



Director of
Central
Intelligence

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National Intelligence Daily

Thursday
29 December 1988

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29 December 1988

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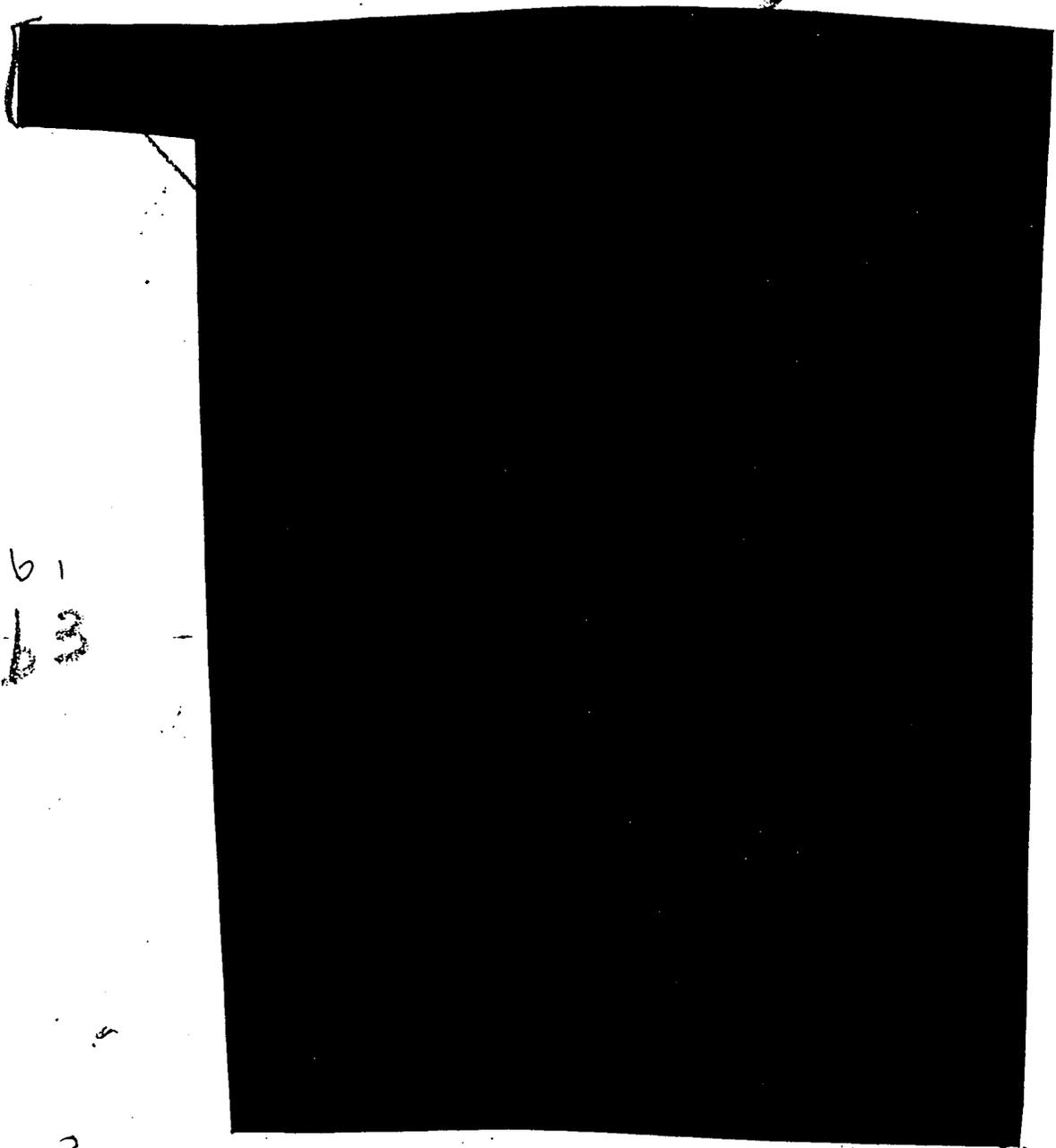
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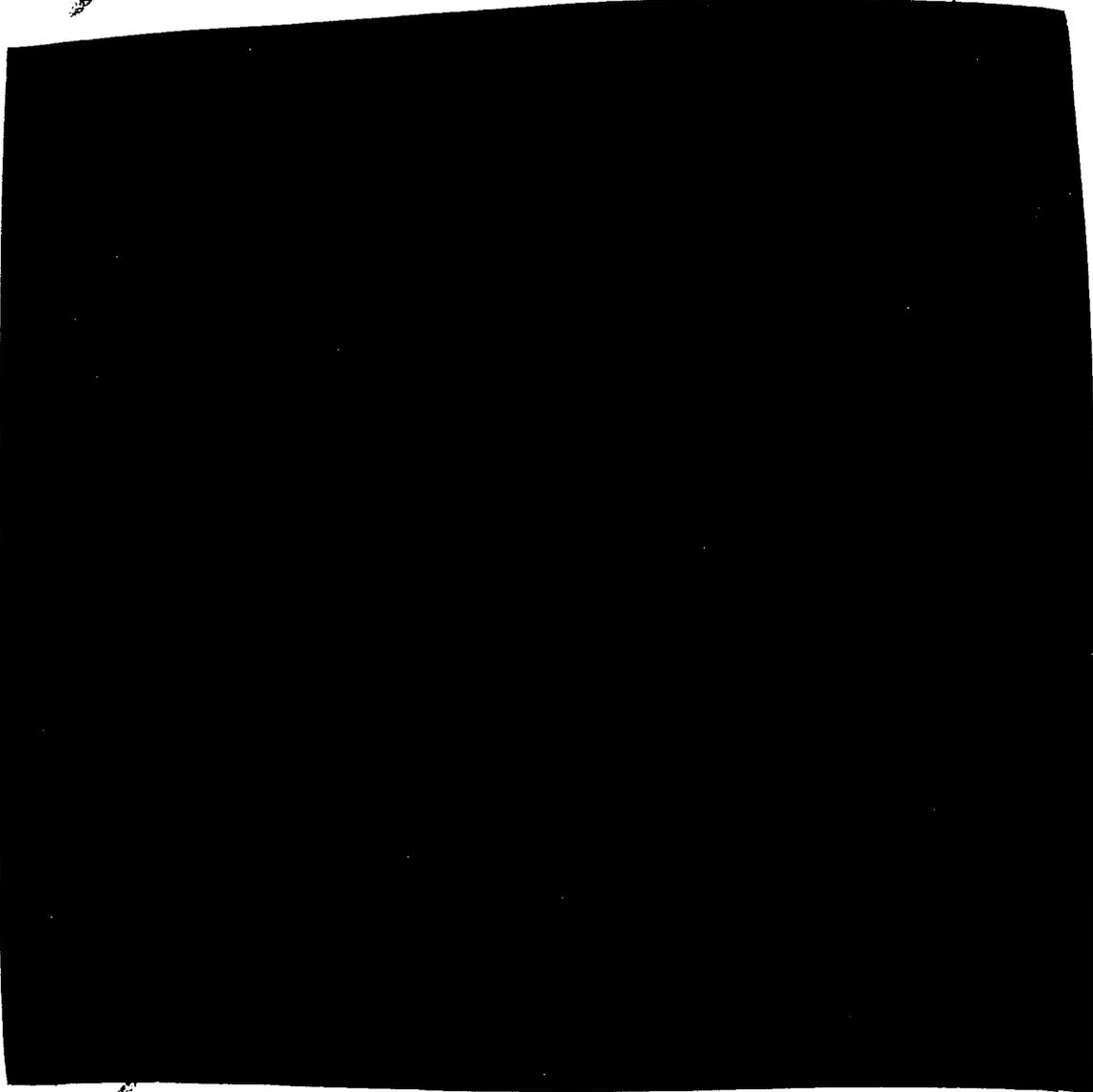
