



Director of  
Central  
Intelligence

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# National Intelligence Daily

Wednesday  
7 December 1988

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7 December 1988

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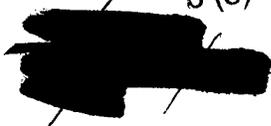
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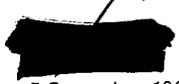
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USSR:

Caucasus Cauldron Still Boiling

*New steps to contain ethnic violence in the Caucasus have not yet been effective.* [REDACTED] b(3)

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[REDACTED] on Monday three civilians in Azerbaijan died in mob violence that the local press described as "massive disorder" provoked by extremists. On Sunday, three soldiers and 15 to 20 civilians were wounded in a series of confrontations as troops cleared the central square in Baku of nationalist demonstrators. [REDACTED] there had been casualties in ethnic violence in rural Armenia and imposed a tough curfew in five districts. [REDACTED] b3

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Nationalist sentiment on both sides remains at fever pitch. The Armenian Writers Union recently accused the Azerbaijanis of genocide in the massacres at Sumgait in February 1988 and of cowardice for their failure to denounce it. Although the Armenian and Azerbaijani party organizations are at least going through the motions of trying to calm the situation, neither commands much authority—as shown by attacks on party buildings of both sides in recent weeks. [REDACTED] b(3)

In one of a recent series of moves to restore order, Premier Ryzhkov and General Secretary Gorbachev have signed a joint government-party declaration instituting penalties for firing workers because of their nationality. The USSR's Procurator General said criminal proceedings have been started against mob agitators in both republics. The special government commission on refugees under Deputy Premier Shcherbina has also moved quickly to provide emergency relief in both republics. [REDACTED] b(3)

[REDACTED] Despite these moves by Moscow, tensions are not abating. The continued presence of security forces in both republics will be required for the foreseeable future. [REDACTED] b(3)

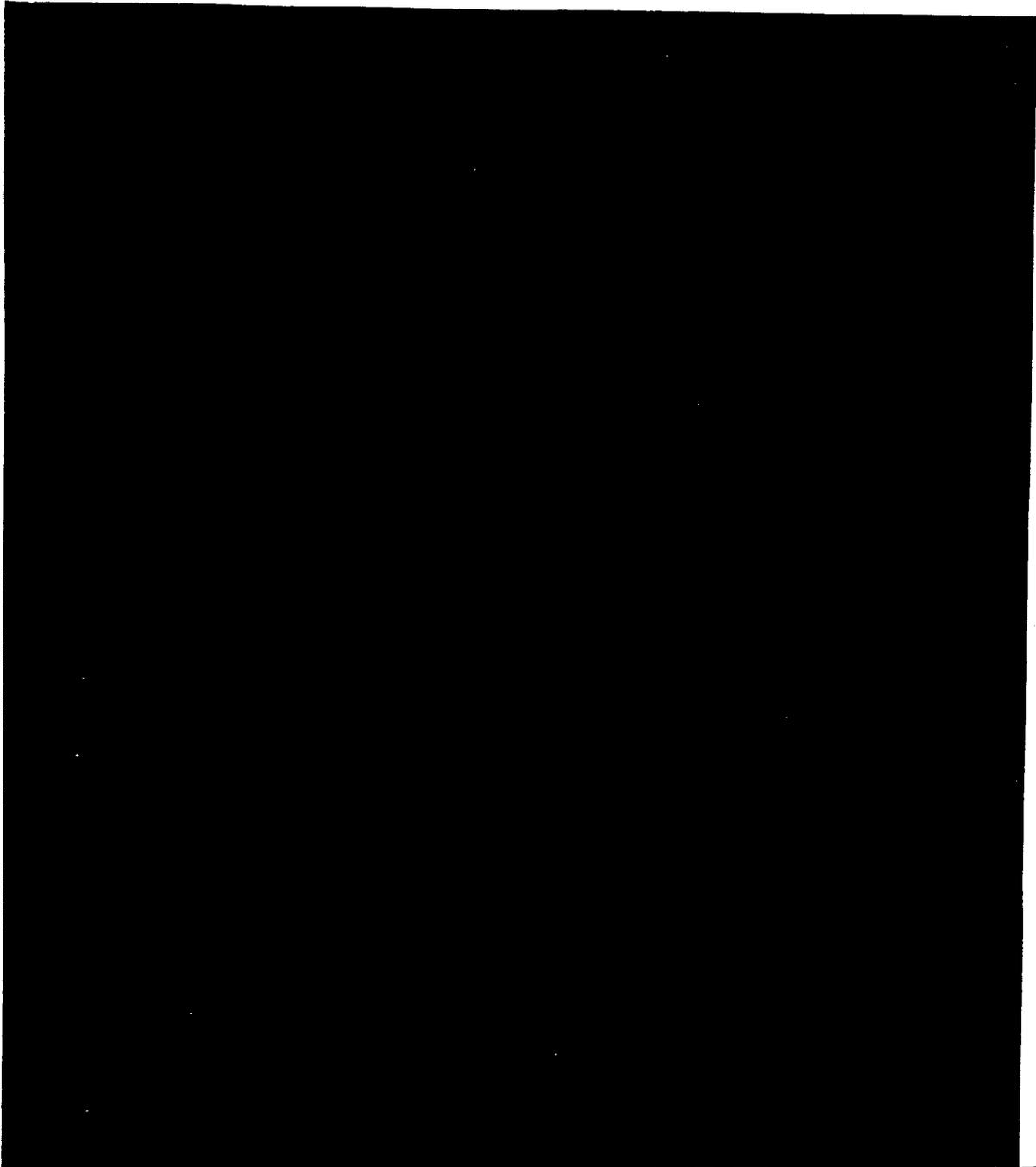
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SYRIA: Balancing Relations With Hizballah and Amal

