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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Friday, 4 August 1989



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4 August 1989

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Top Secret

b (3)

Contents

	Lebanon: Situation Report	1	
	Iran: Increasing Involvement in Lebanon	2	
	El Salvador: Military Developments	3	
	USSR: Supreme Soviet Backs Cooperatives	4	
	Afghanistan: Reverberations From Insurgent Clashes	5	
	[REDACTED]	6	b (1) b (3)
	Thailand: Strains Ahead for Chatchai Government	7	
	Somalia: Siad Trying To Regain Control	8	
Notes	[REDACTED]	9	b (1) b (3)
	[REDACTED]	9	b (1) b (3)
	[REDACTED]	10	b (1) b (3)
	[REDACTED]	10	b (1) b (3)
	Bolivia: Banzer Concedes Presidency to Paz Zamora	11	
	Romania-US: Ties Declining, Not Without a Fight	11	
In Brief		12	
Special Analysis	Israel: Domestic Support for Ubayd Kidnapping High	13	b (1) b (3)

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Top Secret

4 August 1989

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LEBANON:

Situation Report

Hostages

In announcing suspension of the threat to kill US hostage Joseph Cicippio, the Revolutionary Justice Organization broadened its demands to include the release of an unspecified number of imprisoned Lebanese and Palestinian activists, as well as Shaykh Abdul Karim Ubayd. According to the press account, a list of the prisoners is to be passed to the Red Cross. [REDACTED]

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Comment: These developments almost certainly will strengthen Israeli leaders' belief that negotiations are possible. [REDACTED]

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Soviet Commentary

At a news briefing held in Moscow yesterday, a Soviet Foreign Ministry spokesman stated that the USSR is strongly opposed to escalating violence over the hostage crisis, cautioning that the threat or use of force would not defuse the situation. He said Moscow intended to discuss the hostage crisis with Syrian and Palestinian leaders and that it would send a message to Israel on the matter. Soviet press coverage of US naval movements in the Mediterranean has been factual. [REDACTED]

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Comment: Moscow is attempting to dissuade the US and Israel from military strikes that could lead to calls from its allies for more direct Soviet involvement and undermine its efforts to convene an international conference on the Arab-Israeli peace process. The Soviets' more active diplomacy is also designed to establish the USSR's credentials as an opponent of terrorism and a peacemaker in the region. [REDACTED]

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4 August 1989

IRAN:

Increasing Involvement in Lebanon

Tehran is expanding its support for Shia forces in Lebanon and increasing its coordination with Syria in part to help forge Muslim unity against Christian Prime Minister Michel Awn.

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Syria is for now encouraging Iran to play a larger role in Lebanon in part because Damascus has limited influence with Hizballah. It needs Tehran's help to keep peace between the rival Shia groups and to draw Hizballah into a larger Lebanese Muslim alliance against Awn.