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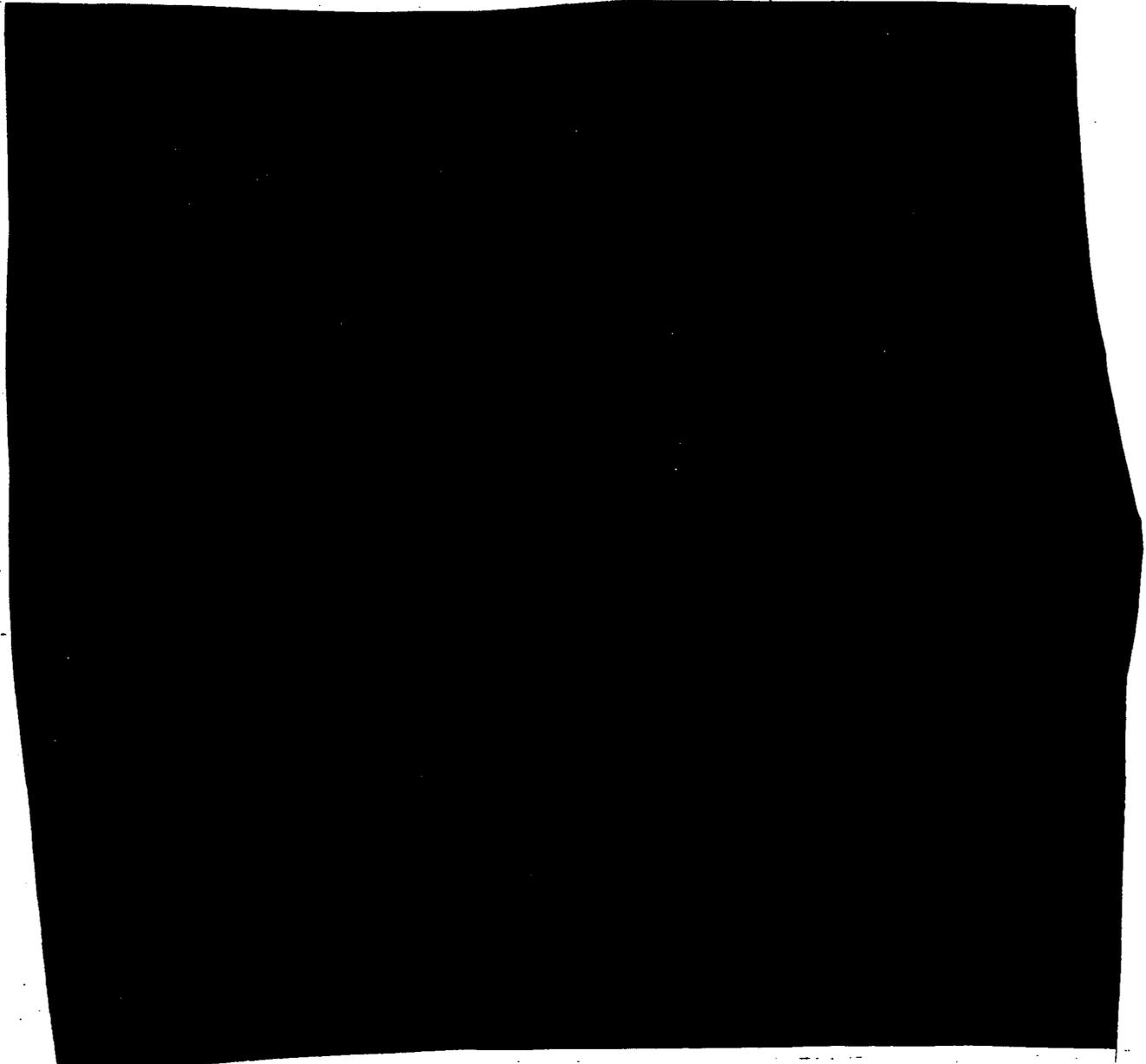
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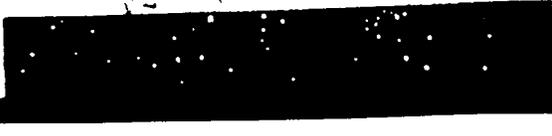
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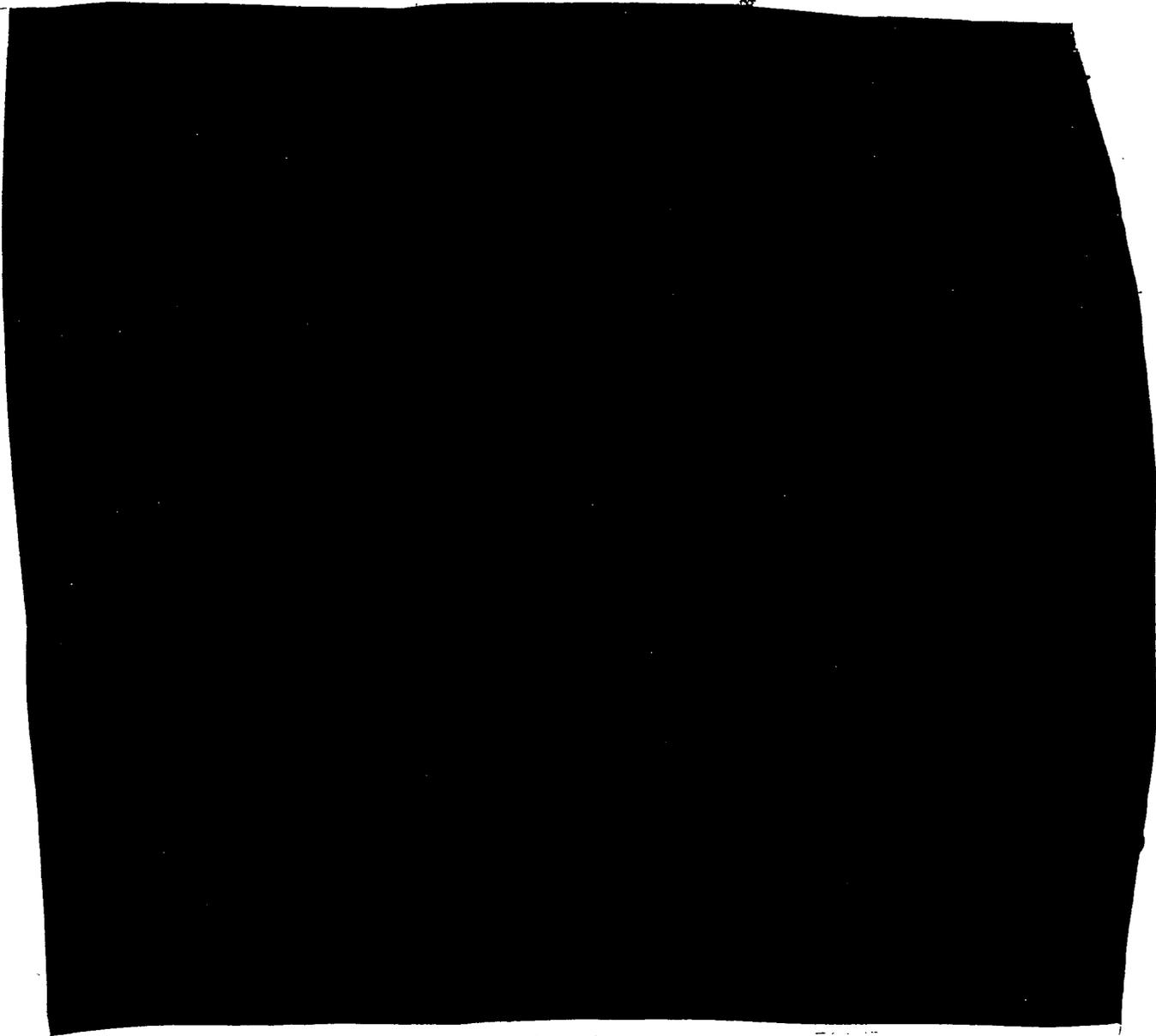
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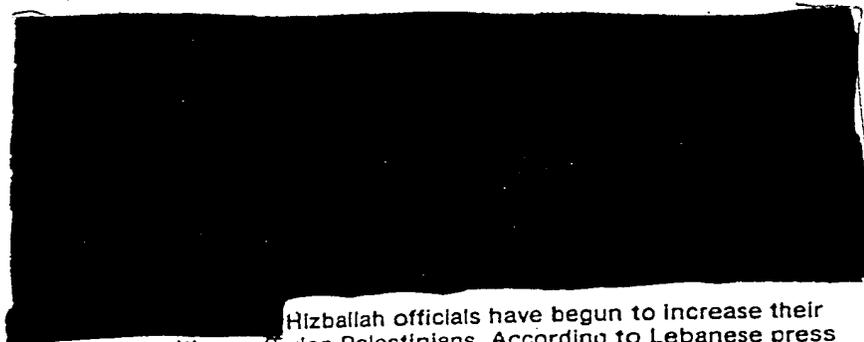