*In its effort to restore order in West Beirut, Syria appears to be applying an evenhanded policy that will ultimately benefit Hizballah over Amal.*

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The press reports that Syrian forces are arresting any armed gunmen on the streets and have set up new checkpoints throughout the contested areas of West Beirut. [REDACTED]

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Syria's evenhanded policy with the two Shia groups and its effort to get Hizballah to return to the south—Amal's remaining stronghold—will benefit Hizballah. Although Dāmascus probably will not abandon Amal, Assad is hoping to build influence with Hizballah. Amal has relied in the past on strong support from Syria, which has intervened virtually every time Amal has foundered, and Barri is likely to demand even more Syrian aid. [REDACTED]

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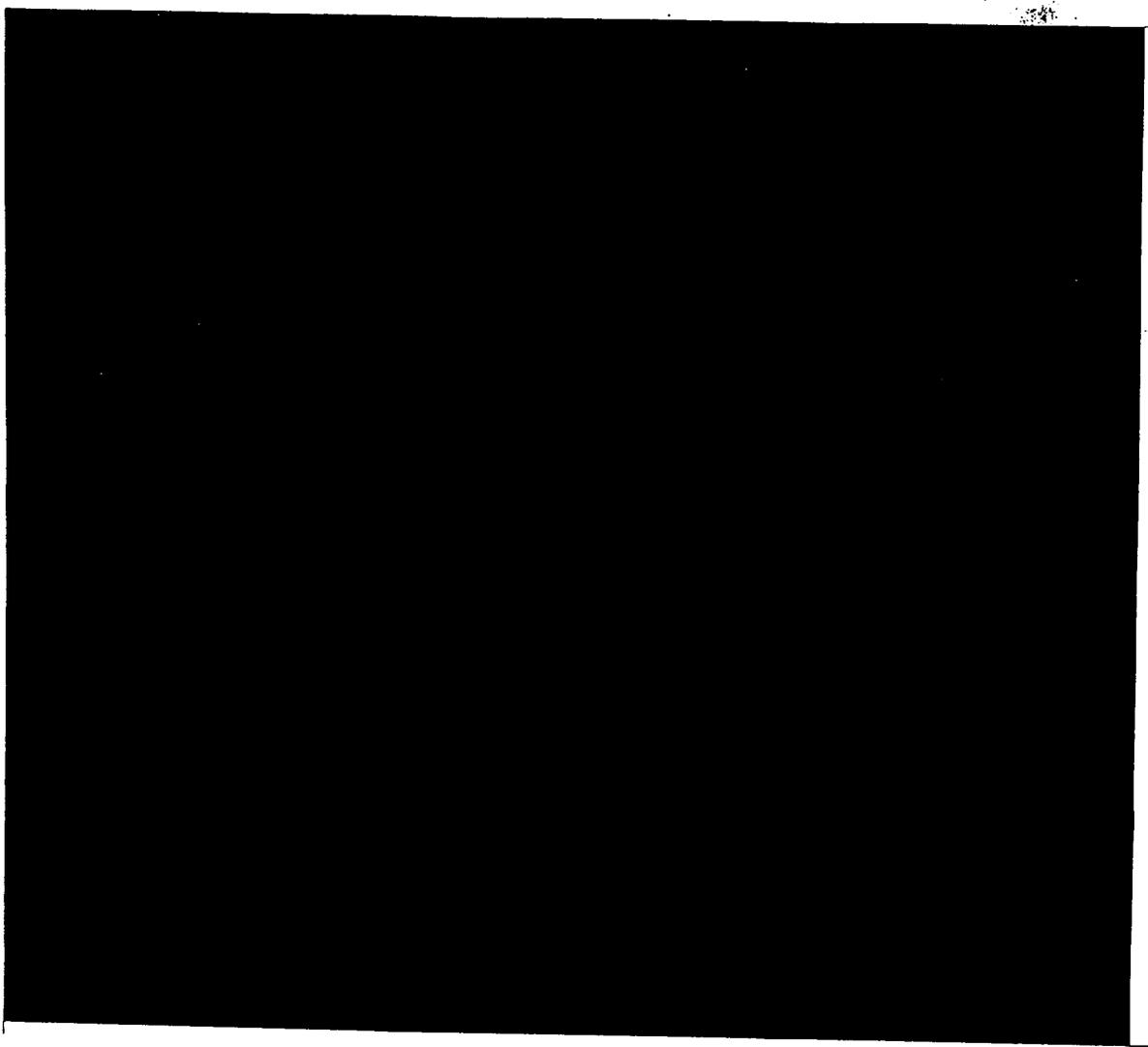
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CZECHOSLOVAKIA: Soviets Urge Reform

