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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Thursday, 25 July 1991



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IRAQ-KUWAIT: Situation Report

The people of Baghdad reportedly believe the US will launch airstrikes against Iraqi targets.

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[REDACTED] consumer prices there are stabilizing.

Iraqi Public Fears US Military Action

[REDACTED] Iraqi civilians believe the US will attack Iraq's nuclear installations, [REDACTED] They also believe the regime is hiding some nuclear facilities and fear possible radioactive contamination from an attack on these sites. The apprehensive mood [REDACTED] has been intensified by rumors of coup plotting, sabotage activities, and more regime executions of high-ranking military officers, leading the citizens of Baghdad to hoard food.

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Kuwaiti Consumer Prices Stabilizing

Consumer prices have dropped approximately one-third over the past three months, but, at the end of June, they were still 26 percent above preinvasion levels.

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[REDACTED] Only prices for fresh fruit and vegetables, coffee, and tea remained more than 50 percent higher than prewar levels.

[REDACTED] The decline in prices to repairs of the infrastructure and distribution systems, limits on bank withdrawals, and stability of the exchange rate.

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[REDACTED] Kuwait probably hopes publicizing this [REDACTED] will build public confidence and allay fears of inflation or a currency devaluation.

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YUGOSLAVIA: Situation Report

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Domestic Developments

Scattered clashes between Croatian security forces and ethnic Serb units continued yesterday.

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USSR:

Situation Report

Gorbachev played up the consensus on the union treaty on the eve of the Central Committee plenum today, while traditionalists and Yel'tsin drew battlelines over his decree depoliticizing Russian institutions.

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Gorbachev Announces Agreement on Union Treaty

Gorbachev announced Tuesday that Yel'tsin and some other republic leaders agreed on the union treaty, but taxation provisions are still being hammered out. He said the draft will be endorsed soon. Gorbachev publicly welcomed Armenian leader Ter-Petrosyan's participation and emphasized Ukrainian commitment to the process; Ukraine, however, was represented by its deputy premier. He appealed to republics not participating to join the process but said their fate will be determined "within the framework of legislation."

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Gorbachev will use this success to bolster his position during today's plenum. Although important progress was made, the treaty will remain largely symbolic unless the issues of taxation and republic-center jurisdiction are resolved. Gorbachev will continue to press Ukraine to sign the accord, but legislative chairman Kravchuk believes Kiev should not do so before the adoption of a new Ukrainian constitution, which is unlikely before late this year. By sending his deputy, Kravchuk probably judged that Ukraine would not be viewed as even provisionally approving it. Ter-Petrosyan, who probably attended as an observer to assess the potential benefits of signing the treaty, is unlikely to do so before the republic's referendum on independence in September. Gorbachev's appeal to breakaway republics is likely to be ignored, but his comments suggest he may consider a new law that would make secession easier.

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Russian Reactions to Yel'tsin Decree

Moscow Mayor Popov is creating a commission to implement the decree banning Communist Party cells in workplaces, and the party and other hardliners have launched a campaign against Yel'tsin. USSR Supreme Soviet Chairman Luk'yanov has referred the issue to the Constitutional Oversight Committee, and a Russian party official has said that, if it rules against Yel'tsin, the party will move to impeach him.

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Yel'tsin, who is exploiting the party's disarray, wants party cells removed before local elections are held in the fall. It is unclear how he plans to implement the decree, and efforts to do so in traditionalist strongholds are likely to be difficult.

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Army Apprehensive
About Rukh's Plans

Military commanders in the Kiev Military District have threatened to expel from the service officers attending a Rukh-sponsored congress on the creation of a Ukrainian armed force. [REDACTED]

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[REDACTED] The Soviet high command views republic armies as a serious threat to the security of the USSR. About 25 percent of the [REDACTED] manpower would be a significant blow to the Soviet armed forces.