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LEBANON:

Hizballah Debating Relations With Syria

Differences over the scope of relations with Syria are intensifying among Hizballah's leadership and may have resulted in armed clashes within the fundamentalist Muslim group. b3



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Hizballah officials have begun to increase their contacts with pro-Syrian Palestinians. According to Lebanese press reports, Hizballah officials attended a conference in Beirut last week sponsored by pro-Syrian Palestinian groups and supported the meeting's condemnation of PLO Chairman Arafat's recent policy statements. In addition, a delegation from the pro-Syrian Palestinian Abu Musa group visited Tufayli's headquarters in the Bekaa over the weekend to discuss closer cooperation. b3

Comment: Hizballah's spiritual leader, Ayatollah Fadlallah, appears to be leaning toward the camp that favors accommodation with Syria. He has visited Damascus several times this year and in talks with President Assad recognized Syria's importance to Hizballah. Fadlallah is not likely to cut his ties to Iran, however, and will continue to press Tehran for financial assistance. His views will strongly affect the debate within Hizballah, and he probably will try to develop a consensus rather than allow the radical Shia group to fragment. b3

Damascus will continue to cultivate Hizballah, as Assad searches for leverage on Lebanese political developments. Hizballah is likely to be receptive, regardless of internal friction, because Syria controls its supply line from Tehran. In addition, Hizballah will probably increase contacts with pro-Syrian Palestinian groups as a hedge against future clashes with the more moderate Shia Amal militia. b3

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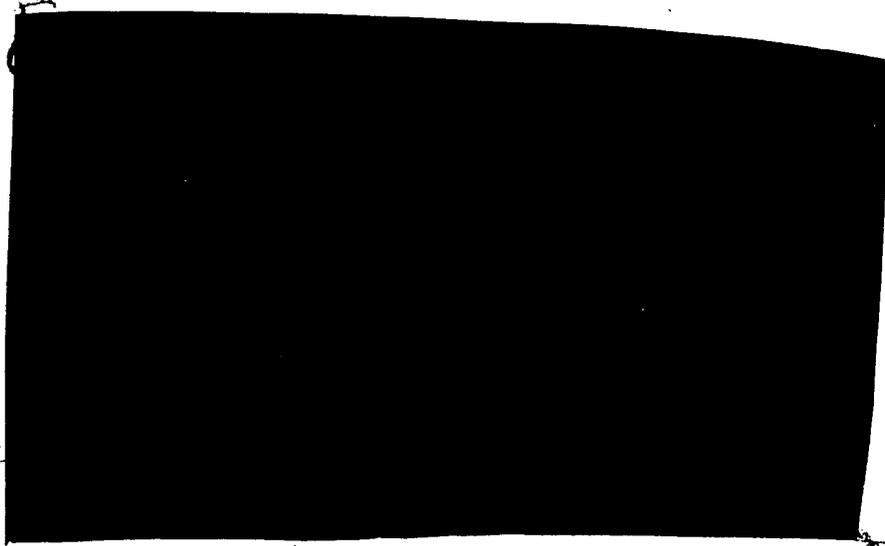
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SUDAN: Sadiq Faces More Trouble