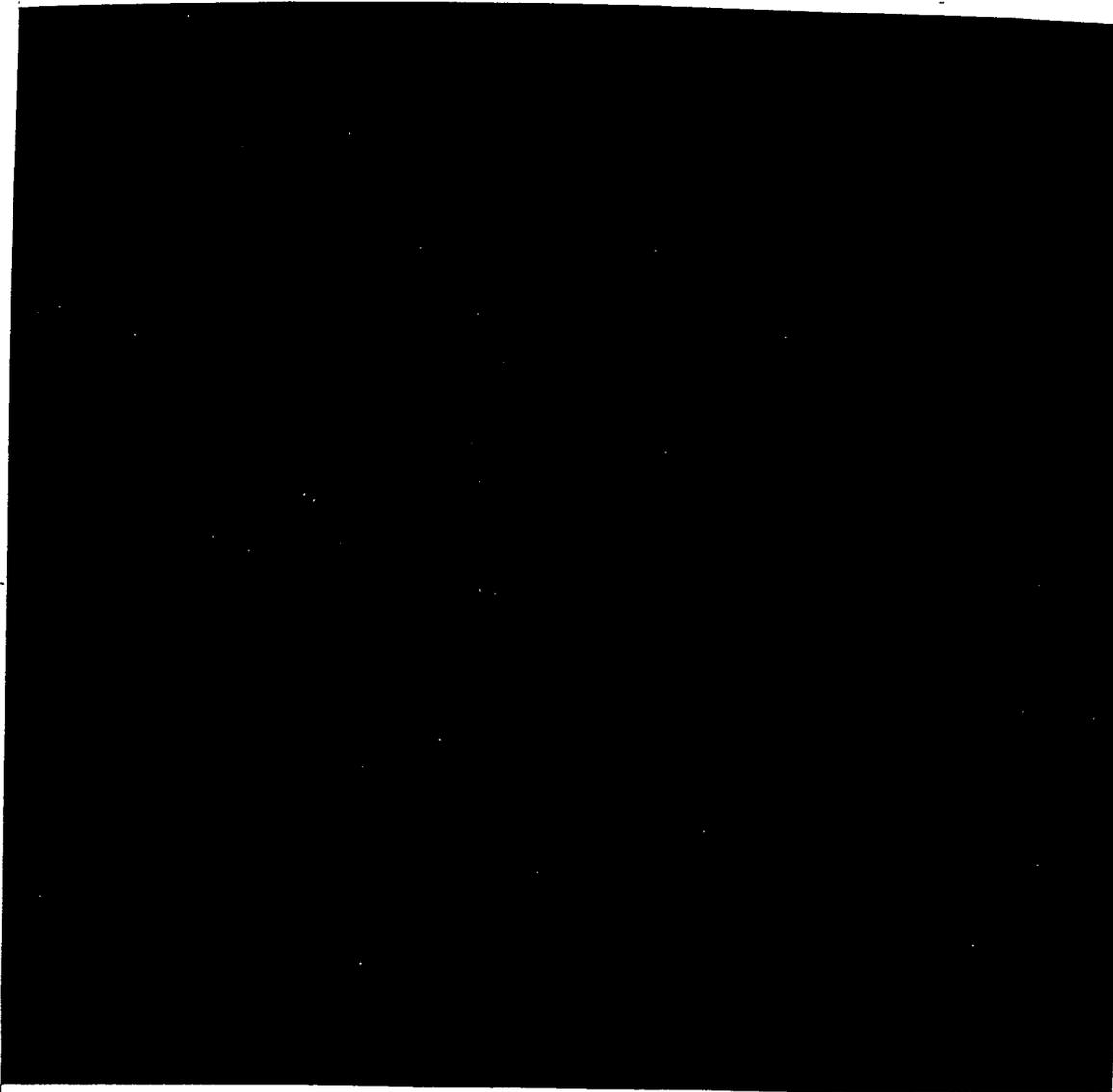
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4 August 1989

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EL SALVADOR: Military Developments

Marxist insurgents conducted attacks throughout El Salvador on Wednesday [redacted] the Army has begun operations in two major guerrilla base areas.

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The rebel attacks appear to have been well coordinated and targeted isolated National Guard and civil defense posts rather than well-defended military installations for the most part. The guerrillas also conducted several sabotage operations against electric lines and the transportation system. The civil defense and security forces reportedly suffered at least four dead and 13 wounded while the rebels sustained three casualties. [redacted]

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The military has begun a major operation in a rebel base area along the southern coast. [redacted] five Army battalions and 100 National Guard troops have deployed to Usulután Department to increase security in a major coffee-producing area. The Army also is conducting a series of smaller commando operations in northern Morazan Department that have killed at least 23 guerrillas. [redacted]

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[redacted] The insurgents probably timed their attacks to take advantage of military unpreparedness during a weeklong national holiday. Despite nearly a year of military setbacks, the insurgents are still strong enough to engage some lightly guarded targets. The rebels probably could not overrun a fortified military installation such as Ilopango Airbase, but they may be able to damage aircraft and facilities by conducting a standoff bombardment. [redacted]