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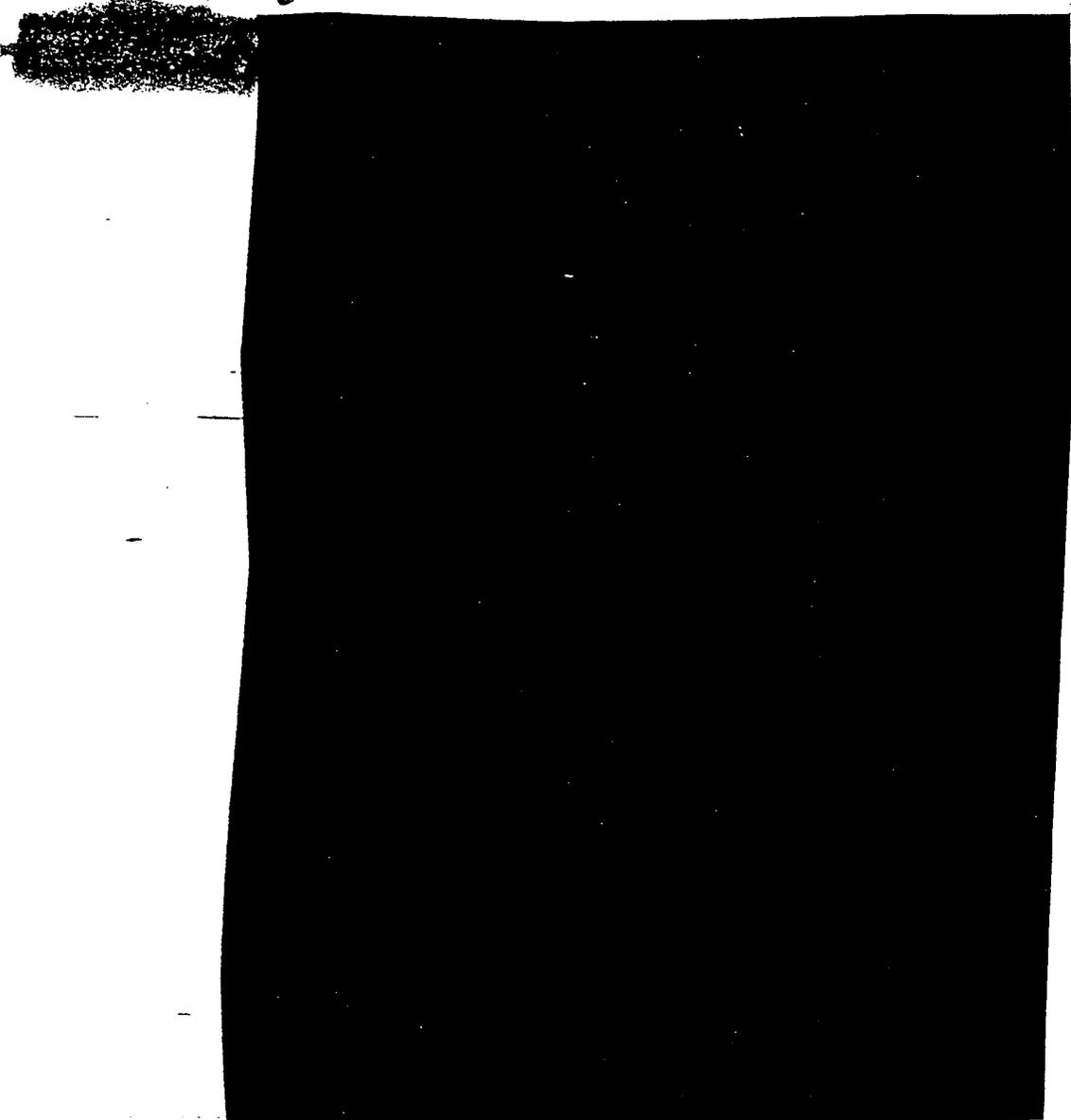
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