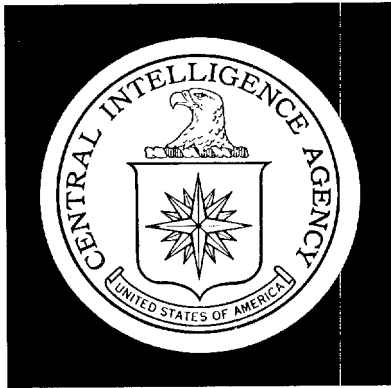


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DIRECTORATE OF  
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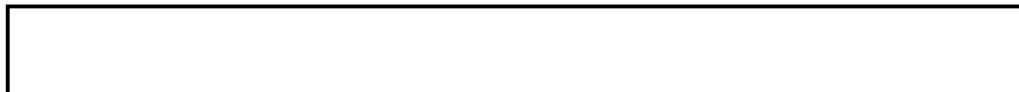


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INDIA: New Delhi's policy in the crisis with Pakistan should become clearer after an intensive government review of the situation following Prime Minister Gandhi's scheduled return to India tomorrow.

Mrs. Gandhi retains ultimate control over policy, and officials in New Delhi reportedly have little information on their government's course of action in the immediate future. Initial Indian reaction to Mrs. Gandhi's talks with Western leaders, however, is generally pessimistic that progress toward a political accommodation between East and West Pakistan has been achieved.

[Redacted]

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Stepped-up military incidents along the India - East Pakistan border and accelerated guerrilla operations inside East Pakistan have increased tension on the subcontinent during Mrs. Gandhi's three-week absence. In Bonn, the final stop on her Western tour, Mrs. Gandhi repeated her determination to send the refugees back to Pakistan and again implied that military force may be the only feasible means of accomplishing this.

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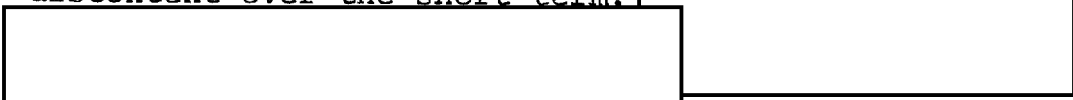
SOUTH VIETNAM: The possibility of cuts in US economic aid has worried many Vietnamese despite reassurances from some Saigon officials.

The US Senate defeat of the foreign aid bill in late October has drawn increased calls for self-reliance from some Vietnamese who long have resented the country's great dependence on American support. Informed Vietnamese aware of the need for US economic backing, however, have been more prone to read the Senate action as another sign of considerable support in the US for an end to American involvement in Vietnam regardless of the consequences.

General uncertainty over the aid question helped spur a rise in prices in Saigon during the week. Some militant opponents of President Thieu are trying to use the aid issue to attack the government, charging that it brings into question Thieu's over-all policy on the war.

Most government officials have taken a fairly calm and confident line on the aid question in public. Last week Minister of Economy Ngoc said he was certain aid would be restored. In more recent statements, however, Ngoc reportedly warned that some belt-tightening was in order. In private conversations with members of the US Mission, Vietnamese officials have expressed considerable anxiety over the developments and some of their concern has been reflected in the pro-government press.

In his "state of the union" address set for Monday, President Thieu is likely to try to reassure the country concerning US support while at the same time he will call for some sacrifices and austerity. Thieu reportedly intends to concentrate on the economy in his speech, unveiling the major features of his economic reform package. The reforms would be designed to stimulate economic development and improve the morale of government employees, but the severity of the reforms could cause some popular discontent over the short term.



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CHILE: President Allende reportedly has adopted a strategy that improves his chance of restructuring congress to be more responsive to his political programs.

25X1 [redacted] the President believes that he has so formulated his proposal for creating a unicameral legislature that it might be passed by the present congress. His plans include an updated reallocation of seats and other features that appear to be logical reforms for the congress and its cumbersome procedures; they do not include provisions granting broad powers to a "people's assembly" that were part of his Popular Unity coalition's platform. Among the items that make Allende's proposal palatable to opposition legislators, it protects senators' terms that extend to 1976. [redacted]

25X1 [redacted] even conservative National Party members take exception to only minor aspects of the bill.