The Democratic Unionist Party, the second-largest partner in Sudan's ruling coalition, yesterday said it was leaving the government, according to Western press reports. The Unionists also called for the repeal of recent price and tax increases, for the formation of a caretaker government, and for new elections. Thousands of Sudanese continue to demonstrate in Khartoum and regional capitals, many calling on Prime Minister Sadiq al-Mahdi to resign. Sudan's largest trade union federation is calling for a general strike until the Prime Minister revokes the price hikes. Airport workers have closed Khartoum's international airport in support of the strike. b3

b3 [redacted] If Unionists leave the coalition, it will further weaken Sadiq and may undermine military support for him. Last week Sadiq's government disappointed the military and general public by rejecting a peace agreement the Unionists negotiated with southern rebels last month. The departure of the Unionists would make it very difficult for Sadiq to get the peace process back on course and resolve the current economic crisis. [redacted] b3

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EC: Strategy in Arab-Israeli Dispute Developing

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[REDACTED]

officials expect to meet PLO Chairman Arafat soon in Madrid or Tunis, and Spain is trying to arrange meetings with Israel, Egypt, and Syria. Israeli Prime Minister Shamir has been invited to visit British Prime Minister Thatcher [REDACTED]

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[REDACTED] France and Italy almost certainly will join Spain, effectively replacing the formal troika of the last, current, and next EC presidents that the EC established last week to explore Middle East diplomacy.

b1, b3

[REDACTED]

Spain, France, and Italy will try to improve West European credibility with Israel and to reassure the US and other EC states—particularly the UK, West Germany, and the Netherlands—of their constructive purpose. Rather than invite Arafat to Madrid, Spanish officials will probably seek a meeting in Tunis in order to appear evenhanded to Washington and Tel Aviv. [REDACTED] pursuing their own strategy of persuading Shamir to participate in a Middle East peace conference under UN auspices. [REDACTED]

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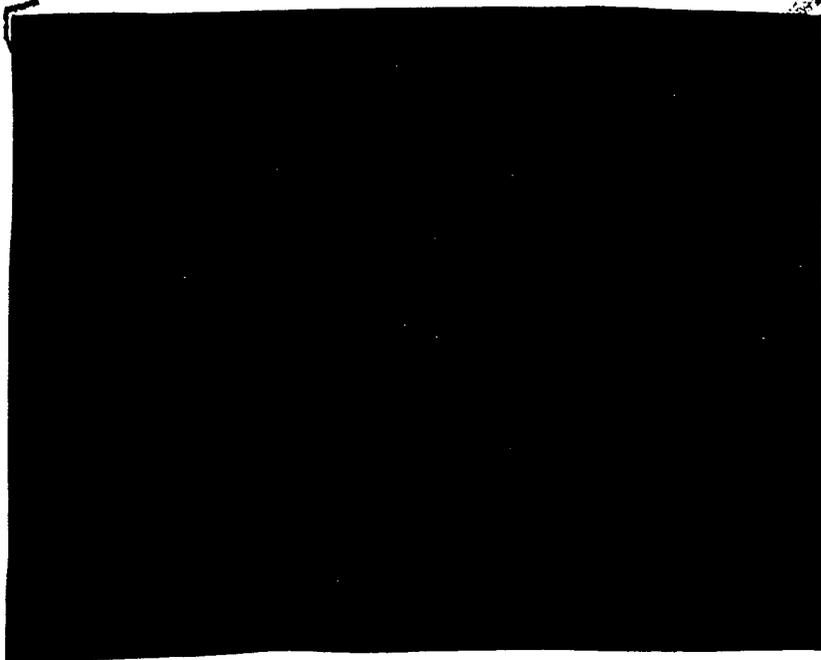
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CAMBODIA: Jakarta Talks in Jeopardy

Vietnam announced yesterday it wants to hold a second informal meeting in Jakarta on a settlement in Cambodia in February as scheduled whether or not the Khmer resistance factions participate. Thai officials say the three resistance factions appear resolved not to attend the meeting. [redacted] resistance officials cite Vietnamese intransigence, the potential for more progress in Sino-Soviet talks, and the possibility of increasing pressure on Hanoi among their reasons for wanting the meeting postponed. [redacted]

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b3 [redacted] Vietnam's announcement forces the Association of Southeast Asian Nations (ASEAN) to try to bring the guerrillas to the bargaining table or to cancel the meeting. Thailand and Singapore probably prefer to shelve the talks because they do not trust Indonesian Foreign Minister Alatas and consider him overly deferential to Hanoi. Bangkok also would welcome a setback for Alatas, who is hosting the talks, as it tries to regain the lead in ASEAN diplomacy on Cambodia. Another session at the working level would help keep the Jakarta initiative alive and reduce the risk of further discord in ASEAN. [redacted]

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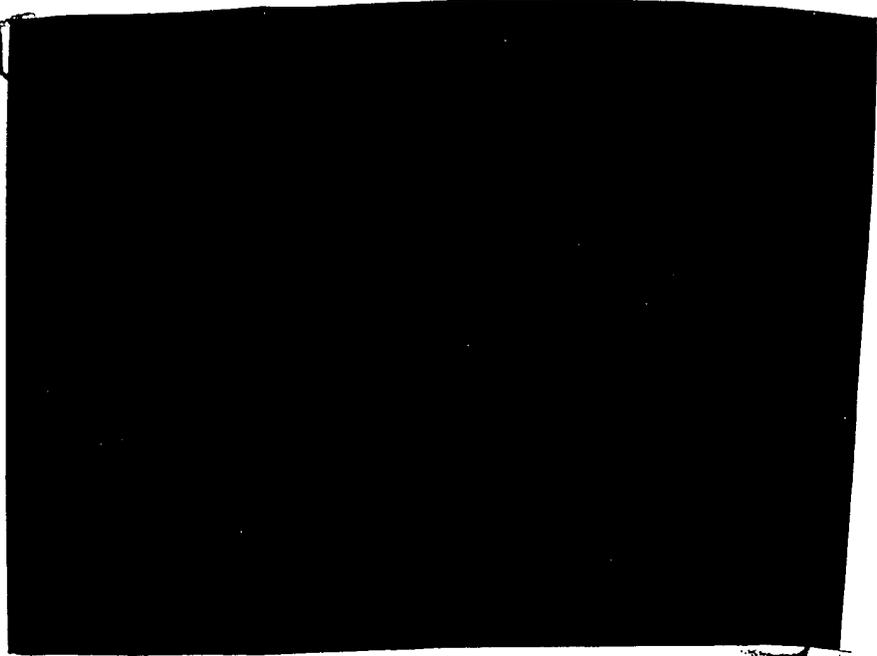
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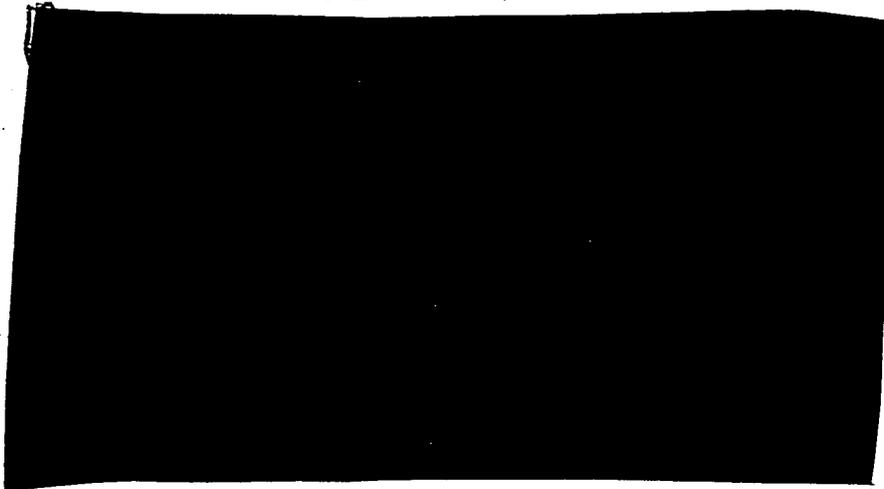
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In Brief

