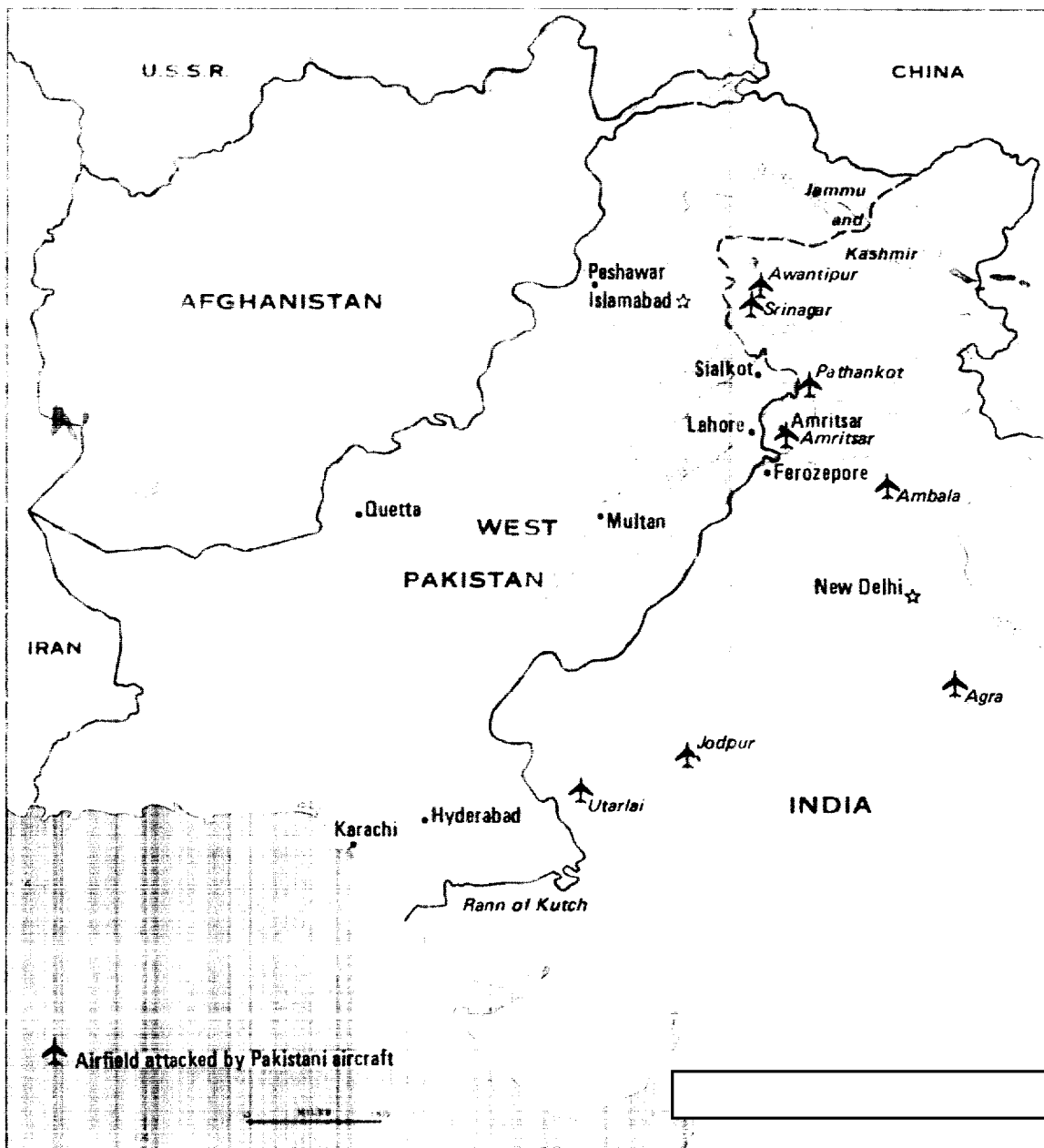
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INDIA-PAKISTAN: There is no clear cut evidence as to which country initiated hostilities yesterday along the India - West Pakistan border.