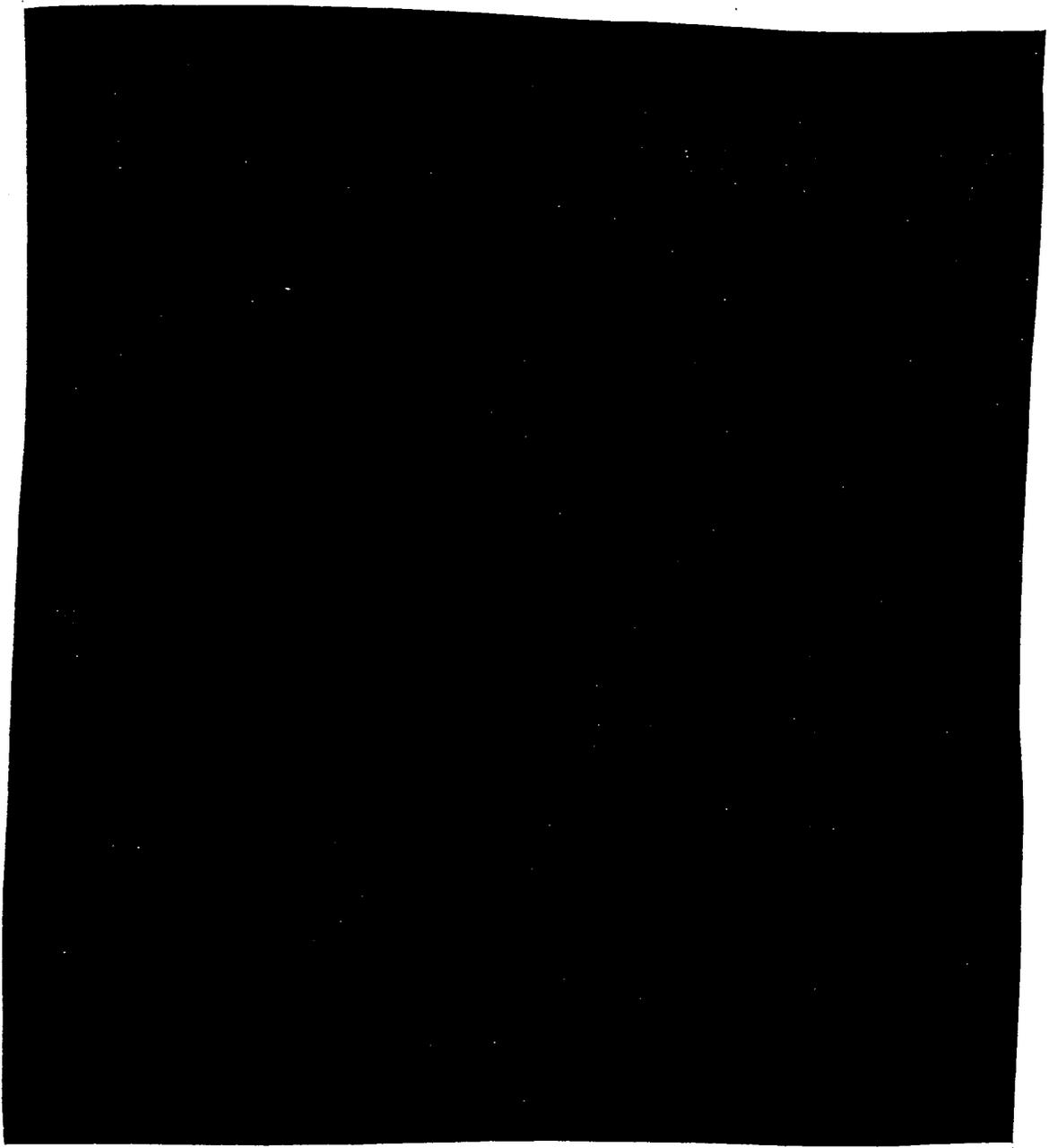
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ISRAEL-LEBANON: Preemptive Attacks Against Guerrillas