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By attacking rebel base areas, the military is trying to establish a more permanent presence in areas the rebels have long held. The guerrillas may be able to avoid taking many casualties during these operations by dispersing their forces elsewhere in El Salvador. But, if government forces can deny the rebels sanctuary, they may at least temporarily frustrate insurgent resupply and diminish their ability to orchestrate attacks. [redacted]

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USSR:

Supreme Soviet Backs Cooperatives

The Supreme Soviet's approval this week of a revised decree that limits a planned increase in taxes on cooperatives underscores the reform-minded mood of the new legislature and should encourage the rapid development of these independent businesses to continue.

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The revised decree was issued after more than a week of heated debate between deputies who view the independent businesses as essential for reinvigorating the economy and those who believe they are out to make a quick buck at the expense of ordinary citizens. The original tax decree, issued in February, allowed republic authorities, as of 1 July, to determine the tax rates for cooperatives in their regions. Some republics, the Baltic ones for example, adopted moderate rates, but others, like the Russian Republic, whose cooperatives account for roughly half the goods and services cooperatives produce nationally, set prohibitive rates.

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The revised decree limits the tax rates for virtually all types of cooperatives to 35 percent and, if businesses charge state prices, to 25 percent. It exempts from taxable income spending on fixed capital, on training personnel, on protecting the environment, and—apparently—on wages. Like the original decree, however, it does not limit the tax rates that republics set for businesses that act as middlemen between enterprises and the public or between one enterprise and another.

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The new decree is a victory for reform-minded deputies who were concerned prohibitive rates would stifle cooperatives. Although the 35-percent ceiling is not as low as many cooperative businessmen would like, it does not appear excessive. If spending on wages is in fact exempt, the new decree is likely to substantially reduce the taxable income of virtually all cooperatives because most spend a large share of their income on wages.

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In the absence of tax ceilings for middlemen, the Russian Republic and other regions where hostility to cooperatives is strong will impose stiff tax rates that will probably force many cooperatives there out of business or underground, depriving the legal economy of this valuable activity. Many of these middlemen may seek to register their businesses in areas, like the Baltic republics, that have a tradition of private business.

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AFGHANISTAN: Reverberations From Insurgent Clashes

The Afghan interim government risks open breaks in its leadership if it does not deal soon with the attack last month on insurgents in northeastern Afghanistan by a rival resistance faction. [REDACTED]

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The killing of more than 30 members of the Jamiat-i-Islami resistance group by members of the Hizbi Islami faction threatens the Afghan resistance. Jamiat leader Burhanuddin Rabbani says publicly that the killings were an attempt by Hizbi Islami leader Gulbuddin Hikmatyar to weaken Jamiat's fighting capabilities.

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[REDACTED] The interim government risks an open break with Jamiat—with more than 150,000 fighters, the largest insurgent group—if it does not discipline Gulbuddin. A failure to investigate the incident and punish the killers will reinforce the Afghan perception that interim government leaders cannot make hard decisions. Gulbuddin's ouster from the interim government might increase its popularity but would probably not stop further clashes in the field. [REDACTED]

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The murdered fighters were loyal to Jamiat's northern commander, Ahmad Shah Masood, and included seven of his leading commanders. Masood nonetheless will try to avoid revenge attacks on Gulbuddin groups. He intends to press ahead with plans to begin an offensive early next month against regime positions in northeastern Afghanistan and along the Salang highway. If Masood believes the interim government is treating his grievances lightly, however, he probably will reevaluate his strategy and undertake operations against Hizbi Islami positions in the north. [REDACTED]

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Chatchai's New Thinking on Indochina

With help from his advisers, Prime Minister Chatchai has translated his preoccupation with establishing an economic foothold in Indochina into a politically appealing policy line. The advisers contend that Vietnam's steady economic decline means that it no longer poses a serious military threat to Thailand and that, with Vietnam's withdrawal from Cambodia nearly complete, Bangkok's most important opportunities and challenges are shifting to the economic arena.