Soviet Politburo member Aleksandr Yakovlev's recent visit to spur Prague's reform process may increase tension in the Czechoslovak party, but Prague is unlikely to abandon its tentative approach. [redacted]

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[redacted] Yakovlev intended to nudge the regime toward reform, [redacted] he also advocated more lenient treatment of dissidents and an end to jamming Western broadcasts. Czechoslovak leaders and media made gestures toward Soviet concerns during the visit, but [redacted] an article published during the visit calling for a reevaluation of the "Prague Spring" earlier was opposed by a majority of the Central Committee. [redacted]

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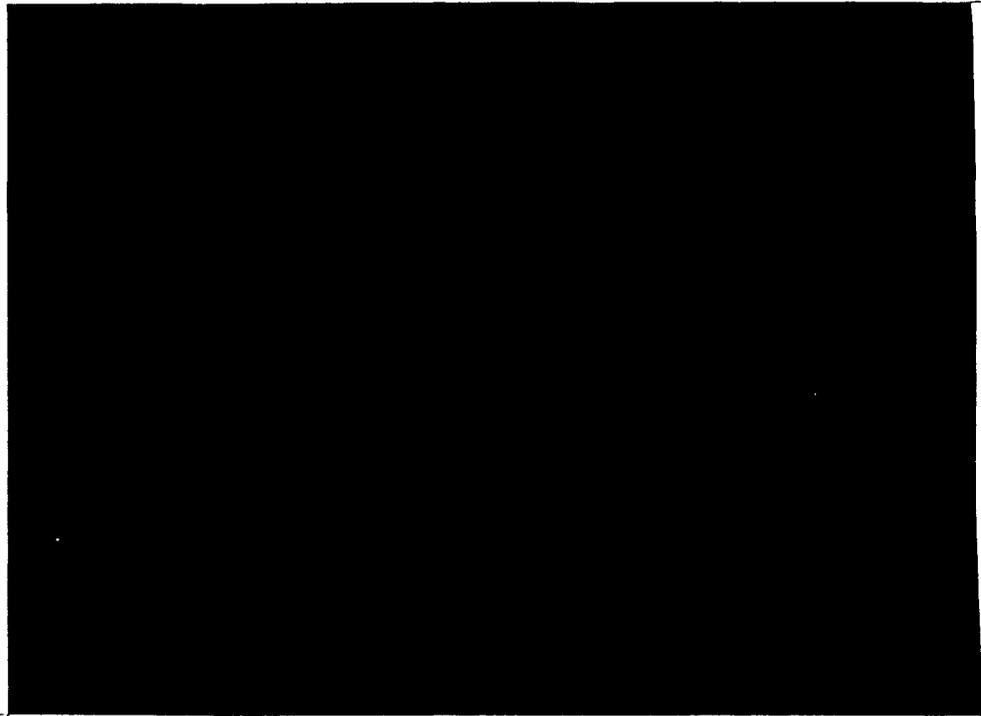
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[redacted] Prague's foot-dragging on *perestroika* and harsh stand on dissent may have prompted Yakovlev's visit, and his comments suggest Moscow is concerned that Prague is backsliding. Moscow may hope to use an accord on ideological cooperation signed during the meeting to prod Prague toward reform, and Yakovlev's criticism may embolden party moderates to argue more aggressively for political liberalization and economic restructuring. Nonetheless, fear of losing control, as in 1968, will continue to slow the pace of meaningful change. [redacted]

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#### COSTA RICA: Repatriating Nicaraguan Refugees

Costa Rica apparently led the 337 Nicaraguan refugees it repatriated last week—some of whom may have been former Nicaraguan rebels—to believe they were being moved to another refugee camp in Costa Rica. [REDACTED] only about 20 of the refugees wanted to return to Nicaragua. [REDACTED] b1

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This first attempt to return Nicaraguan migrants follows a recent agreement between the two countries that provides for joint border patrols, ostensibly to prevent illegal migration and narcotics trafficking. [REDACTED] b (3)