Both countries continue to blame the other, but neither has yet formally declared war. In a radio address yesterday, Prime Minister Gandhi asserted that the Pakistan Air Force had attacked eight airfields in Kashmir and western India and that the Pakistanis were shelling Indian positions in the Ferozepore-Amritsar area, along the cease-fire line in Kashmir, and elsewhere. The Indians claim they downed three of the attacking Pakistani planes.

Islamabad has acknowledged that it attacked airfields at Srinagar, Awantipur, Pathankot, and Amritsar. The Pakistanis claim that these attacks followed repeated Indian intrusions in Pakistani air space by Indian Air Force planes and ground assaults against several locations in West Pakistan. Indian officials hotly deny these allegations.

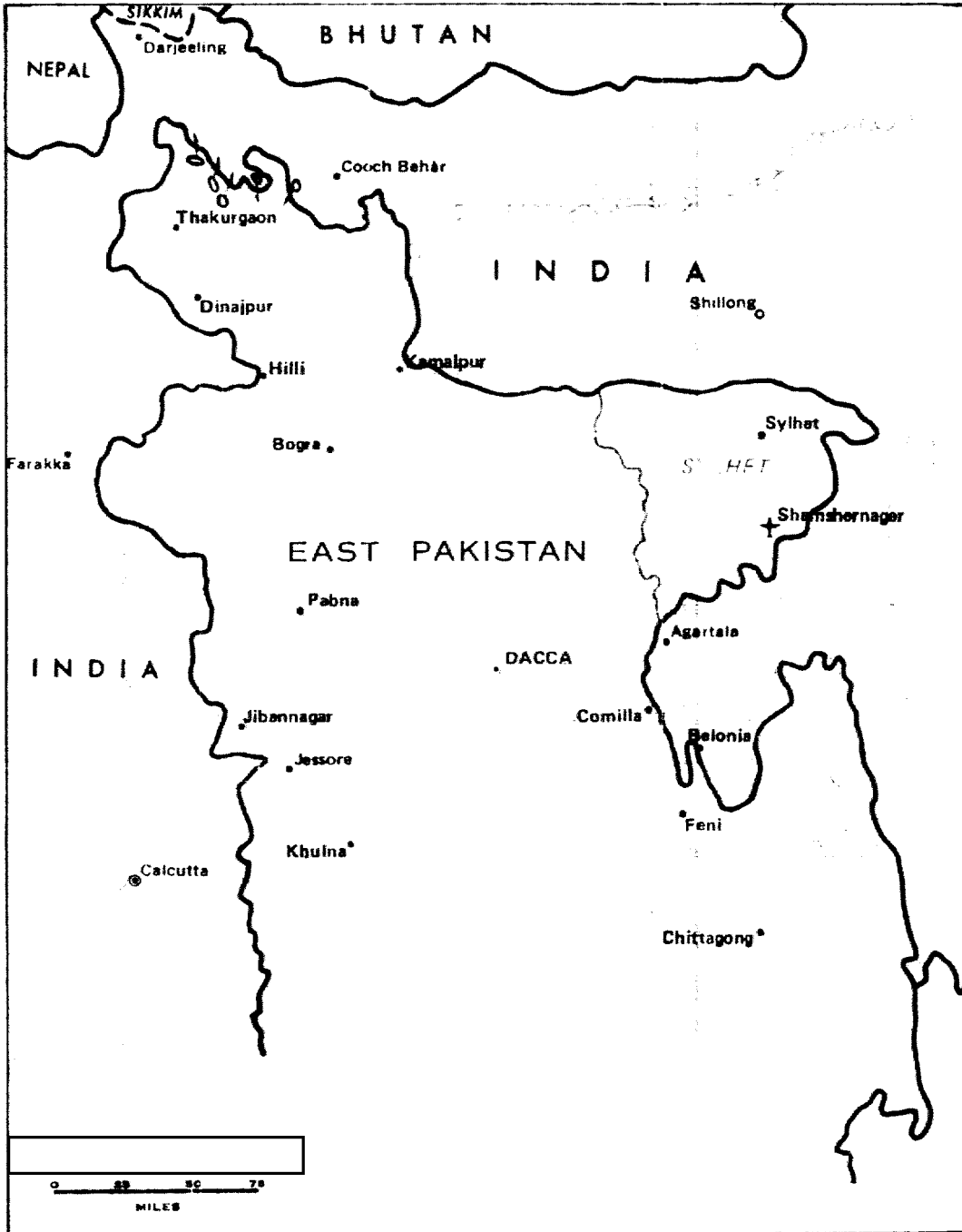
Indian aircraft attacked the Karachi port area this morning, setting petrol storage tanks on fire. During the night there had been heavy anti-aircraft fire over the city, but if Indian planes were present then, they did no apparent damage.