[redacted] he has tailored the bill to win the support of the opposition Christian Democratic Party (PDC), the largest both in Chile and the congress. He said that the bill contains "adequate guarantees" that the PDC could not reject, a reflection of his several successes in co-opting support from the party by stratagems that eventually work to its disadvantage. PDC legislators have said that they could stall a unicameral assembly bill up to a year by the lengthy amendment process, but Allende reportedly plans to avoid that by demanding that the legislation be passed as submitted or rejected.

If it is rejected, he intends to call a plebiscite on the matter, but to cast it in terms of capitalism versus socialism rather than between democracy and Marxism, on which the Christian Democrats could make an effective campaign.

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Allende's remark that a plebiscite must be held within six months because economic problems could bring down his administration within a year appears to be hyperbole to impress his listeners with the need for belt tightening.



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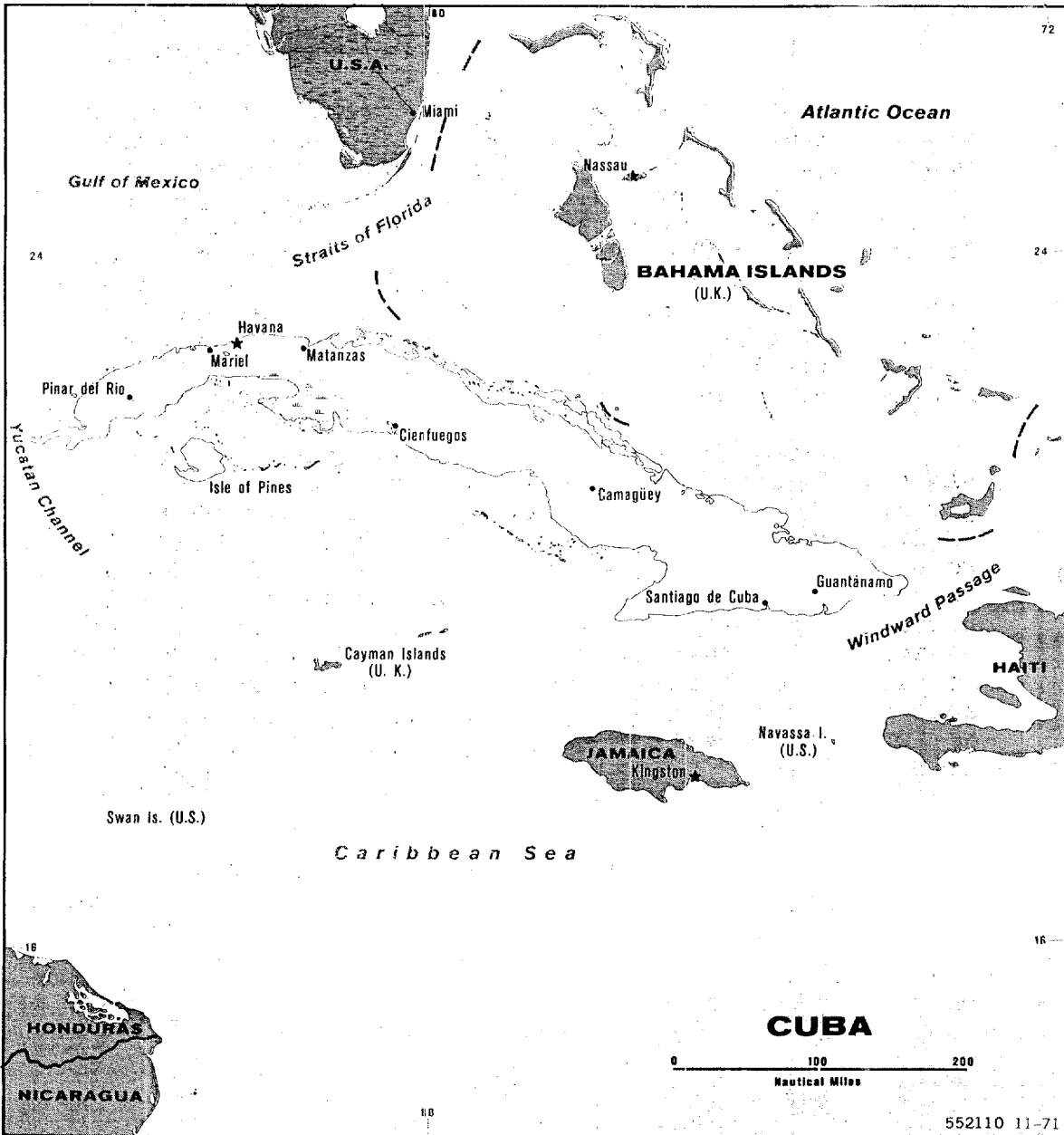
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USSR-CUBA: Since leaving Havana three days ago the Soviet naval task force has been operating in the Gulf of Mexico and the Caribbean.