USSR

b3 - USSR began trial of four dissidents in Georgia yesterday, ... charged with organizing anti-Soviet demonstrations in early December ... trying to restrain new Georgian National Democratic Party, nationalist unrest. b3

b3 - USSR let *Glasnost* editor Grigor'yants out of Yerevan jail after 30 days ... on hunger strike while former associate Timofeyev allowed to visit Paris ... release, different treatment show sensitivity on Caucasus activism. b3

Europe

- Yugoslavia yesterday announced new regular Army commands will not follow regional boundaries ... likely prelude to subordinating republic militias to Belgrade ... some republics will see threat to their autonomy. b3

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East Asia

- Three South Korean strikers soaked selves with gasoline, suffered burns Tuesday in clash with nonunion employees at US-owned plant, ... union says firm trying to break strike ... incident will increase anti-US sentiment. b3

- South Korea yesterday countered latest North Korean call for dialogue with proposal for talks between Prime Ministers ... probably response to recent North Korean propaganda blitz ... Seoul may unveil own unification initiative next month. b3

b3 - widow of Burma's independence leader, mother of leading dissident died Tuesday ... government cooperating on funeral arrangements ... shortchanged rites for former UN chief U Thant triggered riots in 1974. b3

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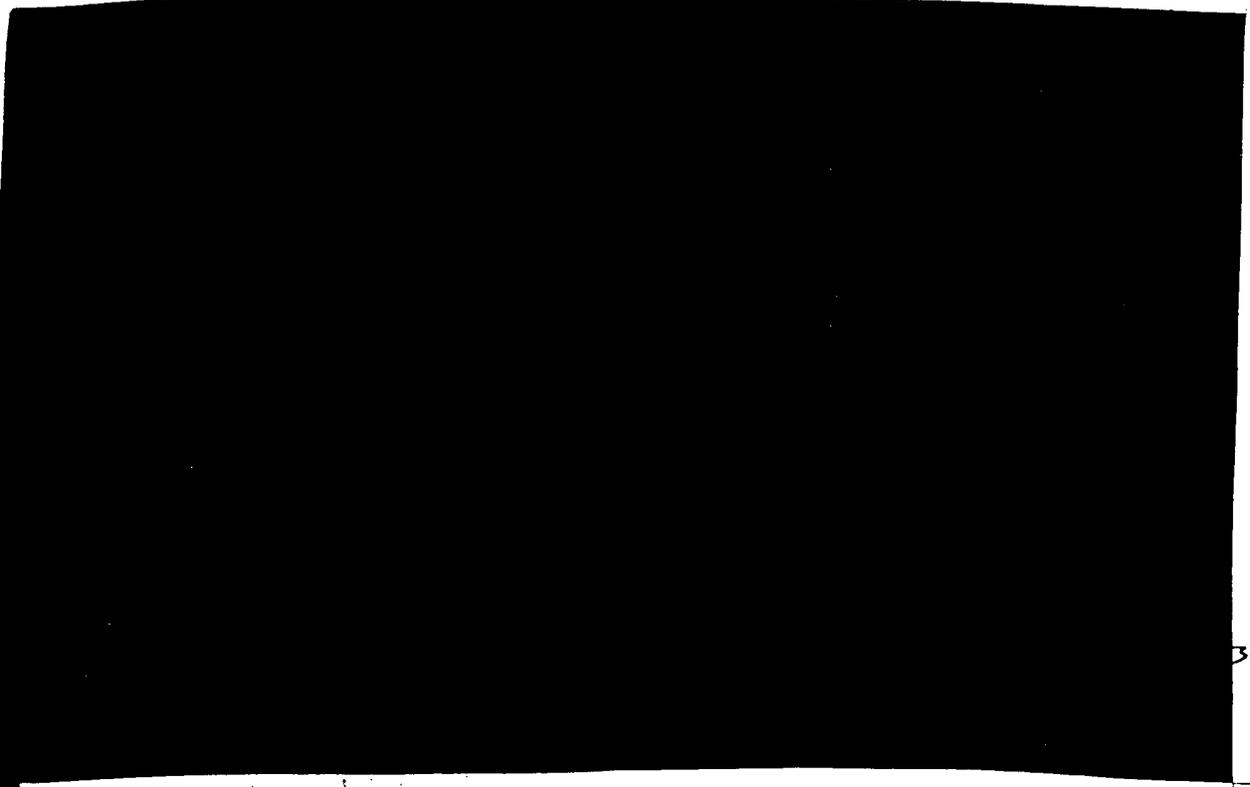
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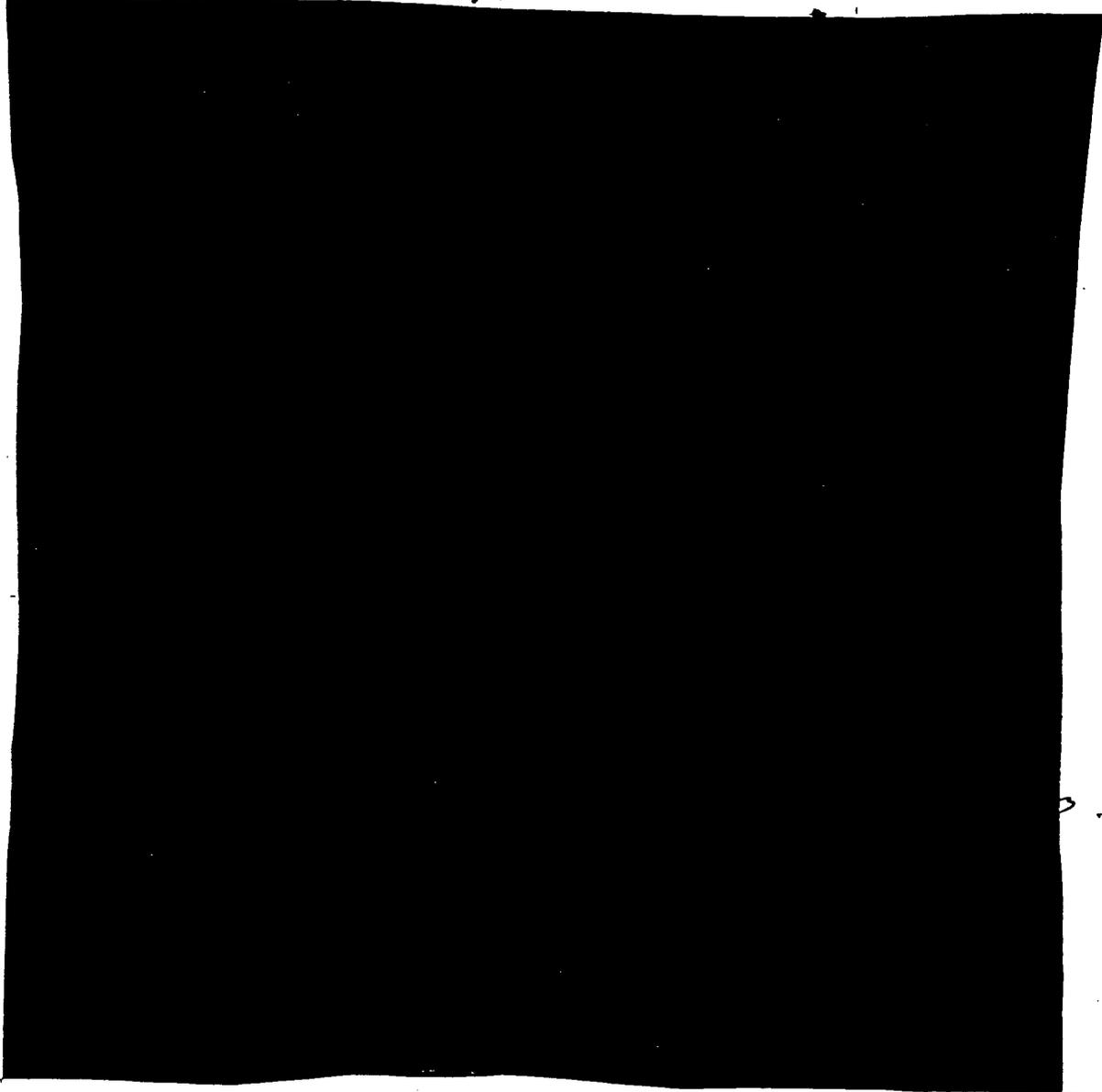
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Special Analysis