The Indian Government has decreed a state of emergency which is expected to be ratified during a special session of parliament today. In Pakistan, which has been under a state of emergency since late last month, the government has ordered the mobilization of ex-servicemen and "essential persons." Pakistan has reportedly banned all commercial flights into and over both wings of the country and India apparently has halted flights into New Delhi and Calcutta.

In East Pakistan, major Indian Army attacks continue on seven different fronts, according to the Pakistanis. In the northwestern corner of the

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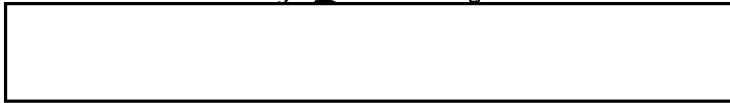
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C province, guerrillas closely supported by the Indian Army appear to be making gains in their drive south and the Mukti Bahini claim to have seized the town of Thakurgaon. Widespread border clashes persist in Sylhet District, and according to the Indian press, the guerrillas now hold the airfield at Shamshernagar, following three days of heavy fighting. The Indians also claim further guerrilla gains in the Jessore area.



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NATO: Developments of the past few days have made it more likely that the NATO foreign ministers will decide next week not to make an early move toward a Conference on European Security and Cooperation.

Most of the allies clearly would be willing to begin multilateral East-West discussions for such a conference upon the conclusion of the inter-German talks on Berlin, but they, including the British and French, are likely to defer to the wishes of Bonn. Although the Germans have been saying that they preferred to "join an allied consensus" on the question, Foreign Minister Scheel has now convinced Chancellor Brandt that West Germany should join the US in recommending that the allies defer discussions until after the Bundestag has acted on the Moscow treaty and the Berlin accord has been finally signed. It remains unclear, however, how strongly Scheel will present this position in Brussels.

Bonn's new tack is based on the outcome of Scheel's recent talks in Moscow. According to a West German foreign office official, Scheel attempted unsuccessfully to convince the Soviets to conclude the Berlin accord prior to Bundestag ratification of the Moscow treaty. The German official claims that the Soviets did not seem impressed by the argument that their position would delay multilateral preparations for a security conference. The inter-German talks are expected to be concluded today, but the Soviet position could mean that the Berlin agreement will not be signed formally before next spring.

The ministerial sessions are also unlikely to produce much forward movement on mutual and balanced force reductions (MBFR). The allies recently have grown increasingly concerned about the security implications of such reductions. They therefore are not particularly disturbed by Moscow's failure so far to receive NATO's MBFR explorer,

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former Secretary General Brosio. The ministers probably will want to keep Brosio's mission on tap. Additionally, they probably will endorse continued NATO study of MBFR, will express their willingness to negotiate, and will at least imply that it is Moscow that has delayed MBFR talks.

The NATO defense ministers will also meet next week, primarily to consider progress that has been made in improving allied defense efforts. Chances are good that the members of the Eurogroup--the UK and all the continental NATO members except France and Portugal--will announce full funding of the \$420 million infrastructure portion of the European Defense Improvement Program. The Europeans additionally will produce a detailed list of military hardware already acquired or slated for 1972.