~~_____~~ Chatchai and his advisers are arguing that business diplomacy is the key to diversifying Thailand's political alliances and trade relationships with the goals of:

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- *Safeguarding Thai political interests in Indochina.* Chatchai and his advisers see rebuilding Indochina through trade and investment as the best means of gaining influence there.
- *Easing Thai resource constraints.* Bangkok is concerned that Thailand's export boom is depleting local stocks of many raw materials like timber and seafood that Indochina still has in abundance.
- *Maintaining strong growth of exports and incomes.* Chatchai argues that trade with Indochina can help offset protectionist pressures from Thailand's traditional markets in North America and the EC and reduce Thailand's dependence on them.

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THAILAND:

Strains Ahead for Chatchai Government

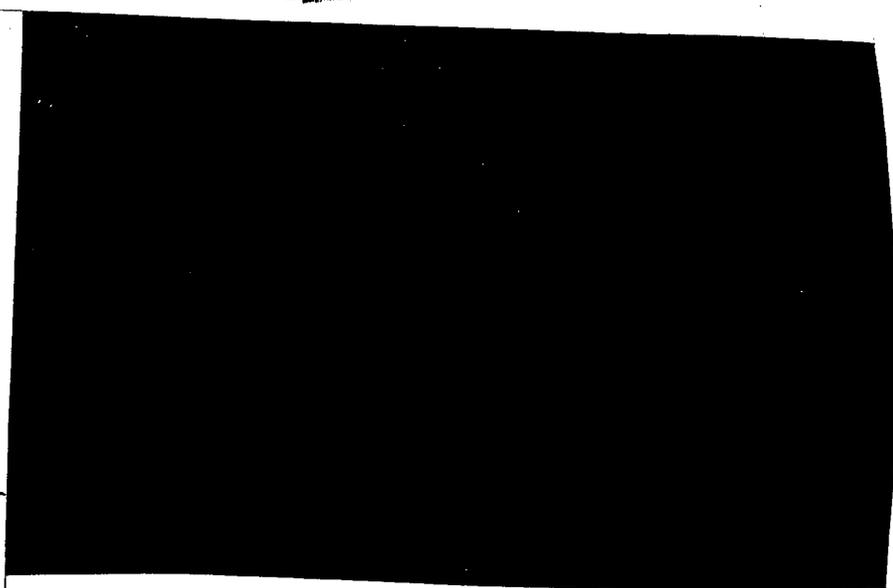
Prime Minister Chatchai finishes his first year in office in a strong political position, but his governing coalition will be tested in the year ahead, especially on how it manages economic and trade issues.

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Chatchai plays to the public's desire for a more democratic government skillfully. He has held "mobile cabinet meetings" around the country and backed a constitutional amendment that will give more power to the elected lower house of the legislature. Chatchai has also used his coalition's large majority to push for legislation that may help distribute the benefits of Thailand's booming economy—it grew 11 percent last year—more evenly.

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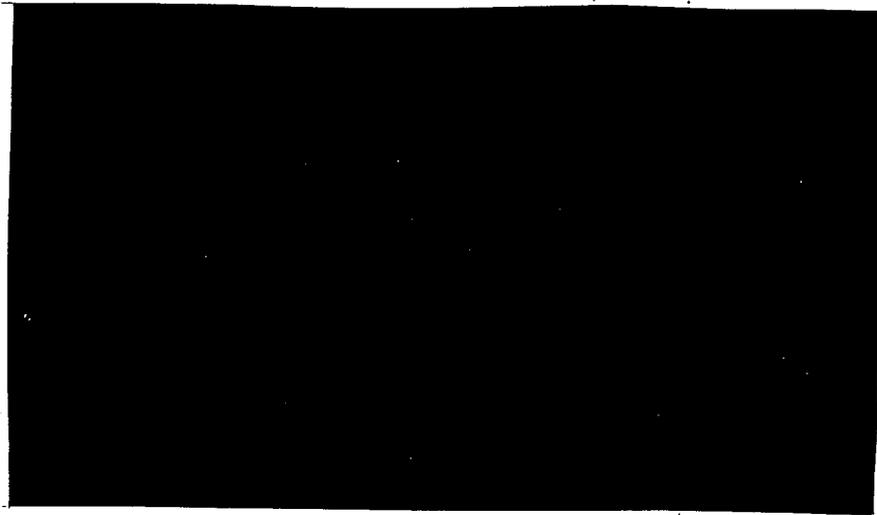
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SOMALIA:

