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INTERNATIONAL MONETARY DEVELOPMENTS: Sustained and unprecedented selling of the dollar throughout Europe yesterday precipitated today's closure of major money markets.

Total European central bank purchases in support of the dollar yesterday amounted to almost \$4 billion. West German intervention reportedly reached almost \$2.8 billion, the largest daily amount ever. Dutch purchases were \$604 million, almost twice that country's total interventions before the last dollar devaluation. Intervention was also noted in Belgium, France, the UK, Denmark, Austria, and Spain.

Most European currencies that have not been floated closed at their ceilings relative to the dollar yesterday. Both the mark and the guilder were traded below the dollar's floor in unofficial bank transactions after the markets closed. Among the floating currencies the Swiss franc was little changed from the previous day, but it has still experienced the largest revaluation of any currency compared with rates prior to 12 February. The pound and the lira weakened slightly against the dollar, probably reflecting traders' anticipation that both currencies will be devalued and repegged against other Community currencies, if a joint EC float occurs.

The closing of the major exchange markets amounts to a tacit admission that fixed rates among the non-floating European currencies cannot be maintained. A decision to introduce a joint float is the most likely outcome of the present situation. The West German Economics Minister said last night that an EC Finance Ministers' meeting probably would be held shortly. The major problems to be solved in implementing a joint float include the system of intervention to be used, the capital controls to be allowed, and the position of the pound and the lira, both of which are now floating, relative to other countries' currencies. Some spadework

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has already been done. West German Chancellor Brandt and British Prime Minister Heath held a special meeting last night on the crisis after their scheduled talks in Bonn.

The Japanese also decided to close the exchange market in order to avoid possible large-scale dollar selling. The Finance Ministry stated it intends to await developments in Western Europe before deciding when to reopen the exchange market. The yen closed yesterday with a revaluation of 15.6 percent compared with its old dollar central rate.

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CHINA - NATIONALIST CHINA: Peking has stepped up its propaganda campaign stressing reunification of Taiwan with the mainland in the wake of last week's Sino-US communiqué.

Mainland media have given wide publicity, including extended broadcasts beamed to Taiwan, to a commemorative meeting marking the anniversary of an uprising of native Taiwanese against Nationalist officials shortly after World War II--an event that Peking propaganda organs had ignored since 1965. Speeches given at this meeting, including one by a former Nationalist general who defected to the Communists during the civil war, have also been widely disseminated.

The speeches were generally conciliatory in tone, and while they stressed Peking's determination to "liberate" Taiwan, they made no reference to the use of force in this endeavor. The speakers called for "unity of action" on the part of the peoples on the mainland and local Taiwanese, but the main appeal for reunification was clearly addressed to officials and leaders of the Nationalist government itself. The former general called specifically for direct negotiations on reunification, adding that secret or open informal contacts might be a first step if the Nationalists were not ready for formal negotiations. Both major speeches claimed that Taipei could not count on indefinite US support and that neither Peking nor Washington would permit a "third party"--that is, the USSR--to guarantee the island's continued separation from the mainland.

Since last autumn, Peking has been engaged in a largely private two-pronged effort to move the Taiwan issue in a direction favorable to it. In talks with Asian and European officials, Chou En-lai and other Chinese leaders have emphasized that Peking does not contemplate the use of force to regain

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the island, that the reunification process might be a prolonged one covering perhaps several decades, and that present foreign investments on the island would not be initially disturbed. At the same time, the mainland has been encouraging Taiwanese living abroad and others with ties to the island to visit the People's Republic, where officials have stressed the themes of reconciliation, flexibility, and "leniency." While Peking obviously judges the time is ripe to move this campaign into higher gear, the Communists have neither privately nor publicly clearly spelled out their terms for reunification. [REDACTED]

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CHILE: The congressional elections on Sunday will not ease growing political tensions, and there may be clashes if the outcome--as expected--enables both government and opposition to claim "victory."

Chilean politics have become less a national pastime than a bitter obsession as President Allende has moved the already statist economy toward a socialist system. At first, many Chileans, including the Christian Democrats who preceded him in power, took little exception to his program. Despite his campaign promises, few expected his coalition government to prove radical enough to harm their interests and the outgoing congress ratified his paper-thin plurality of 36.3 percent in a three-way race.