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INTERNATIONAL MONETARY DEVELOPMENTS: The deadlock between the US and the other Group of Ten industrial countries on international economic issues was at least partially broken at Rome when the US indicated a willingness to devalue the dollar if acceptable contributions are made by the other countries.

Most foreign press commentators emphasize that even though a final settlement was not reached in Rome, real negotiations have now begun in an atmosphere of cooperation and--as one Belgian newspaper put it--the "dialogue of the deaf is over." The press generally credits US willingness to consider devaluation of the dollar in terms of gold as having provided the breakthrough. Le Monde in Paris cited President Nixon's desire to go to Peking and Moscow with solid European and Japanese support as a factor favoring monetary agreement. Several press articles also noted the "common position" reached by the European Community and the UK as auguring well for future US-European negotiations on an equal basis.

Observers have noted, however, that even if agreement on realignment is achieved, more fundamental and longer term issues will remain open. These include the convertibility of dollars into gold; basic reforms that would facilitate parity adjustments and would reduce the role of key currencies; and the scope of future trade negotiations. Some of the lingering concern that hard bargaining still lies ahead probably also is attributable to the lack of evidence on whether or not French and German positions have come any closer on the relative value their currencies should have.

Reports that the dollar will be devalued have produced widespread speculation against the dollar, driving it to record lows on foreign money markets while gold rose to \$43.75 per ounce. The only major currency not subject to heavy pressure was the pound.

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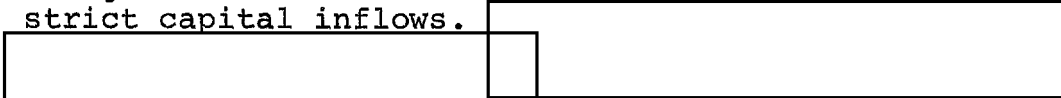
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The Bank of France also is buying dollars to prevent the commercial franc from breaking through its ceiling, and the French Government is implementing additional financial controls. Until now the franc had not been subject to much pressure. Paris now apparently fears that its present two-tier exchange system may no longer be adequate to prevent speculation. Consequently, to preserve the stronger bargaining position an unappreciated franc provides, the government is enacting several measures to restrict capital inflows.



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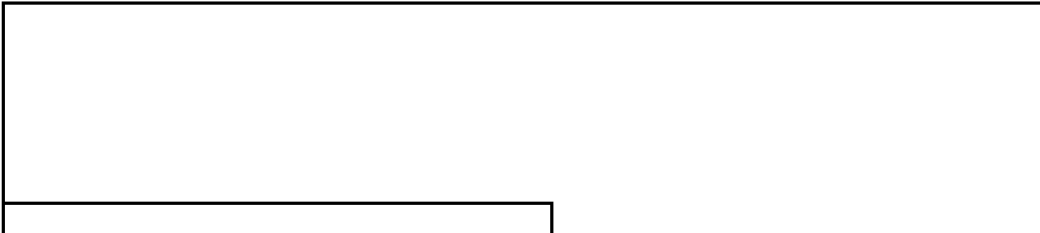
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CUBA-CHILE: Fidel Castro has affirmed his belief in the need for violence to defend and preserve "the revolutionary process." At the same time he continues to advocate the peaceful path to initiate socialism in countries such as Chile.

During his prolonged visit to Chile, Castro has made a great effort to keep out of the Chileans' domestic problems. During his farewell speech and in response to antagonistic questioning from Christian Democratic youths, however, he vehemently argued that the Chilean "revolutionaries"--the Allende government--had the right and the duty to defend themselves against "fascists and reactionaries"--the opposition political parties.



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Castro in effect stated that the country's revolutionary process could be effectively defended only by using violence. This reflects his long held belief--based on his own experience--that any "revolution" has to be defended against hostile elements. While he may now believe that each country must undergo its own distinct revolutionary process, he clearly is not discounting violence as a means to maintain revolutionary impetus.