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[REDACTED] San Jose wants to keep its international reputation as a haven for refugees, but it also is increasingly nervous about the growing migration from Nicaragua since Hurricane Joan in October. Costa Rican officials are probably concerned that political and economic conditions in Nicaragua will result in a continued heavy flow of migrants. The Sandinistas, meanwhile, undoubtedly will try to expand the joint patrols to detect and prevent cross-border movements by insurgents. [REDACTED] b (3)

#### EL SALVADOR: Leftists May Withdraw From Election

Statements by leaders of the Democratic Convergence—a coalition of three leftist parties, two of which are allied with the insurgents—suggest it may withdraw from El Salvador's presidential election next March. Convergence candidate Guillermo Ungo has increased his antigovernment rhetoric, charging that the election process is undemocratic. Convergence leaders also say the recent reform of the electoral code, passed over President Duarte's veto by the rightist-controlled Legislative Assembly, paves the way for fraud by the right. [REDACTED] b(3)

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[REDACTED] By portraying the election as unfair and suggesting it may pull out, the Convergence may be trying to save face after garnering only 4 to 5 percent in recent public opinion polls. Convergence leaders may also be worried that the rebel campaign of urban terrorism will hurt their electoral prospects. Insurgent leaders have not fully endorsed the participation of their political allies in the election and may be pressing the Convergence to drop out to avoid a repudiation of the left at the polls. Leftist leaders undoubtedly realize that their withdrawal would embarrass the government, which repeatedly has cited the Convergence's participation as evidence of El Salvador's maturing democracy. [REDACTED] b (3)

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CAMBODIA: Infighting in Non-Communist Resistance

Dissension in the non-Communist resistance group, the Khmer People's National Liberation Front, is increasing.

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B3 [REDACTED] The continued factionalism and weak leadership threaten the Front's plans to expand and become a more effective fighting force. In recent months, the organization has doubled in size B3 [REDACTED] mostly by rounding up deserters, and has increased operations inside Cambodia. [REDACTED]

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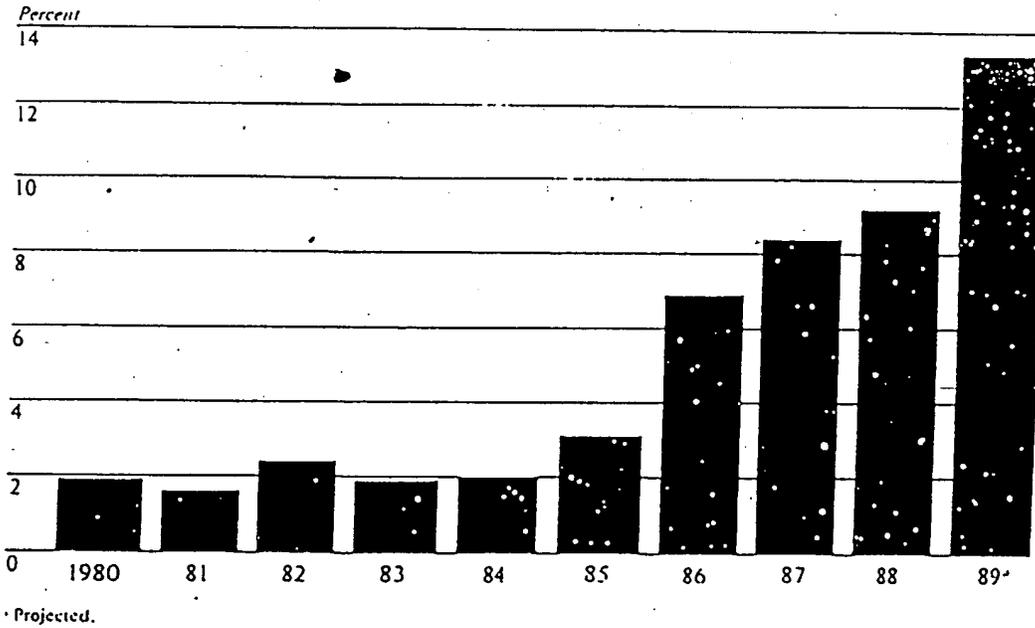
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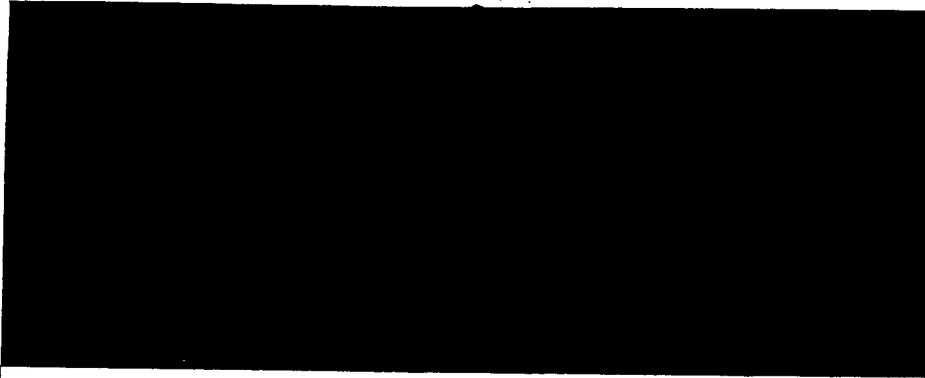
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Estimated Soviet State Budget Deficit as a Share of GNP