During 1972, however, most Chileans felt the effects of his administration's reckless economic policies. Even the majority that gained by income redistribution and other policies is suffering from record inflation and severe food shortages that show every sign of worsening in the winter that is just beginning.

The resulting discontent has polarized the country's persistently pluralist politics. Voters now are either strongly for or strongly against the government. Although a majority clearly disapproves of the administration, little can be done to curb its actions as long as the armed forces continue to support it. The result is an impasse that extremists on both sides believe can be broken only by violence.

The election results are likely only to harden positions without significantly changing the present political equation. Some 60 percent of the electorate probably will vote for the opposition's congressional candidates, thus confirming Allende's status as a minority president--even if his Popular Unity (UP) manages to better his 36 percent figure of 1970

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by several points. The inevitable claims and counterclaims of success will exacerbate existing tensions.

Leftist extremists in the UP are refusing to go along with efforts by General Prats, who as interior minister has been trying to prevent post-election clashes by banning celebrations Sunday night. If they take to the streets, others are sure to follow.

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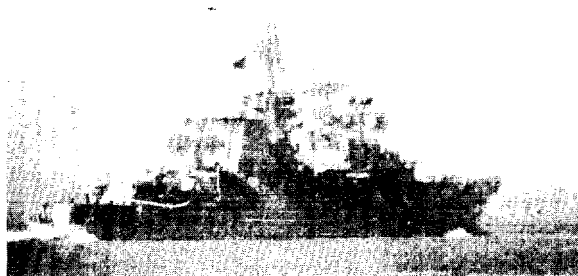
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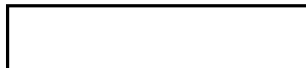
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Soviet Kara-Class Guided Missile Cruiser



Length 570 feet
Beam 64 feet
Armament . . 2 twin SA-N-3 launchers
 2 twin SA-N-4 launchers
 2 quadruple SS-N-10 launchers
 4 85-mm dual purpose guns
 4 anti-missile/anti-aircraft mounts
 2 MBU 2500A rocket launchers
 2 ASW torpedo tube mounts

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USSR: The Soviets deployed the first unit of their newest class of guided-missile cruiser from the Black Sea to the Mediterranean on 1 March.

The new ship, designated the Kara class, resembles the Soviets' Kresta-II class cruiser and is armed with three different types of guided-missile systems--two surface-to-air and one surface-to-surface--in addition to conventional armament. The new cruiser is apparently intended to be used in a wide variety of roles, including anti-ship and anti-submarine operations.

Deployment to the Mediterranean of the cruiser--which was accompanied by a destroyer--follows the arrival of two other surface combatants there on 28 February. The Soviets now have 11 major surface combatants with their Mediterranean Squadron. Although this is about the normal level for the squadron, the presence of the new cruiser in the Mediterranean probably presages increased exercise activity. The Soviets probably want to test the capabilities of the new ship in an operational environment.

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USSR: Both international and domestic benefits could accrue to the USSR through its accession to the Universal Copyright Convention.

Unwillingness to adhere to the convention has long been a prickly issue in Soviet dealings with the West, and Moscow may hope its present decision will assist in promoting more normal relations with the West. An easier and more regularized exchange of published information also will improve Soviet access to Western technology. The Soviets specified they are acceding to the 1952 convention, which is already in force, and not to the revised 1971 version that is still awaiting ratification in most countries.

For internal security purposes, the Soviets can make use of convention provisions that require each party to accept the national copyright laws of the other parties. Soviet accession takes effect on 27 May. After that date, under Soviet law authors who allow their works to reach the West for publication through non-official channels can be prosecuted for violating the state monopoly on foreign trade. Conviction is punishable by up to ten years' imprisonment, five years' banishment, and confiscation of property. Furthermore, as convention adherents, Soviet officials would be able to prevent publication of dissident works in the West by publishing them first in the USSR for limited circulation among the elite and then refusing publication rights to foreign publishers. However, prevention of publication in the West would require litigation that the Soviets may be hesitant to undertake in the publishing country.