Israeli airstrikes yesterday underscore Tel Aviv's continued willingness to launch preemptive and retaliatory attacks against guerrilla bases in Lebanon and will further complicate the Harawi government's efforts to establish control of its country. The targets of the attacks included weapons and ammunition depots of the Popular Front for the Liberation of Palestine-General Command—reportedly were within 20 km of Beirut proper.

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Comment: Israel has not launched airstrikes this close to Beirut since last year. These

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—will complicate Beirut's efforts to disarm Hizballah guerrillas and reach an accommodation with the ASL.

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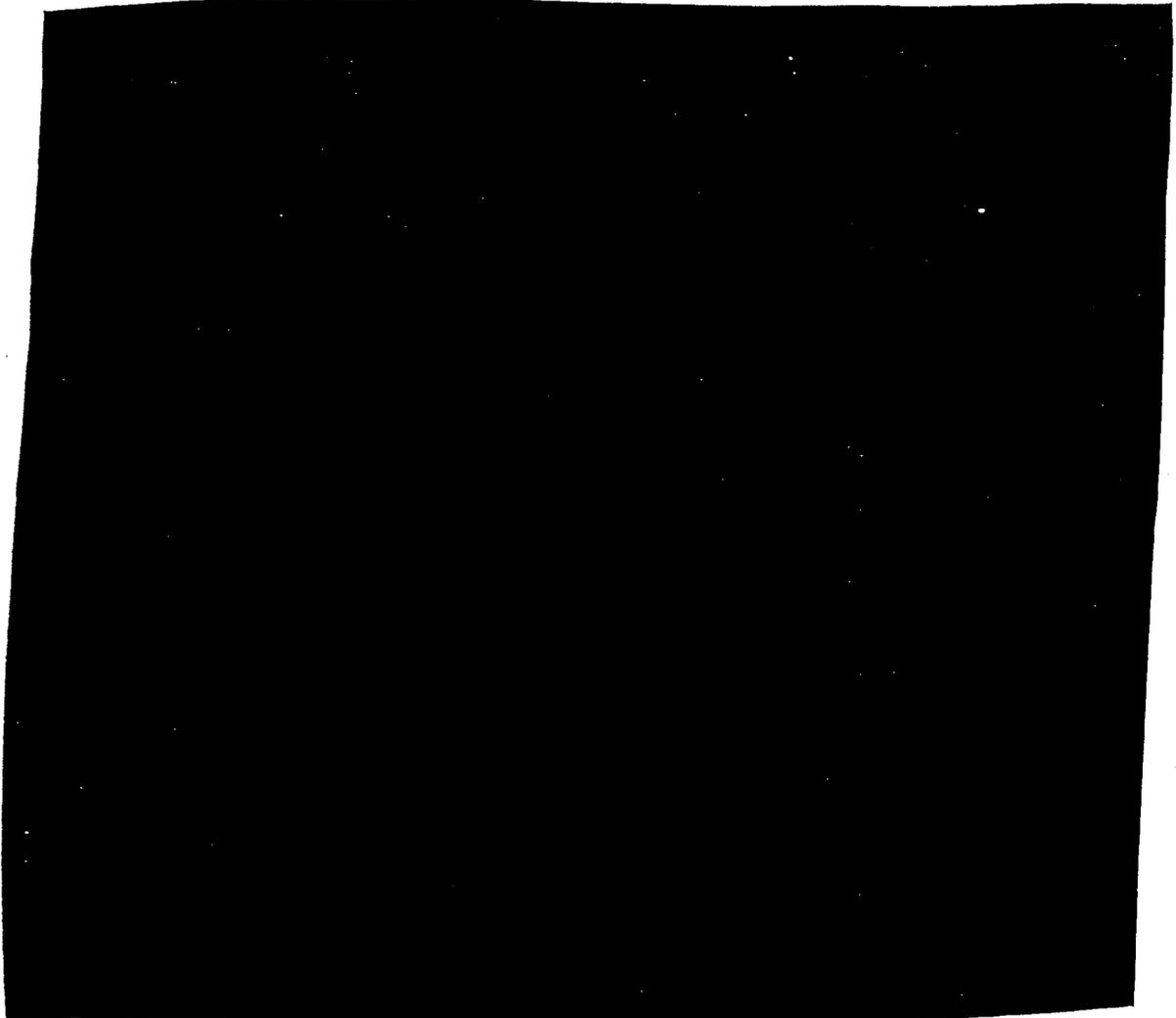
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IRAQ: Implications of Resumed Oil Exports

A UN decision to let Iraq resume limited oil exports temporarily would help ease an expected tighter oil market this winter but could cause higher prices when such exports cease.