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Estimating the Soviet Budget Deficit



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Special Analysis

USSR:

Budget Deficits Rising Sharply

*The Soviets' recent announcement that they project a budget deficit of 35 billion rubles in 1989 may be intended to press those in charge of protected spending such as defense and consumer subsidies for budget cuts. The Soviets suggested that the financial imbalance has subsided since 1985, but President Gorbachev's policies actually have been increasing the deficit rapidly, and the resultant inflationary pressures are undermining both the reform process and efforts to improve consumer welfare.* [redacted] B3

In October the Soviet Finance Minister projected a budget deficit for 1989 of 35 billion rubles—the USSR's first public acknowledgment of a deficit since World War II. He also said there had been deficits in the past, indicating that they peaked about 1985 and were inflationary. He attributed the 1989 deficit to economic shortfalls and to the need to increase spending on urgent social and ecological problems while maintaining high spending on investment, defense, and consumer subsidies. [redacted] B3

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[redacted] the deficit actually has continued to rise rapidly since 1985 and is likely to reach about 125 billion rubles next year, some 13 percent of Soviet GNP. (The highest US Government budget deficit—in FY 1986—represented 3.5 percent of US GNP.) The discrepancies between Soviet and Western versions of the USSR's budget problems arise from Moscow's definition of government loans from the State Bank as a revenue source. Such loans are the equivalent of simply printing more money. [redacted] B3

The Finance Minister offered few effective measures for dealing with the deficit. He implored all users of state funds to reduce spending and called for new lotteries, insurance programs, and local bond issues to raise revenue. [redacted]

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Trends in Spending and Revenue

Spending has been increasing since 1985 because of Gorbachev's ambitious investment program, the rising cost of consumer subsidies, and unanticipated costs such as the Chernobyl' cleanup, as well as high defense spending. Revenues have been curtailed by the antialcohol campaign, the drop in world oil prices, and reduced imports. [redacted]

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The 1989 budget plan accentuates these trends. Expenditures are to rise by 11.5 percent, or 50 billion rubles, primarily because of increased spending on health, education, science, and subsidies, and possibly higher wholesale prices. Revenues, however, probably will increase by only 9 billion rubles. The Soviets project that their largest tax source—payments from profits—will not grow at all. [REDACTED] b (3)

The announcement of a large deficit for next year is a departure from Moscow's usual approach of masking sensitive financial information. The acknowledgment of past deficits contradicts official statistics showing small budget surpluses through 1987. Moscow may be going public now to put pressure on defense, consumer subsidies, or other long-protected spending or to make the case for substantial tax increases. Any such strategy, however, will probably produce only small deficit reductions in the near term. [REDACTED] b (3)

#### Implications

The increase in the 1989 deficit—which will be about 50-percent larger than this year's—shows Gorbachev's difficulty in getting the economic system to respond to his priorities. Soviet leaders have been unable to make cuts in spending to meet the increased budgetary demands of Gorbachev's consumer program. In his October speech, the Finance Minister emphasized the difficulty of cutting even the growth in spending for existing programs. Gorbachev's opening up of the political process may have aggravated the problem; widely publicized debate in the Supreme Soviet, for example, forced planners to retreat from initial plans to reduce investment in agriculture in 1989. [REDACTED] b (3)

The inflationary pressure generated by the deficit is increasing the difficulty of moving to a more market-oriented economy. Because bond sales and additional private savings can finance only a small fraction of the deficit, prices will be under additional pressure and Moscow is likely to be even more uneasy about relaxing price controls. [REDACTED] b (3)

Gorbachev, moreover, has already resorted to reform-hobbling administrative measures when necessary, and inflationary pressures may lead him to retreat further from market reforms, particularly by limiting enterprise managers' freedom to set prices and select their product mix. Moscow's spending may thus increase consumer disgruntlement rather than ease it. [REDACTED] b (3)