During their first day out of port the Kresta and Kashin, along with the two F-class submarines, conducted operations northwest of Havana with Cuban Navy subchasers and aircraft. Following this, one of the submarines went into the port of Mariel and is still there.

Early this morning the ships were strung out west of Havana after splitting into three groups following refueling operations on 11 November. Traveling alone, the Kresta was some 100 nautical miles southwest of Havana while the Kashin, in company with the remaining submarine, was located farther north in the Gulf of Mexico. The tanker and a Soviet intelligence collection ship that joined the group on 10 November are now in the Caribbean.

If the ships follow the pattern of past naval visits, they may call at Cienfuegos for a short time before heading into the Atlantic.

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CEYLON: The government plans to initiate limited austerity measures to ease its heavy welfare burden.

In his budget speech to parliament on Wednesday, the finance minister proposed an increase in the price of the weekly rice ration from two cents to 17 cents. The price of flour and postage rates also would be raised. For the first time a fee would be charged for medical treatment and supplies. Apparently to soften the public's reaction to the austerity measures, Prime Minister Bandaranaike announced that an extensive land-reform program would be undertaken to redistribute income in favor of the poor.

The proposed budget, however, includes an increase of over 50 percent in defense expenditures--primarily to contain the insurgency problem--that will heavily offset savings from the austerity measures. Continuing restrictions on the private sector, moreover, are likely to undermine the government's program contained in the five-year plan unveiled this week to increase investment and thereby accelerate economic growth.

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JAPAN - EASTERN EUROPE: Tokyo, facing increasing resistance in its traditional export markets, is trying to expand sales to Eastern Europe by extending liberal trade credits.

Japan intends to agree to Yugoslavia's request for a \$10-million trade credit. This is part of an estimated \$600 million worth of credits and debt repayment postponements Belgrade is attempting to negotiate with Japan and the West. Tokyo also is examining possibilities for extending trade credits to Romania, Bulgaria, and Hungary.

Government officials cite developments in US relations with Moscow and Peking as the reason for the move, but Tokyo probably is motivated by apprehension over recent US import restrictions as well as West European moves to prevent a diversion of Japanese exports from the US to Europe. The credits probably would be used to finance sales of Japanese machinery, steel, chemicals, and textiles. Japanese exports to East European countries last year totaled only \$149 million, while imports amounted to \$114 million.



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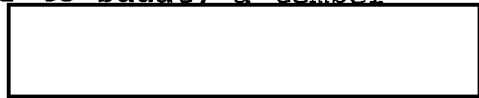
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**EGYPT:** President Sadat, in his address to the nation yesterday, closed no doors in the search for a Middle East settlement but held the US accountable for the deadlocked negotiations.

In what was billed as a major policy statement, Sadat for the most part hewed to well-known Egyptian conditions for an accommodation with Israel. Among other demands were the 1967 requirements for total Israeli withdrawal from territory seized during the war and the restoration of the rights of the Palestinians. He again called for a clear linkage between an interim agreement and a comprehensive settlement, a limited cease-fire of six months following an interim agreement, and the occupation of the east bank of the canal by Egyptian forces. As a necessary first step, he said, the Israelis must respond to Ambassador Jarring's request to state their conditions for a final settlement.

Sadat dwelt at length on his rationale for the failure, thus far, of US mediation efforts. He sharply castigated Washington both for succumbing to "Zionist pressure" from within the US and for using Israel as a "tool" for American interests in the Middle East. In a clearly intended contrast, he lauded the Soviet Union, "a friend in war and a friend in peace," which "withheld no assistance to strengthen our military ability."

Sadat's confidant, Muhammad Haykal, had given a preview of the address to the US interests section in Cairo. Haykal, complaining bitterly that he could not understand the current US approach to the negotiations, urged, as a favor to Sadat, a temperate US response to the speech.



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