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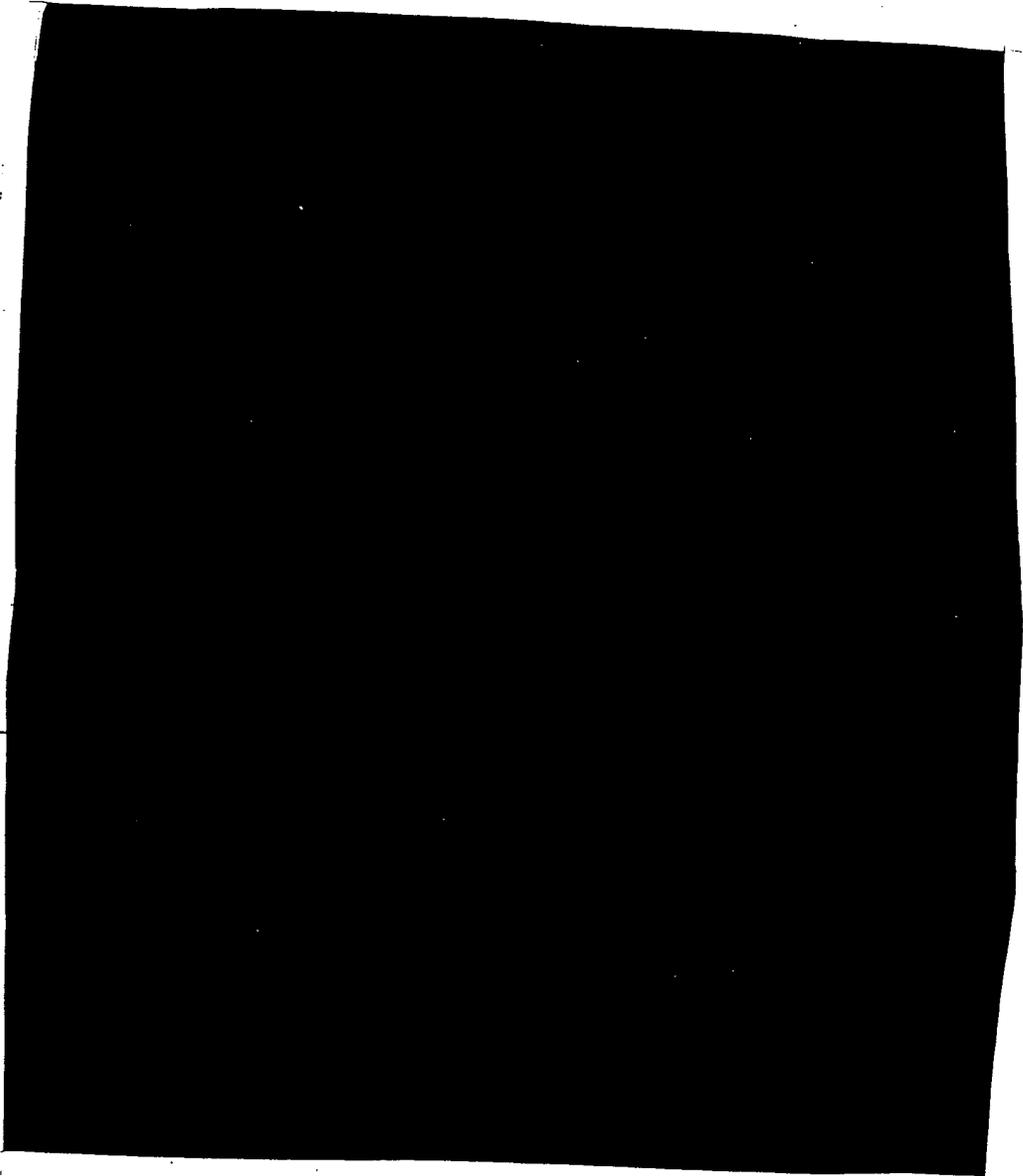
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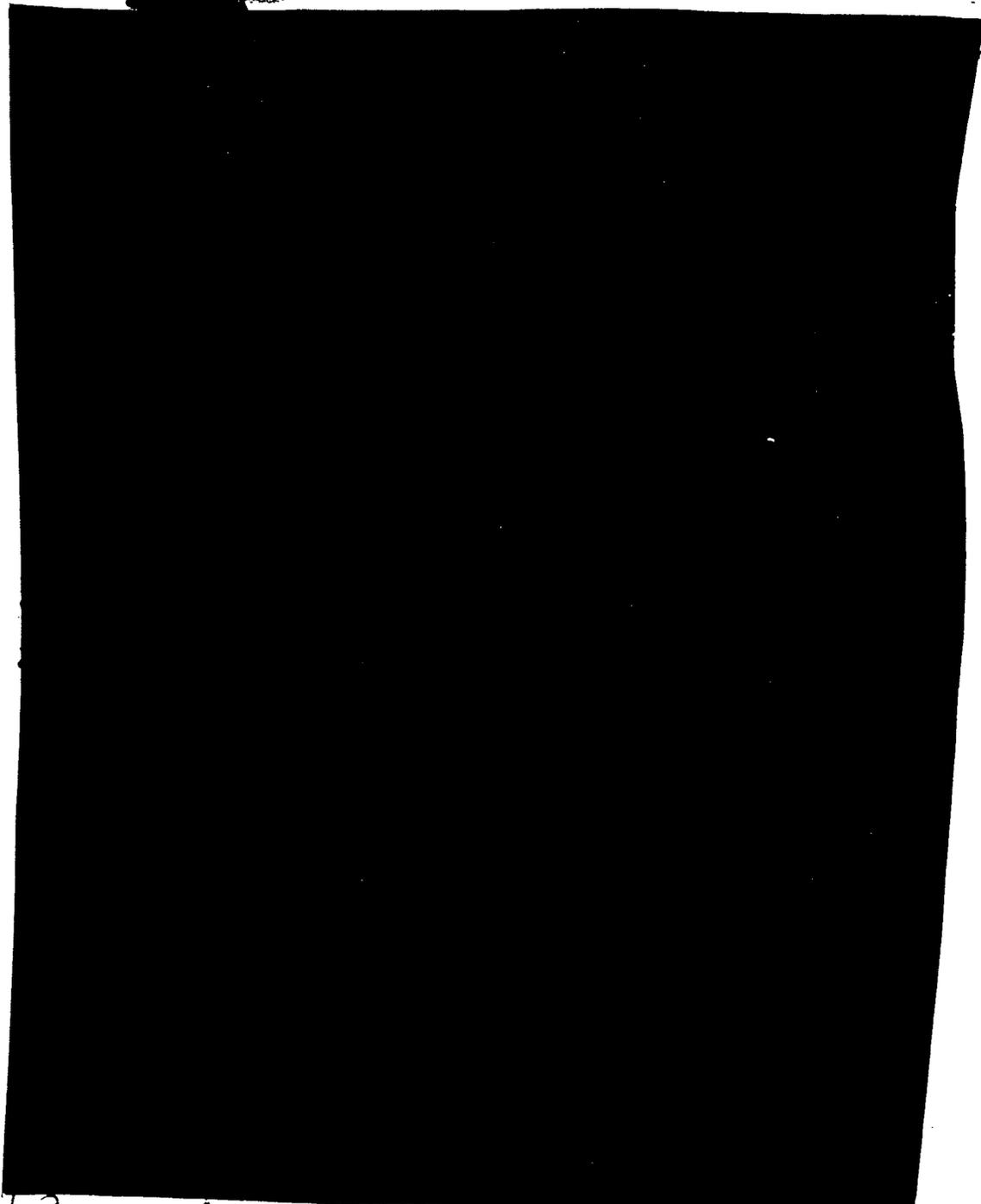
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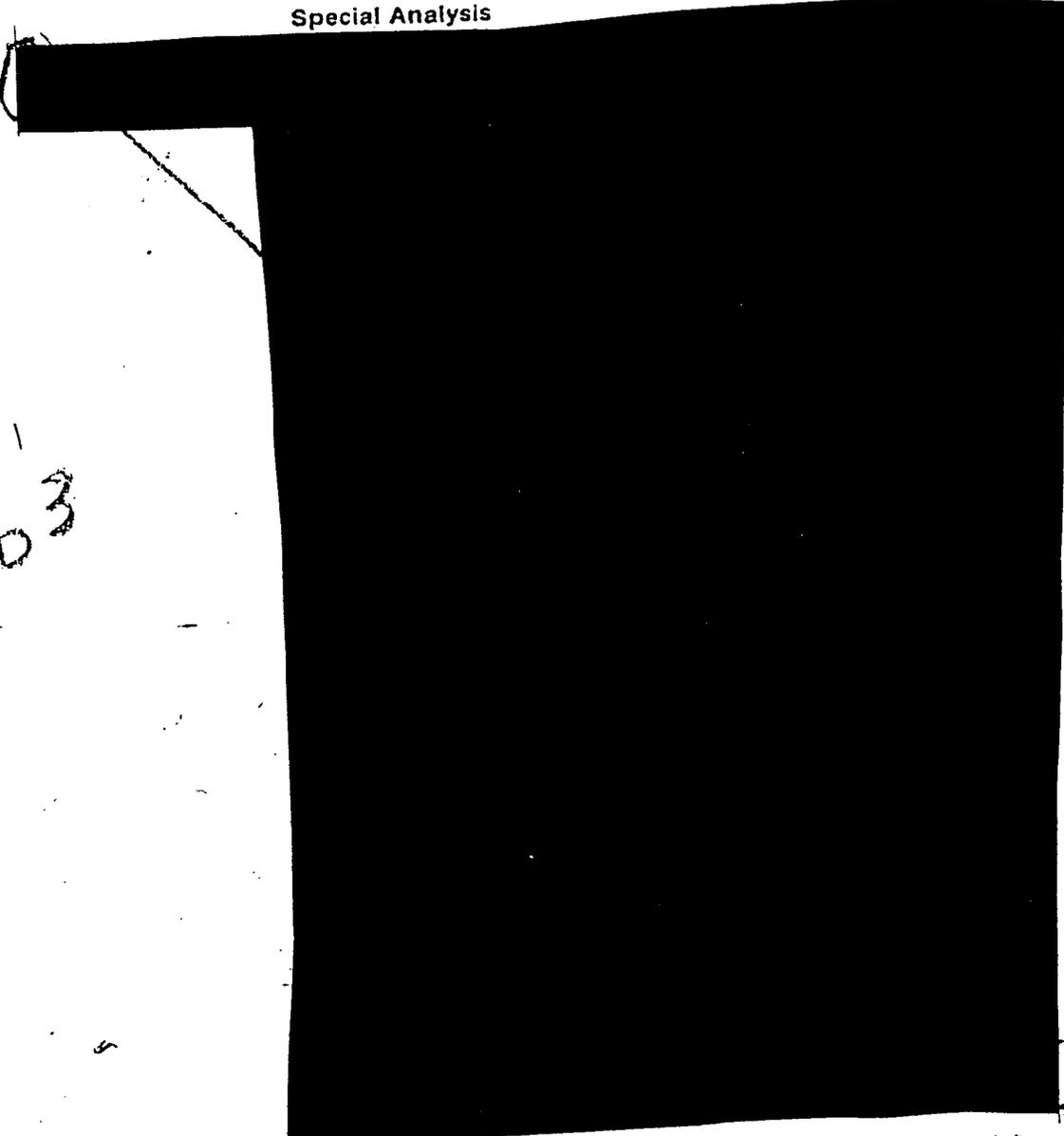
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Special Analysis