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War damage has made Baghdad's offshore terminal in the Persian Gulf inoperable, and Riyadh is refusing to let Iraq use its pipeline through Saudi Arabia.

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Iraq could raise the \$1.5 billion in revenue allowed by the UN by yearend if it exports 600,000 b/d during the next five months and if the value of its crude remains near \$18 per barrel. Such exports probably would lead to somewhat lower oil prices for the rest of this year because they would put excess production capacity worldwide at 1 million b/d, improving the market's ability to respond to unexpected demand surges or temporary production shortfalls. At the same time, the market would become dependent on the Iraqi oil, making it hard to shut off the flow without raising prices by as much as several dollars a barrel, especially if the cutoff occurred during the winter heating season. Major oil-consuming nations may therefore be less inclined to support another shutdown of Iraqi oil exports.

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ASEAN: Talks Focus on Economic Issues

At their annual meeting last week in Kuala Lumpur, ASEAN foreign ministers agreed that a working group should continue to study Malaysian Prime Minister Mahathir's proposal for an East Asian economic grouping and report at the meeting of ASEAN economic ministers in October. They endorsed Thailand's plan for establishing an ASEAN free trade area by the year 2000, under which members would gradually liberalize trade in key sectors such as textiles, shoes, and wood products. During talks with the group's dialogue partners—Australia, Canada, the EC, Japan, New Zealand, South Korea, and the US—the ministers criticized the EC for trying to link trade and aid to human rights and environmental concerns. They also rejected Washington's call for them to press Burma's military regime to step down and said they would continue to deal with it.

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ASEAN officials see signs of growing Western protectionism in EC-92 and the proposed North American Free Trade Agreement; they believe criticism of human rights and environmental practices is meant to stunt ASEAN members' economic development. The foreign ministers' refusal to impose sanctions on Burma reflects an interest in strengthening ties to Rangoon—possibly to facilitate Burma's future entry into ASEAN—and resentment of what they see as the imposition of Western political values.

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USSR-SOUTH AFRICA: Cementing Economic Relations

The Soviet-South African trade agreements signed Tuesday provide for direct contact between Soviet and South African enterprises, joint ventures, joint development projects in third countries, the opening of chambers of commerce, and a bilateral business council. A mining cooperation agreement signed last week may lead to price coordination, as well as an exchange of technology, equipment, and mining methods. The Soviets have publicly stated they plan to abide by UN sanctions on arms and oil trade until South Africa's abolition of apartheid becomes irreversible, but they differentiate between economic and political relations.

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The Soviets are willing to develop business and trade opportunities that do not violate sanctions. They almost certainly believe the economic benefits outweigh the costs to their longstanding relationship with the African National Congress but are sensitive to charges that Soviet-ANC relations are cooling and probably will reschedule Nelson Mandela's canceled visit before the end of the year. South Africa probably is eager to cooperate with the USSR in producing and marketing those minerals of which the two countries are leading producers.

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BULGARIA: Facing Decision on Treaty With USSR

The Bulgarian Assembly soon will debate renewal of the 1967 friendship treaty with the Soviet Union. Bulgarian Socialists and some nationalists, including Premier Popov, apparently will try to stall efforts by President Zhelev and most non-Socialist ministers to renounce the treaty before its automatic renewal on 4 August. Moscow, meanwhile, is pressing for a new treaty that, like the Romanian-Soviet treaty, would limit its partner's future alliance options. Deputy Premier Ludzhev, a member of the Union of Democratic Forces, claims that Moscow is making payment of its debt to Bulgaria conditional on a new treaty.

