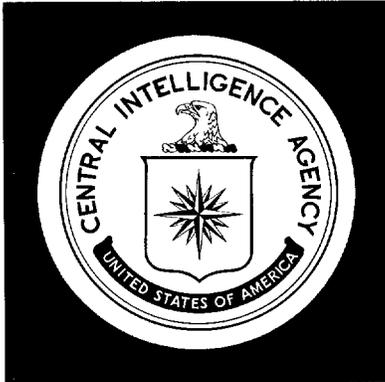


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PAKISTAN - BRITISH COMMONWEALTH: Pakistan's announced decision to sever ties with the Commonwealth as a result of the planned recognition of Bangladesh by Britain, Australia, and New Zealand will probably be popular domestically but will have little impact on recognition by other states.

The proclamation over Radio Pakistan yesterday followed warnings from Australia and New Zealand that they intended to recognize Bangladesh today and indications from London that the British would extend recognition on 4 February. The British apparently chose that date to accommodate President Bhutto's request that recognition be postponed at least until after his return from a brief visit to Peking, which begins today. Foreign Secretary Home arrives in New Delhi on 5 February, and London believes that recognition after that date could be interpreted as yielding to Indian pressure.

Neither the Pakistani Government nor the people were satisfied with the attitude of the British and the major Commonwealth countries during the recent war with India. The Bhutto government's swift and decisive announcement that Commonwealth ties were being severed should be generally welcomed by a public that had become disillusioned with the prior government's indecisive and inept performance during the latter part of 1971.

The only Commonwealth countries which have thus far recognized Bangladesh are India, Barbados, and Cyprus. Cypriot recognition last week led the Pakistanis to break relations with Nicosia, as they have done with most countries taking this step. Bhutto has indicated, however, that he cannot afford to end ties with "major powers," such as the USSR. Most Pakistanis have long regarded membership in the Commonwealth as of little value to their country, and it is possible that Bhutto chose to withdraw from the organization in preference to breaking relations

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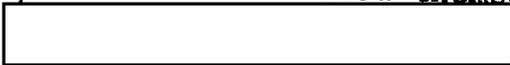
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with the more powerful members of the group. Bhutto yesterday told a press conference that he was prepared to continue bilateral relations with Britain. Pakistan's need for economic assistance, moreover, may determine the extent of any further reaction to recognition moves by the other larger states both within the Commonwealth and in Western Europe--most of which have supplied economic aid to Pakistan in the past.

In the meetings last week of representatives of the European Community countries in Luxembourg and London, the British, hoping that mass recognition would tend to dilute any negative reaction from Pakistan, advocated 4 February as a common date for recognition. France and Italy, however, have apparently still not committed themselves to specific dates.



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MALTA-UK-NATO: The talks in Rome on 28-29 January made progress, but agreement on specifics is still lacking.

The chief financial issue--the annual "rent" to be paid to Malta--remains unresolved as Prime Minister Mintoff continues his efforts to squeeze more cash out of the Allies. Mintoff and British Defense Secretary Lord Carrington agreed tentatively to a formula that would allow the Allies to stand by their final offer of \$36.4 million annually but that would also at least partially satisfy Mintoff's desire for an immediate cash payment. The North Atlantic Council will discuss this proposal when it meets today.

The principal bilateral Malta-UK issue--the terms for British-employed local labor--is still unsettled. Working-level discussions will continue in Valletta this week on this and other aspects of a new defense agreement in an attempt to reduce the number of issues that must be considered at the next ministerial meeting in Rome on 7 February.

In the meantime, UK forces in Malta, which had received orders to leave intact any equipment that could be of future use to NATO, will soon begin dismantling heavy installations, including radar facilities. The British have pointed out that once the withdrawal reaches this phase it will be both costly and difficult to reverse. London, nevertheless, believes the process must continue in order to keep pressure on Mintoff to come to terms. [REDACTED]

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JAPAN-CHINA: Japanese leaders are publicly pressing for government-level talks with Peking, but privately they remain cautious about the prospects for normalization of relations.

In wide-ranging policy speeches to the Diet, which reconvened on 29 January, Prime Minister Sato and Foreign Minister Fukuda both called for direct negotiations with the Chinese. Sato acknowledged Japan's close ties with Taipei since World War II but noted that Peking has been admitted to the UN and that normalization should now be "on the basis of realization that China is one."