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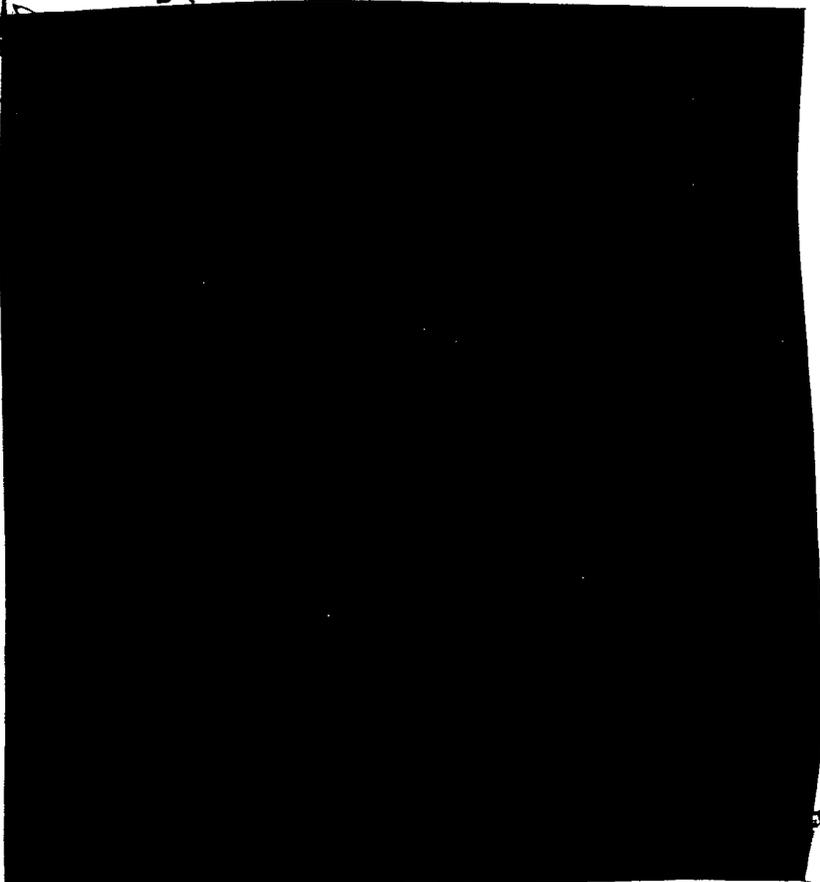
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Special Analysis