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The Socialists, who hold a majority of seats in the Assembly, may succeed in preventing Bulgaria from becoming the first former Warsaw Pact member to renounce its bilateral treaty with the USSR. They fear such action could damage economic ties to the USSR—more extensive than those of any other East European country—and will try to capitalize on the Bulgarians' latent fear of Turkey by citing Sofia's need for continued Soviet protection. Divisions within the cabinet will complicate efforts to resist Soviet pressure, but serious treaty negotiations are unlikely before Bulgaria's legislative election, expected in late September.

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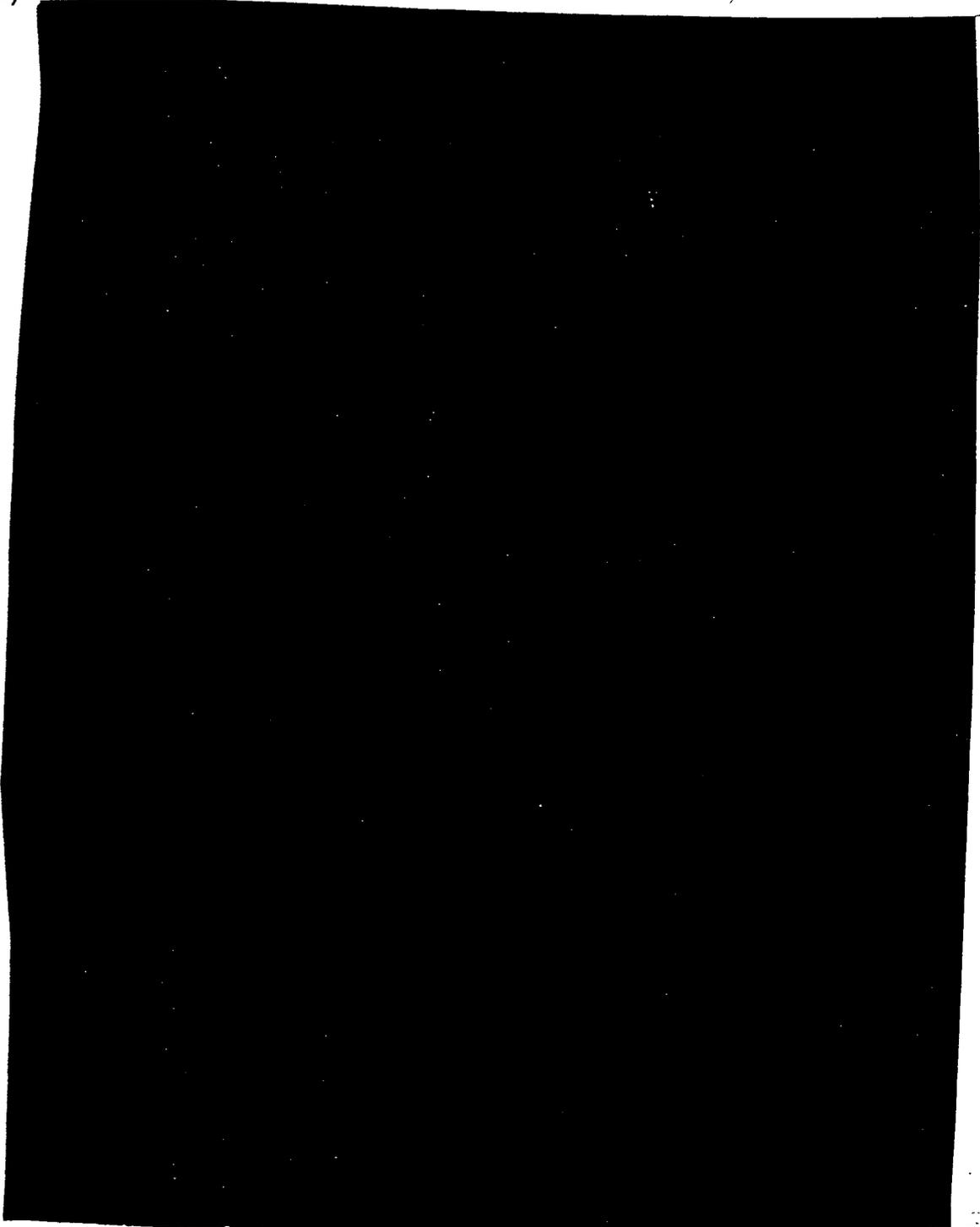
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In Brief

Middle East

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— Yemeni tribesmen yesterday released kidnapped US oil worker unharmed as government demanded . . . Sanaa adamant about protecting US citizens, refused to trade for jailed tribesmen.