Siad Trying To Regain Control

President Siad may eliminate the final vestiges of constitutional rule in an effort to increase his authority in Mogadishu; government control elsewhere in the country continues to slip.

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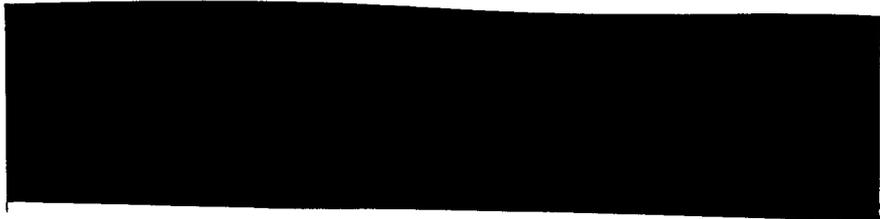


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Siad's latest moves signal a determination to stifle dissent. Although the legislature lacks real authority, dissolving it would eliminate the last forum for criticizing the regime. Revival of the autocratic revolutionary council, through which Siad governed after the coup that brought him to power in 1969, would warn his critics that antiregime activity will again be brutally punished. Having concluded that Western donors are already backing away from his regime in response to human rights concerns, Siad probably calculates he has little more to lose on that score.

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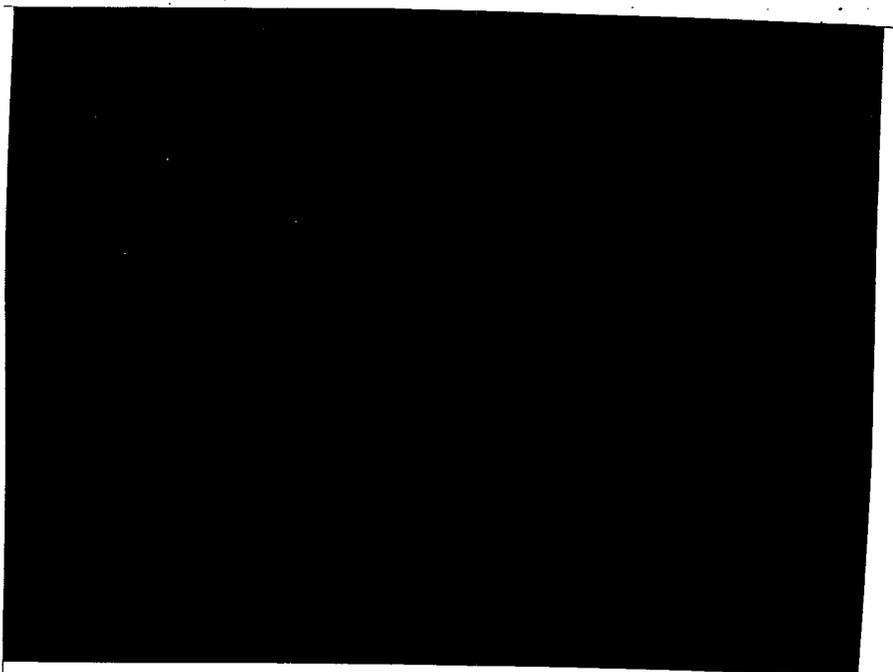
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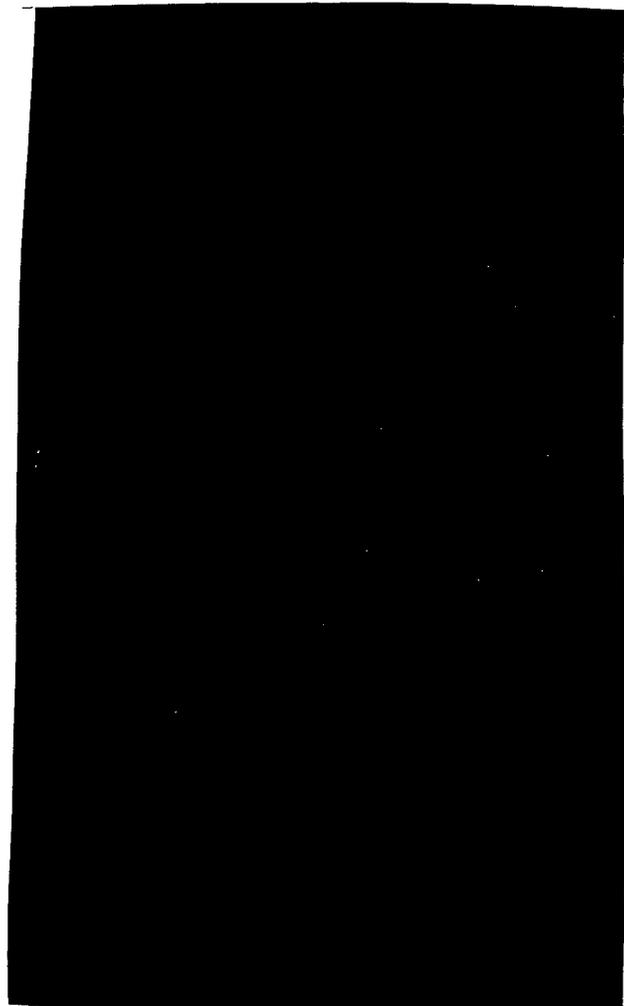
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BOLIVIA: Banzer Concedes Presidency to Paz Zamora