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Human Rights Scorecard

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	Accomplishments	Limits
<i>Freedom of expression</i>	Public revelations of problems and attacks on Stalinism continuing . . . Western critics given space in Soviet media.	Direct attacks on top leaders—except those ousted—still taboo . . . police occasionally disrupt more daring informal journals.
<i>Freedom of association</i>	"Popular fronts" now tolerated in several republics, and some 40,000 "informal groups" have been established.	Some radical groups have lost access to public meeting halls.
<i>Freedom from arbitrary arrest</i>	Citizens now can challenge official decisions in court . . . new code may give suspects right to immediate access to legal counsel.	Surveillance, harassment, illegal searches, and detentions still occur . . . several nationalists exiled for their actions.
<i>Freedom of assembly</i>	More than 600 demonstrations since January 1987 . . . some have had up to 1 million participants.	New law requires advance notice and allows only marches that do not "threaten public order" . . . activists often detained for up to two weeks.
<i>Freedom of movement</i>	Emigration on the upswing and more short-term travel allowed.	Arbitrariness still prevalent in emigration . . . denials still based on previous access to "state secrets."
<i>Freedom of religion</i>	Baptisms no longer have to be registered with state . . . Bibles allowed in through mail.	Several religious leaders exiled . . . Muslims not benefiting from liberalization, and Ukrainian Catholic Church remains outlawed.
<i>Right to national self-expression</i>	Vocal demands tolerated . . . Central Committee scheduled to address nationality problem next summer.	Regime refusing to redraw political boundaries . . . rejecting concept of republic sovereignty.

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Special Analysis

USSR:

Action on Human Rights

*General Secretary Gorbachev is again releasing Soviet dissidents and refuseniks and has—for the first time—ended the jamming of Radio Free Europe/Radio Liberty (RFE/RL), moves evidently intended to start off on the right foot with the new US administration. The strengthening of Gorbachev's political position at the September Central Committee plenum probably gave him the leeway to take these steps, but ethnic tension in the Baltic states and the Caucasus may limit possibilities for further moves.* b (3)

The highly visible human rights moves reflect Gorbachev's current chief foreign policy priority—to get relations off to a good start with the incoming US administration.

b (3) the leadership's primary motivation in ordering the resolution of almost all the cases on various US "representational lists," the end of jamming of RFE/RL and *Deutsche Welle*, and the release of several political prisoners was to ensure a good atmosphere for Gorbachev's New York visit. b (3)

Emigration Is Up, but Picture for Dissidents Is Mixed

The publicity surrounding recent events highlights a trend of increased emigration. If current rates continue, about 16,000 Jews will get exit permits this year, double the 1987 level. Total emigration, which includes Armenians and ethnic Germans, will be about 65,000 this year—an alltime record. Within the past week, the regime has reversed more than 100 emigration denials that were based on the person involved having had access to secret information. Authorities have also permitted Jewish cultural societies to be set up in several Soviet cities. b (3)

In addition to the nearly 350 political prisoners released last year, about 140 have apparently been freed so far in 1988, including many nationalist and religious figures even from the volatile Baltic states. Most had been incarcerated for religious reasons; Baptists and Pentecostals account for almost half of them. There is good evidence, however, that another 350 remain in labor camps, prisons, psychiatric asylums, or internal exile and weaker evidence suggesting the total may be as high as 650. b (3)

On balance, there has been significant improvement in the treatment of dissidents. Although a tiny opposition party that has sprung up in Moscow is harassed and police brutality is still used against a few dissidents, several criminal provisions, including one punishing

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### Moscow's Treatment of Leading Activists Still Mixed

Of the prominent Soviet dissidents, Andrei Sakharov has gotten the most favorable treatment from the government. Since Gorbachev released him from internal exile in December 1986, Sakharov has become something of a loyal opposition figure and has moved steadily toward full political rehabilitation. He was allowed to visit the US and was elected to the Presidium of the Soviet Academy of Sciences in October. The leadership evidently believes that allowing Sakharov to travel and speak freely is good propaganda that offsets his public criticism of the regime.

Other activists like Lev Timofeyev, the scholarly editor of *Referendum*, an unofficial journal, remain outside the realm of official acceptance but have advocated the establishment of a constructive dialogue with the regime. Still others probe the Soviet leader's limits on *glasnost* and apparently remain in the traditional category of dissidents.

- Aleksandr Podrabinek, whose newsletter *Express Chronicle* monitors human rights abuses and the status of political prisoners across the USSR, has been characterized as a fearless critic who is highly skeptical of the regime's intentions. He was sharply attacked in the official press when his name appeared on a guest list for President Reagan's reception of dissidents and refuseniks during the 1988 Moscow summit. His activist father and brother have been harassed and detained several times in the past year.
- Sergey Grigor'yants, editor of the unofficial journal *Glasnost* and a figure of reportedly boundless zeal and authoritarian personality, has made good on his pledge to test the limits of *glasnost* and has served as a major source of information to the West on disturbances in the Caucasus. The offices of his journal were destroyed by the police, and he has been detained numerous times, most recently last week in Yerevan.