Foreign Minister Fukuda, who as a leading contender to succeed Sato is extremely sensitive to the domestic political ramifications of the current China mood in Japan, termed normalization of relations "the most important problem for future Japanese diplomacy." Perhaps in an effort to appear more forthcoming than Sato, Fukuda avoided mention of Taiwan and appealed to Peking to tackle the issue seriously through direct government-to-government talks. At least one press report indicates that the Japanese have already sounded out the French about holding ambassadorial talks with the Chinese. During his visit to Tokyo in mid-January Foreign Minister Schumann reportedly offered his good offices for arranging a meeting in Paris.

While most leaders of the ruling Liberal Democratic Party have concluded that diplomatic ties must be established with Peking, there is still uncertainty over the pace at which Japan can proceed. This pessimism probably results in large part from Peking's previous public denunciations of Sato personally and indications of Chinese unwillingness to come to terms with Japan as long as he is prime minister.



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GHANA: The military junta seems hesitant and uncertain after two weeks in power.

Apparently unable to agree on a slate of civilian department heads as it had promised, the junta has appointed 12 military officers and only one civilian as ministerial commissioners. Junta leader Acheampong holds the key defense, finance, and economic affairs portfolios. The sole civilian department chief is Attorney General Moore, president of the Ghana Bar Association. Aside from Moore, none of the new commissioners appears to have any real expertise in his field of responsibility.

These appointments should lessen some of the confusion that has prevailed among civil servants who had been running the ministries since the coup. They have not dispelled questions about policy lines, however, which remain extremely fluid. The junta still seems open to suggestions by civilians, and various politicians continue to maneuver for influence, including some associated with the leftist Nkrumah regime ousted six years ago.

Although the junta seems securely in power, Accra is rife with rumors of counter-coup activity. The military is extremely sensitive to these rumors and temporarily detained a journalist who filed a report on the arrest last week of several junior officers suspected of plotting. The junta has also ordered the police to re-arrest all the key members of former Prime Minister Busia's banned political party who had been released shortly after the coup.

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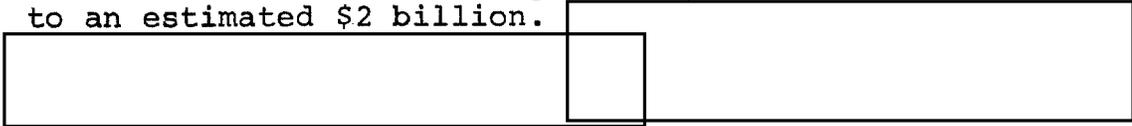
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USSR: Moscow is reportedly planning to sell \$600-~~\$700~~ million of gold this year.

A lecturer in Leningrad recently claimed to have been briefed on this plan by a deputy chairman of the State Planning Commission. Although there is no evidence to substantiate the report, the combination of hard currency stringencies, substantial external indebtedness, poor export prospects, and mounting gold reserves suggests that a resumption of gold sales of this magnitude is possible. The high price of gold--currently \$47.35 an ounce on the free market--may be an additional incentive to sell.

The Soviets have limited the sale of gold since 1965. Gold stocks had been drawn down to roughly \$1 billion in order to finance plant and equipment imports and to pay for large purchases of wheat in 1963-65. Since that time gold reserves have risen to an estimated \$2 billion.



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CHILE-CHINA-USSR: Peking's extension of \$65 million in economic aid to Chile, the largest single Communist credit ever extended there, follows hard upon the arrival of a strong Soviet economic delegation in Santiago.

Foreign Minister Almeyda disclosed the Chinese credit in a speech reviewing Chile's position on the eve of talks with 17 creditor nations on renegotiating Santiago's debt. He implied that the Chinese assistance is in the form of hard currency on a short-term basis, the type of financial aid Chile most urgently needs. Moscow reportedly extended \$50 million in foreign exchange to Santiago late last year under similar terms.

A high-level Soviet economic mission arrived in Chile on 26 January for an extended stay to work out the details of the several economic agreements between the two countries; two of these pacts date back to 1967. The composition of the delegation, which includes representatives of the State Planning Commission and specialists in foreign trade and industry, suggests that Moscow is undertaking a thorough examination of the Chilean economy. Soviet economic credits to Chile amount to more than \$90 million, but so far little other than survey work has been accomplished.