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[redacted]

— Israeli poll Tuesday showed 61 percent of public opposes yielding any part of Golan Heights . . . little change from response before Syria agreed to peace talks . . . suggests most see area as important buffer zone.

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USSR

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— Georgian leaders Monday deployed 2,000 republic troops to patrol Tbilisi streets after Soviet soldiers' hooliganism over weekend . . . shows intention to stem Soviet provocations . . . more confrontations likely.

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— Soviet air traffic controllers threatening to strike on 10 August . . . protesting government's failure to deliver higher wages, shorter workweek it promised in May to avoid strike . . . pilots, other workers may join walkout.

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[redacted]

Americas

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— [redacted] Pablo Escobar's drug ring almost certainly responsible for assassination of Colombian paramilitary chief Henry Perez . . . successor's promise of revenge may prompt more bloodshed, possible feud with Medellin cartel.

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South Asia

— Retiring Army Chief Gen. Beg warned Monday India may take advantage of Pakistan's civil unrest to attack ... not supported by other military, political leaders ... rhetoric not likely to bring down government, spark military clash. [redacted]

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Europe

— Group holding two German hostages in Lebanon yesterday threatened to harm them if information on condition of two Lebanese imprisoned in Germany not provided by tomorrow ... also holds at least two US hostages. [redacted]

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— EC Commission proposing \$580,000 in emergency food aid for Albania ... foreign ministers' approval next week required ... also seeking mandate for trade agreement talks, inclusion of Albania in G-24 aid programs. [redacted]

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Asia-Oceania

— Philippine Communist Party on Monday renewed public threats to attack US personnel, facilities ... linked to announcement of new bases agreement ... hoping to influence Philippine Senate to reject accord. [redacted]

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[redacted]

— Head of Taiwan's Straits Exchange Foundation [redacted] resign ... suggests President Li besting Premier Hao in fight for control of mainland policy ... this issue, coming national election important in Taiwanese-mainlander power struggle. [redacted]

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— [redacted] Thailand's Navy has Defense Ministry approval to buy [redacted] used US A-7E aircraft ... will be Navy's first jet aircraft ... negotiations continuing. Bangkok hopes for delivery in 1993. [redacted]