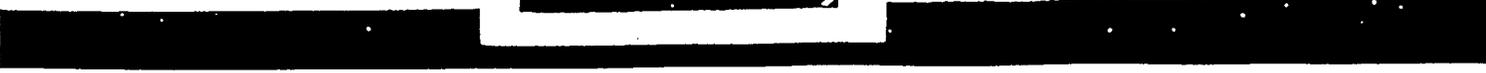
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"anti-Soviet slander," are no longer enforced. For the first time, the Supreme Court has struck down verdicts against two dissidents arrested in the Brezhnev period. Meanwhile, victims of Stalin's repression continue to be rehabilitated. Despite limits—manifested in the new ideology chief's recent pronouncement that Aleksandr Solzhenitsyn's work would not be published—*glasnost* continues to expand. [REDACTED]

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Such measures freeing up the system suggest Gorbachev is using the elbowroom he gained in September at the Central Committee—plenum, when his more orthodox critics were shifted to less powerful positions, to push his human rights initiatives. The ferment Gorbachev has created, however, may make him vulnerable to future pressures from both ends of the political spectrum. The progress that dissidents see encourages them to press for more reform, while simultaneously reinforcing the determination of orthodox leaders to reassert control over public activism and ethnic unrest. [REDACTED]

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#### Outlook

The concessions Gorbachev has made show that he is prepared to go to great lengths to defuse human rights as an issue complicating US-Soviet relations. In view of the give he has shown so far, he may be prepared to yield even more if the US seeks action in areas where change has been limited—such as the rights of religious believers. [REDACTED]

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At the same time, there has to be a limit beyond which Gorbachev will not or cannot go. Politically, he may need to show results from the concessions he has already made. [REDACTED]

[REDACTED] the USSR would not hold CSCE and conventional arms control talks hostage to a Moscow human rights conference, Gorbachev is likely to press the US and the UK to agree to the meeting—which he evidently believes would improve the USSR's image. More broadly, positive movement in bilateral relations generally would vindicate his approach on human rights and strengthen his domestic political position. [REDACTED]

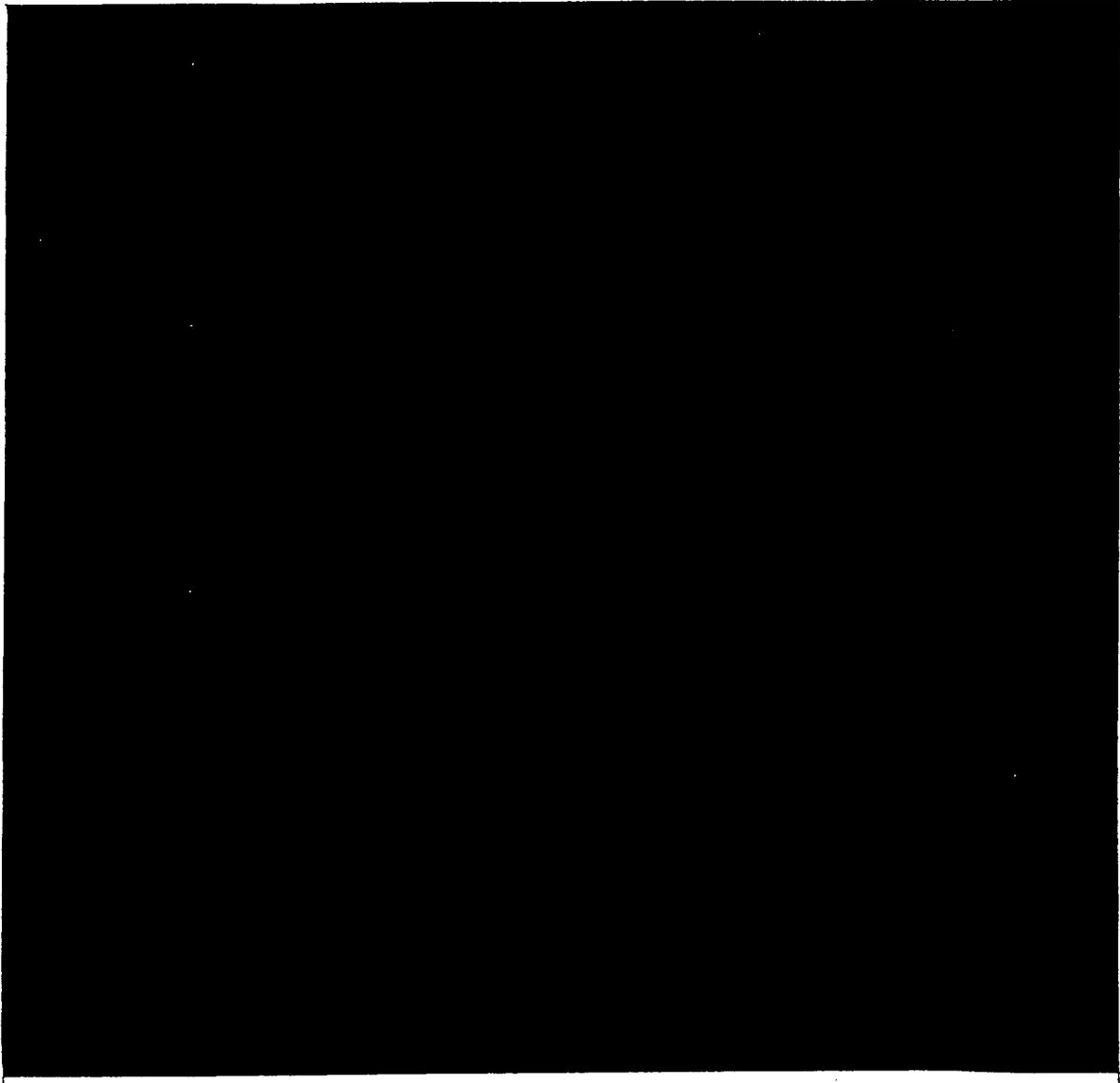
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Special Analysis