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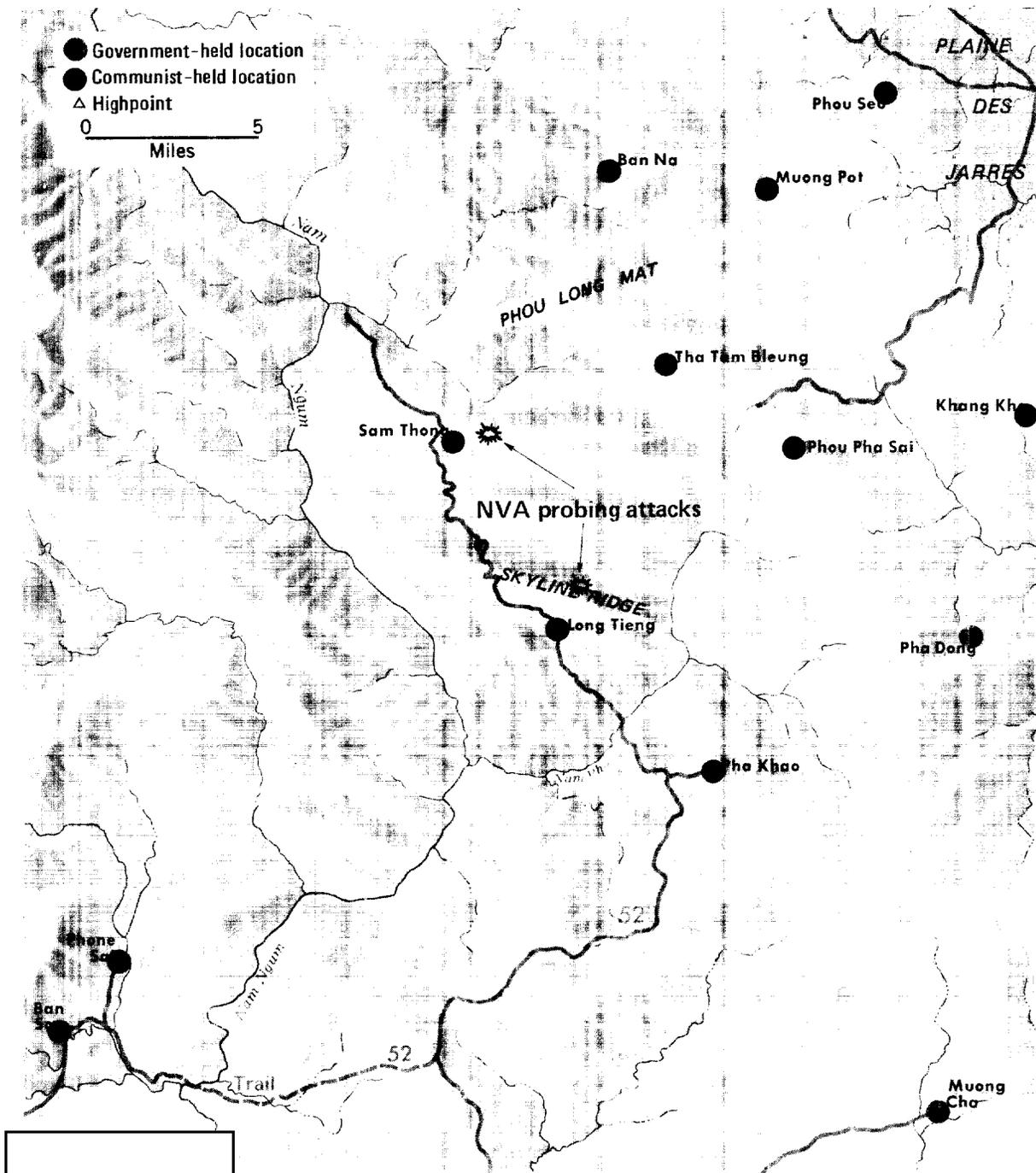
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NOTE

LAOS: Military activity was at a moderate level over the weekend. A 20- to 30-man North Vietnamese force attacked a government outpost on the western portion of Skyline Ridge on 28 January but was driven off. Similar probes were reported from the Sam Thong area on 30 January. The Communists are continuing to direct recoilless rifle and mortar fire against irregular positions.

Four of the eight battalions of irregulars from the Savannakhet area are scheduled to return to south Laos for rest and reorganization on 31 January. These units suffered casualties of about 25 percent in the recent fighting on Skyline Ridge, and government commanders agree that their fighting effectiveness and morale have substantially declined.

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