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There are strong differences of opinion within Allende's coalition over the wisdom of using violence against the opposition. Both the Movement of the Revolutionary Left and most of Allende's hard-line Socialist Party consider it a necessity, while the Communist Party and Allende consider violence usually counter-productive. On 2 December the Communists reportedly took the position that government forces should withdraw from street battles with the opposition.

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ECUADOR: Fidel Castro's stopover in Guayaquil today could create domestic problems for President Velasco Ibarra.

Velasco is determined to ensure that the validity of Ecuador's independence from US domination is fully accepted in the third world, and he probably hopes that Castro's visit will score political points at home as well. He does not, however, want a repetition of the reception for Chile's President Allende in August, when welcoming crowds added uncomplimentary remarks about Velasco to their shouts of greeting. Student and labor groups may attempt to break through the security detail in order to get closer to their hero.

Reaction to the prospective Castro-Velasco meeting has been muted in Ecuadorean political circles. Groups preparing for next year's scheduled elections are apparently reluctant to take a stand before gauging public reaction. Prominent armed forces figures have not commented publicly

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Castro told a news conference Friday that on his flight to Ecuador he would stop over in Lima for two or three hours.

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TURKEY: The Erim government resigned yesterday following the withdrawal of about half of the 26-member cabinet. Erim will remain in a caretaker status until a new government is formed.

The 11 who resigned initially, causing the collapse of the government, included two key deputy prime ministers, the foreign minister, and the minister of interior. In a statement to the press, a spokesman for the group claimed they submitted their resignations "some time ago" when they realized they could not carry out the economic reform program that prompted their joining the government. The technocrats who resigned became part of the Erim government after the military leaders toppled the Justice Party government last March.

The announcement of the resignations may have been in reaction to Erim's appointment on Thursday of a former Justice Party minister to the post of deputy prime minister to handle relations between the government and Parliament. The appointment was generally viewed as a move by Erim to reconcile differences between the cabinet and the dominant Justice Party. Erim, for some time, has wanted to project an image more representative of Parliament.

The resignations may also have been in protest over the strong opposition in Parliament to the cabinet's land reform bill. Erim's draft land reform legislation was recently severely weakened by a parliamentary committee dominated by the Justice Party. Erim must now reassure the military leaders that the military-backed land reform program is not being blocked in Parliament.

The prime minister still has the confidence of the bulk of the members of Parliament, but the dramatic move by reform-minded members of the cabinet has been a blow to Erim. Much will depend now on how rapidly Erim is able to form a new cabinet with

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men acceptable both to Parliament and to the military high command. With the military deeply involved in the current furor over the recent escape of several terrorists from a military prison near Istanbul, Erim may have a freer hand and more time to regroup his government.

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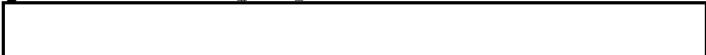


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YUGOSLAVIA: The party presidium adjourned without taking action on Tito's demands for stern action against Croat party liberals. While agreeing with his criticism of failures in the Zagreb party, the presidium nevertheless expressed its "full confidence" in the republic party leadership's ability to overcome its problems. The Croat leaders have the difficult task of developing corrective measures to respond to Tito's angry denunciations without bringing about a rift between them and the Croatian population. Prospects brightened yesterday with the end of the student strike at Zagreb, the focal point of Tito's attack. 

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PERSIAN GULF: Baghdad's diplomatic break with Tehran and London over the Persian Gulf islands tradeoff has brought little more than moral support from the other Arab states. (Four Arab states, however, have asked for an urgent meeting of the UN Security Council to consider the issue.) Egypt has been discouraging this move because Cairo opposes any airing of Baghdad's grievances that would detract from the current debate in the General Assembly on the more pressing Arab problems with Israel. There is no evidence of any Iraqi preparations for a military initiative, but if it should occur, Iraqi forces would be repelled easily by the superior Iranian military. 

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