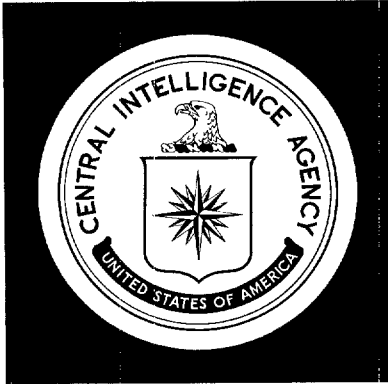


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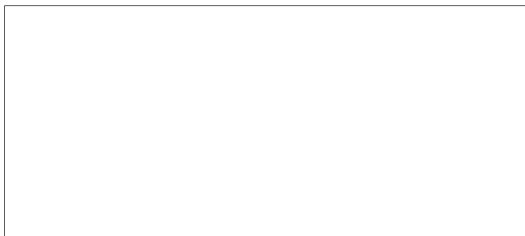
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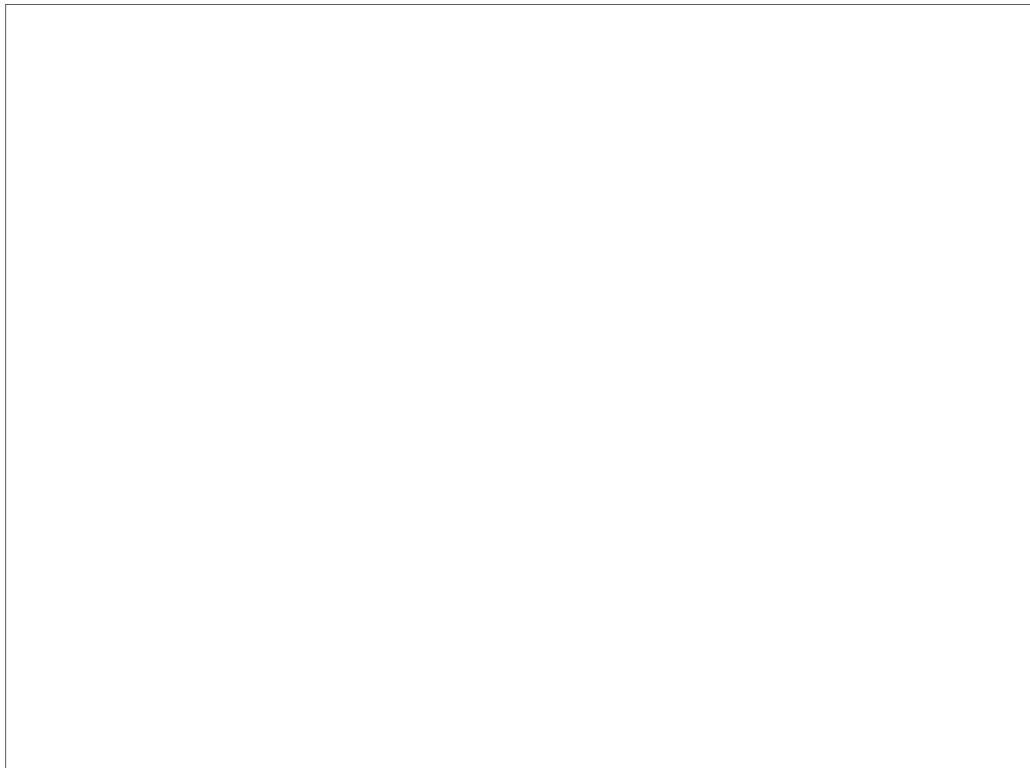