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CHILE: Santiago has taken further steps against International Telephone and Telegraph (ITT) properties.

An administration bill canceling ITT's managerial rights in the Chilean Telephone Company became law on Tuesday, thus legalizing continuing government management. The Allende government had taken over the property in September 1971, but continued negotiating the purchase of the company's 70-percent interest. In May 1972, however, the administration used disclosures in the US press of alleged ITT involvement in Chilean politics as a pretext for submitting two clearly punitive legislative proposals to the Congress.

Still pending in Congress is the proposed constitutional amendment that would nationalize all telephone company assets in a manner similar to that used in taking over US copper company holdings. In both cases, the Allende government has opted to revise the constitution in order to set up special, hand-picked tribunals to sanction its desire to pay little or no compensation for the expropriated properties. Congressional expropriation, while faster, would have permitted the US companies to carry their compensation claims through the normal judicial system with final review by Chile's still independent Supreme Court.

ITT values its telephone property investment at more than \$150 million, of which \$108 million is covered by expropriation insurance administered by the US Overseas Private Investment Corporation. Smaller ITT properties in Chile still in company hands, including two hotels, also are insured by the US Government. [REDACTED]

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MOROCCO: King Hassan begins the thirteenth year of his sometimes turbulent reign tomorrow. He continues to survive as an absolute monarch by a combination of clever political tactics, an iron hand, and good luck.

Nearly seven months after the latest coup attempt, Hassan still has taken no genuine steps toward sharing power, providing representative political institutions, or improving the efficiency of his administration. Over the years he has successfully maneuvered to discredit the traditional political parties and leaders.

Distrustful of the military that has been the throne's principal prop but also has twice attempted to eliminate him, he has executed or isolated potential military strongmen and has broken up and dispersed the units on which a military contender might rely. He has cracked down hard on troublesome students by withdrawing scholarships and closing down part of the university, thereby reducing the student body by half. The leadership of organized labor has been caught in a bind between a new get-tough government policy toward striking workers and an activist labor rank-and-file seeking higher wages and better fringe benefits.

Hassan has timed his foreign policy maneuvers to gain maximum popular endorsement at home. Recent gestures of support for the Palestinian liberation movements and his offer of military aid to Syria can be viewed primarily as political moves designed to refurbish his image at home and in the Arab world. The dispatch of troops and military equipment to Syria--which he said on 22 February would occur this week--does not affect the capacity of his army to mount another coup attempt and certainly will not materially alter the balance of forces in the Middle East. It does, however, provide the Moroccan military with something besides the domestic political situation to think about and is a useful device for removing possible trouble-makers from the local scene.

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BURMA: Exports of rice this year probably will not exceed 300,000 tons, the lowest level since World War II. Burma exported 800,000 tons in 1971 and about 500,000 tons last year. Late last year, the government was forced to renege on export commitments because of insufficient domestic stocks. It was only as a result of the intervention of several heads of state that Chairman Ne Win has so far agreed to export about 100,000 tons of rice to traditional Asian importing countries. These countries--including Sri Lanka and Bangladesh--have been seeking even larger deliveries. With government procurement of rice from the current harvest running at least 50 percent behind last year, Burma is postponing any decision on new export commitments. [redacted]

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DAHOMY: The military government, mindful of its need for French support, is disowning responsibility for anti-French rioting touched off Wednesday evening by student and labor activists seeking to exploit the government's claim that it had uncovered a coup plot financed by an unnamed foreign power. In public and private assurances to Paris, President Kerekou has blamed uncontrolled "hooligans" for the disturbances, which grew out of a public rally that had been organized by the extremists with the approval of the government. Yesterday the government also deployed troops and armored cars in the capital and banned street gatherings of more than three or four persons, apparently reflecting a determination to prevent a recurrence of such disturbances. These measures suggest that the moderate Kerekou has the support, at least for now, of ministers who control key military elements. The orientation of these colleagues is not clear; at times they have appeared to be aligned with more radical cabinet members and extremists who want to dilute Dahomey's ties with France. [redacted]

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