Center-rightist Hugo Banzer's unexpected concession of the presidency Wednesday to Jaime Paz Zamora of the center-left Movement of the Revolutionary Left will assure a smooth vote in the congressional runoff today. In exchange, Banzer's party will get the vice-presidency, half the cabinet posts—including Foreign Affairs and Finance—and leadership of the lower house of Congress in a coalition government. [REDACTED] News of a Paz Zamora presidency reportedly has led to a run on bank deposits and hoarding of food. [REDACTED]

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[REDACTED] Paz Zamora's and Banzer's parties are not ideologically compatible, and their coalition is inherently unstable. Why Banzer, who appeared to have the presidency in his grasp, conceded is not clear. He was disgusted with three months of interparty squabbling and apparently feared Paz Zamora might join with the ruling-party candidate, whom Banzer despises. The run on the banks shows distrust of Paz Zamora, who served as vice president in the mid-1980s when hyperinflation almost destroyed the economy. Paz Zamora will need to move quickly to assure Bolivians he is committed to maintaining current economic policies and to stop the run from depleting bank deposits. [REDACTED]

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ROMANIA-US: Ties Declining, Not Without a Fight

Although Bucharest believes mounting hostility to it throughout the US Government will cause US-Romanian ties to deteriorate further, the Romanians refuse to reconcile themselves to the situation or to take responsibility for it. [REDACTED]

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[REDACTED] Bucharest apparently is concerned it has little chance to restore the favorable relationship it once enjoyed with Washington, but President Ceausescu's resistance to improving the political and human rights situation is nonetheless adamant. Romania's paradoxically genuine desire to increase trade and acquire advanced technology will spur its public relations efforts to include, for example, full-page ads in US newspapers and lobbying for closer economic ties. [REDACTED]