MIDDLE EAST:

Regional Economies Face Trying Year

Low world oil prices will force austerity on many Middle East countries in 1989, increasing antiregime criticism and the potential for political unrest. Low oil earnings will constrain growth for some countries; others will be affected by reduced aid and earnings from expatriate workers employed in oil states on the Persian Gulf. Most governments, fearful of antagonizing already disgruntled urban populations, will resist controversial reforms that might speed economic growth. [redacted] b3

Oil prices are likely to stabilize at around \$15 per barrel in 1989. Although resulting lower revenues will be manageable for some Gulf oil producers, there may be increased grumblings, [redacted] b1, b3 over management of their economies. Shortfalls in foreign exchange in Iraq and Iran will impede postwar recovery efforts:

— Small oil producers with large populations [redacted] will suffer more from stagnant or declining oil prices. The outlook for Algeria, hit hard by drought as well as the weak oil market, is particularly bleak when viewed against the backdrop of widespread civil unrest in October. b(1)

[redacted] b(1)

— Aid [redacted] is also likely to remain below normal levels. [redacted] b(1) b(1) b3

Debt Problems Threaten Financial Stability

Stagnant foreign currency earnings, poor economic management, and increasing demand for food and consumer goods will contribute to persistent balance-of-payments deficits for many countries in the region. Although most will try to reschedule their debt, problem debtors [redacted] are likely to test the resolve of Western creditors as they stretch repayment schedules and build arrearages. [redacted] b(1) b(1)

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[REDACTED] The difference between a crisis and being able to muddle through will depend on the vagaries of harvests and aid flows. [REDACTED] b3

Prospects for Reform Mixed

Progress in implementing reforms that could tap private-sector capital, both foreign and domestic, will be slow in much of the region. With the exception of reform-minded regimes, [REDACTED] the statist, centralized economic model remains firmly entrenched. Many governments remain fearful that reforms such as cuts in subsidies and restructuring of inefficient public-sector industries will provoke already disgruntled urban populations to revolt. Continued opposition to reform from government bureaucracies and state-controlled monopolies that benefit from preferential arrangements also will slow progress, even where government leaders are actively promoting liberalization. [REDACTED] b3

b(1)

In the absence of meaningful reform, a great deal of private-sector economic activity is likely to remain hidden from government reach. Although such activity will generate significant levels of employment and income in many countries, it does not reach all income groups and classes and will not insulate regimes from political unrest. [REDACTED] b3

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