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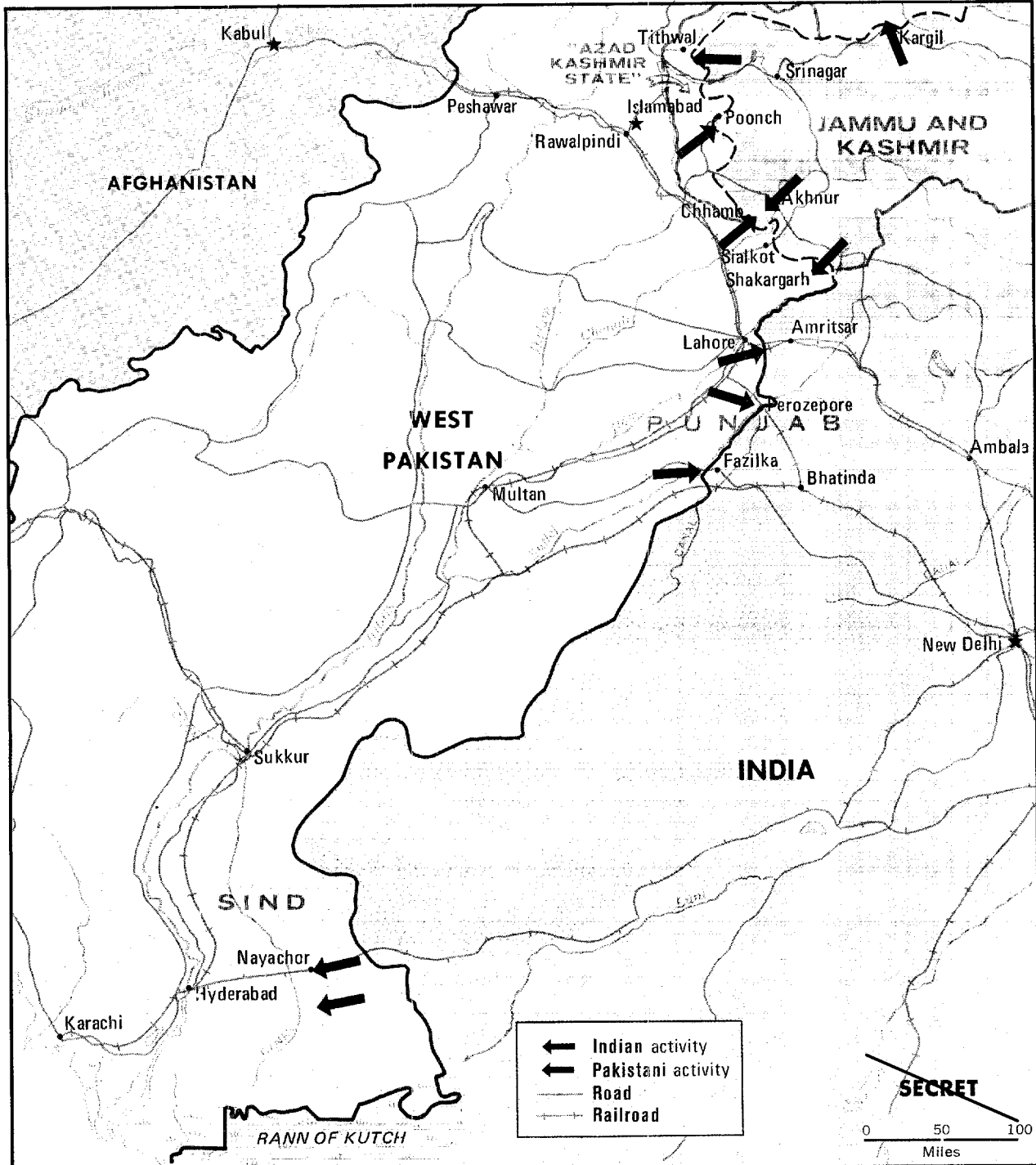
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INDIA-PAKISTAN: Pakistan has not yet indicated whether it will accept a cease-fire on the western front, where a unilateral Indian cease-fire is scheduled to go into effect at 0930 EST today.

At almost the same time yesterday that Mrs. Gandhi announced the surrender of Pakistani forces in the East, President Yahya delivered a defiant speech to his countrymen. The US Embassy in Islamabad believes that the speech could have been designed to lay the groundwork for continuing the war, but that it could also be read as an effort to muffle Pakistan's defeat and begin the painful process of preparing the people to accept the loss of the East and the necessity of terminating the war in the West.

Although most of the western front was relatively quiet yesterday, heavy fighting continued in the Sialkot sector around the Pakistani town of Shakargarh. [REDACTED]

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[REDACTED] the town had been surrounded by Indian troops but had not yet fallen. Tanks reportedly have been used extensively in the area, and casualties on both sides have apparently been heavy. [REDACTED]

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[REDACTED] the Pakistanis meanwhile are massing troops and equipment just south of Lahore, [REDACTED]

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[REDACTED] the build-up, which includes one of Pakistan's two armored divisions, might be in preparation for a large-scale offensive in the area.

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In the East, a few isolated Pakistani units, cut off from radio contact with Dacca, were still holding out yesterday, but they are expected to capitulate once they receive word of General Niazi's surrender. Early this morning the Indians claimed that some of these elements had given up. In Dacca, US officials report that no one is yet in effective control of the city. Many people there reportedly were being killed and wounded as a result of fighting between Bengalis and scattered West Pakistanis and collaborationists. General Jacob, India's chief of staff in the East, said he would impose martial law as soon as sufficient reinforcements arrive, in order to prevent further bloodletting.