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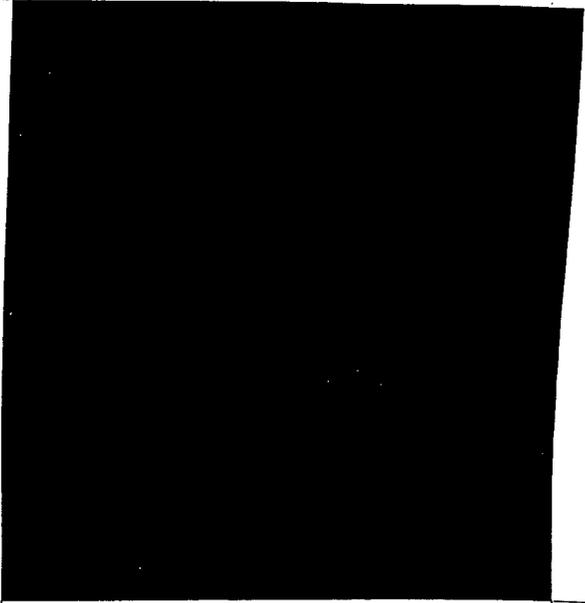
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Special Analysis

ISRAEL:

Domestic Support for Ubayd Kidnapping High

The Israeli Government has received strong domestic support for its handling of the Ubayd operation. Opinion is running strong against Western critics who blame Israel, not Hizballah, for the execution of any hostage. Israelis are concerned about maintaining their country's deterrent against terrorism and want to avoid appearing to have given in to Hizballah.

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Seizing Shaykh Abdul Karim Ubayd had overwhelming bipartisan backing; the Inner Cabinet voted 11 to one to approve the operation, according to press reports. In contrast to most controversial Israeli operations, not a single major figure from the Labor Party or the Likud bloc has criticized the action openly.

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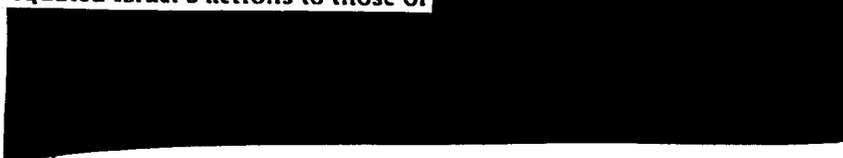
Until the announcement of the death of Lieutenant Colonel Higgins, the Israeli public mood was strongly upbeat with high hopes for swapping Ubayd for the three Israeli soldiers Hizballah holds. The initial editorial response to the kidnapping of Ubayd was unanimously favorable. Last weekend, Israelis widely and proudly compared the seizure to the rescue raid on Entebbe in 1976 for its daring and precision.

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Israeli public commentary has widely blamed US and Western criticism of Israel's action for emboldening Hizballah. Tel Aviv appears shocked and angry that some in the West hold Israel, not Hizballah, primarily responsible for any hostage death. Israeli newspapers say the Ubayd abduction is no different than the US seizure of Shia terrorist Fawaz Yunis in 1987.

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Prime Minister Shamir on Monday lambasted those in the West who equated Israel's actions to those of



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Despite some second-guessing over the damage the affair could do to US-Israeli relations, support for the government's handling of it remains high. The Knesset on Wednesday rejected no-confidence motions from three Communist and Arab fringe parties over the government's actions. Three left-of-center opposition parties that are

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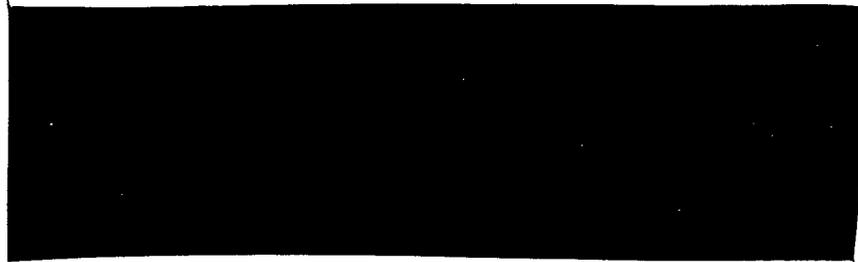
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normally critical of Israeli adventurism abroad refused to participate in the debate, citing the sensitivity of the situation and the danger to the hostages. ~~██████████~~ b (3)



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4 August 1989

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