NATO:

Outlook for Defense Spending

*The NATO foreign ministers semiannual meeting that begins tomorrow faces the prospect that low real growth in Allied defense spending in the next several years will reduce defense capabilities in some countries and make the debate over burdensharing more divisive.* [redacted]

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Non-US NATO defense spending will grow less than 1 percent in real terms next year, based on preliminary reporting to NATO, and probably no more than 1 percent annually in the next decade, well below projected growth in gross domestic product for many Allies. NATO's 1979 goal of 3-percent real annual growth probably is not achievable the rest of this century—the Allies collectively achieved it only once, in 1981. [redacted]

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The willingness and ability of the Allies to increase their defense budgets remains constrained by high unemployment, large budget deficits, and thin margins of political support. The Allied perception of the threat also has declined during the 1980s as Soviet leader Gorbachev's disarmament initiatives and concentration on internal reform have kept West European public concerns about a Soviet attack low. West Europeans, [redacted] also fear spending increases could be viewed as provocative and could undermine Gorbachev. [redacted]

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The Europeans do not agree that the US bears a disproportionate share of the burden, insisting that the US focuses too much attention on financial measures. [redacted]

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[redacted] Other Allies say they support Western defense in various concrete ways: hosting NATO troops or facilities, playing key logistic roles or providing essential reserves in wartime, and participating in out-of-area operations such as in the Persian Gulf. (C NF)

In terms of actual NATO defense capabilities, no major improvements in ground, air, or naval forces are likely until the mid-1990s at the earliest. Even the slight growth forecast in defense spending is likely to go mainly to increases in wages and benefits to attract volunteers as the draft-age population declines. [redacted]

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[redacted] Most Allies probably will become increasingly dependent on [redacted] reservists. Low maintenance and operational expenditures also will impair combat readiness, and some Allies probably will try to shed NATO-assigned roles to fit their reduced capabilities. [redacted]

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### Special Analysis

LATIN AMERICA: Keeping Noriega at Arm's Length

*Latin American leaders are refusing to give Panamanian Defense Chief Noriega the political respectability he covets and are awaiting Washington's next moves to resolve the crisis. In recent weeks, the Latin leaders have signaled their disapproval of Noriega by snubbing Panama's overtures in regional forums.*

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*Nevertheless, unless Noriega gives up power soon, regional leaders—led by recently elected Venezuelan President Perez—will probably urge the Panamanian opposition to participate in a scheduled election next year, tacitly legitimizing Noriega's grip on power.*

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Panama has had limited success overcoming its diplomatic ostracism. In Latin America, only Cuba, Nicaragua, and, to a lesser degree, Mexico have close relations with the regime, while the regime claims to have representation in 29 Third World countries, probably including Latin American states.

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### Dual Approach on Panama

With Noriega entrenched and the Panamanian opposition weak, regional policy toward Panama seems to have settled into keeping formal but low-key ties to Panama City, while holding the regime at arm's length in international organizations. Countries in the Latin Group of Eight—Argentina, Brazil, Colombia, Mexico, Peru, Uruguay, and Venezuela—decided during their summit in October to keep Panama suspended from the Group until progress is made on a democratic solution to the Panamanian crisis. Despite deposed President Delvalle's personal appeal to put pressure on Noriega, the Presidents did not mention Panama in their communique.

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there is little regional support for the regime's assertions that the US has violated its obligations under the Panama Canal Treaties. During the recent meeting of OAS foreign ministers, Panamanian attacks were received with silence and probably caused Panama not to introduce a resolution against US economic sanctions.

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The Latin Americans privately have criticized US sanctions as counterproductive and as doing more damage to Panama's middle class than Noriega. They also worry that the sanctions set a precedent for intervention.

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Charting a New Course

Regional leaders are not likely to resume their mediation efforts and are marking time until the new US administration sets its policy on Panama.

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Other Latin Presidents may [REDACTED] encourage the Panamanian opposition to participate in the election. Opposition leaders recently announced their plan to set up a transition government and to demand Noriega's resignation. Domestic and regional pressure to use the electoral process to end the crisis, however, may lead opposition leaders to participate on Noriega's terms—an action that would help legitimize his regime. [REDACTED]

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