In New Delhi an Indian spokesman said that the new Bangla Desh civil administration would take over today. He added, however, that Indian forces will remain in the area for an indefinite period to help restore "normalcy," repair public utilities, and repatriate refugees. [redacted] moreover, that the Indian Army will not withdraw until it is satisfied that radicals within the Mukti Bahini guerrilla forces do not pose a threat to the new regime's stability. To this end, the army has been instructed to try to isolate these groups.

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[redacted] New Delhi is insisting that Bangla Desh have a government that includes other political elements in addition to the Awami League. The Awami League has been resisting, but Mrs. Gandhi reportedly has come to an agreement with the multi-party consultative committee that was set up last fall to broaden the base of the Bangla Desh movement. According to the agreement, the committee, which includes some Communists as well as the Awami League, will form the nucleus of the new government.

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President Yahya's position is still uncertain.

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[redacted] Pakistani Army officers
are unhappy with the President because of the rout
of the army in the East. They also apparently blame
him for not allowing them to take the initiative in
the West with heavy armor.

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~~TOP SECRET~~ [REDACTED]

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JAPAN: Tokyo is preparing a position on trade liberalization to be offered if the Group of Ten meeting in Washington this weekend is successful.

Prime Minister Sato has appointed State Minister Kimura, the director general of the Economic Planning Agency, to head a task force to draw up responses to US positions put forward in Honolulu last weekend. Inter-ministerial agreement regarding these responses probably will not be reached until the cabinet meets today. Recommendations, however, include significant increases in quotas allotted to US exporters of oranges, citrus juices, and high-quality beef. Further concessions are probably under discussion.

According to US Embassy officials in Tokyo, the concessions are likely to be offered only if it appears the Group of Ten meeting will be successful in solving the world monetary realignment. Japan reportedly fears that any offer it makes now would be accepted by the US and that, if no monetary agreement is reached, further pressure would be applied when Prime Minister Sato meets with President Nixon in San Clemente in early January. This fear is based on events following the US-Japanese meetings in September. At that time the US accepted certain trade concessions offered by Japan but later requested further concessions when no monetary solution was reached. [REDACTED]

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[Redacted]

[Large Redacted Area]

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USSR: Last night a modified version of the SS-11 ICBM--designated the SS-11 Mod 3--was fired from the Tyuratam missile test center to the Kamchatka Peninsula impact area some 3,400 miles away. The Mod 3, formerly designated the Mod 2B, is one of two variants of the SS-11 being tested. It probably carries three re-entry vehicles and is designed to increase the ability of the missile to penetrate an ABM defense. This was the fourth firing of the Mod 3 this month, bringing the total for the year to 11. There have been 23 successful launches of the Mod 3 and one failure since testing began in September 1969. [REDACTED] (b)(3)

JAPAN: Textile sales to the US are still increasing at a sharp pace despite the agreement of October governing shipments of synthetic and woolen textiles. Last month the value of synthetic yarns, fibers, and fabrics jumped 53 percent over the level of November 1970, while clothing exports increased by about 23 percent. Part of the increase reflects higher dollar prices stemming from yen appreciation, but Japanese suppliers apparently have boosted shipments sharply while the final details of Tokyo's agreement with the US are being worked out. Although some further gains are likely to be made, the growth in textile sales will no doubt slow sharply in the coming months as Tokyo prepares to enforce the textile agreement. [REDACTED] (b)(3)

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~~TOP SECRET~~ [REDACTED] (b)(3)

CANADA: Despite the new US economic policy, Canadian exports to the US in November--\$1.1 billion--set an all-time monthly high. Automotive products, oil, gas, newsprint, lumber, and aluminum accounted for much of the increase. The last two items are subject to the US surcharge. Total Canadian exports to the US for the period January through November were about \$11 billion, while imports amounted to almost \$10 billion. For the same period of 1970, Canada's trade surplus with the US was \$830 million. Canada's global exports in 1971 thus far have exceeded imports by about \$2 billion compared with \$2.5 billion last year. [REDACTED] (b)(3)

[REDACTED]

ROMANIA-EGYPT: Bucharest has agreed to provide Egypt with \$100 million in credit, according to a Cairo broadcast. The announcement, which also mentioned a \$30-million trade agreement, did not specify projects to be undertaken. Romania previously had extended \$52 million in credit, of which \$28 million remains to be used. Bucharest, the only East European capital recognizing Israel, has been trying to improve its relations with the Arab countries and recently extended a \$35-million credit to Iraq. [REDACTED] (b)(3)

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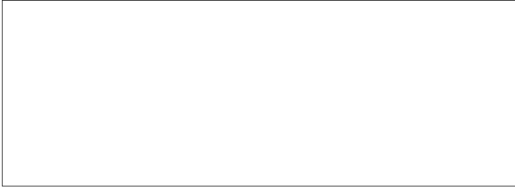
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