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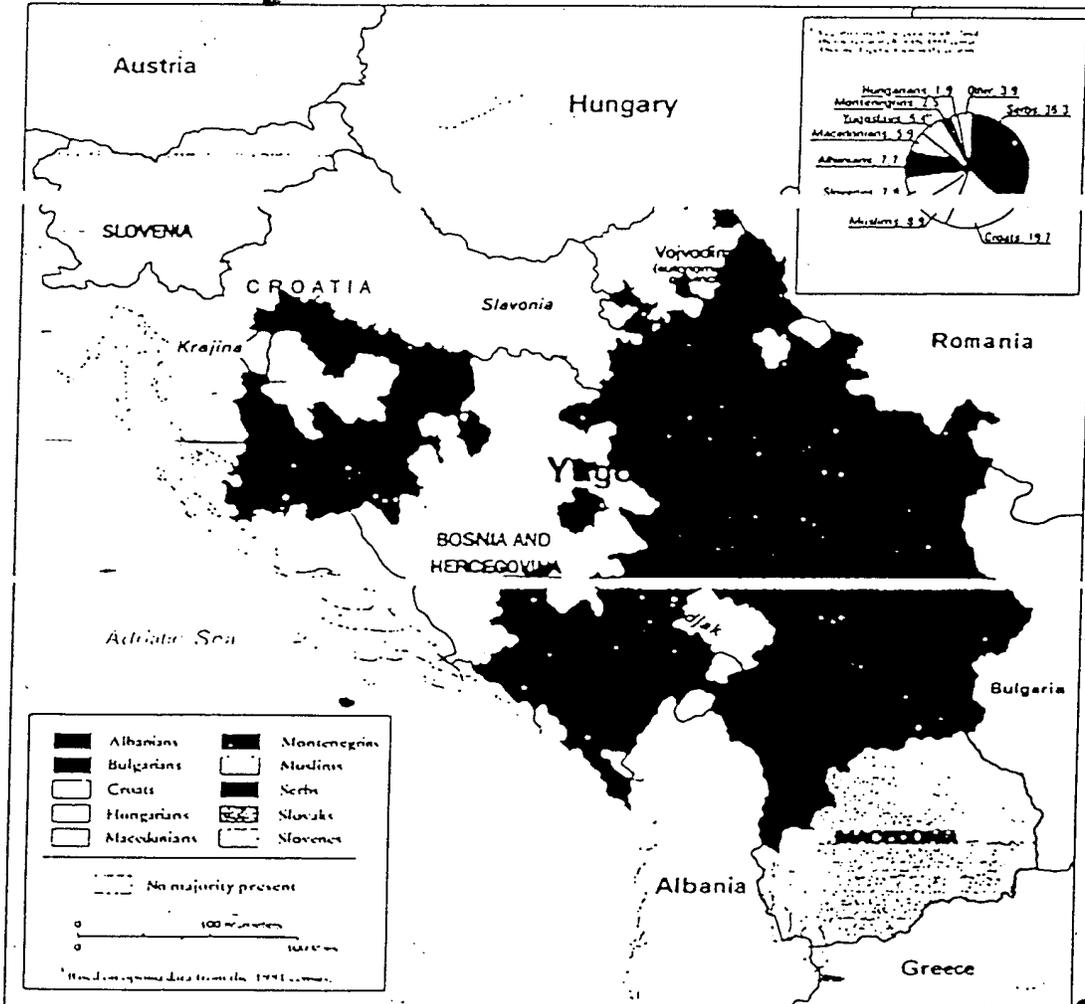
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Ethnic Majorities in Yugoslavia^a



The current conflict can be traced to centuries of domination by the Ottoman and Hapsburg Empires. Yugoslavia's jumble of peoples, languages, cultures, and religions—Orthodox, Roman Catholic, and Muslim—are the result of the wars and policies of these empires. The embattled Krajina and Slavonia regions of Croatia, for example, were settled by Serbs fleeing Turkish rule, and Slavic Muslims in Bosnia and Hercegovina and Serbia are descendants of Serbs and Croats who converted to Islam under Turkish rule.

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Special Analysis

YUGOSLAVIA: Border Changes Might Avert Civil War

Negotiated border changes between Serbia and Croatia may be the best hope of avoiding a bloody civil war between Yugoslavia's two largest nationalities and the impossibility of striking a deal satisfactory to all factions means, however, that such change almost certainly would be accompanied by violence.

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Serbian President Milosevic insists that republic borders would have to be redrawn to keep Serbs together in one state if Yugoslavia breaks up. He has floated a scheme under which Croatia would cede control over its Serb-populated regions in exchange for Croat-populated areas of Bosnia-Herzegovina, while Serbia would take control of Serb-populated areas of Bosnia-Herzegovina. Milosevic's plan would allow Muslims in Bosnia-Herzegovina, who fear they would lose in a deal between Serbia and Croatia, to choose independence or affiliation with another republic.

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Croatian President Tudjman has insisted that his republic keep its current lands, but his interest in a division of Bosnia-Herzegovina apparently is growing because the current security and economic situation leaves him few choices. Since late March, the Army has moved enough forces into or near the Krajina and Slavonia regions to exercise complete control there if it desires. Continued Serb unrest also would seriously undermine the Croatian economy, which depends heavily on tourism. Moreover, Serbs exercise de facto control over much of Bosnia-Herzegovina, and Croatian leaders must consider whether they should strike a deal now while they can.

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No Viable Alternatives

There appear to be no viable alternatives to an agreement based on territorial transfers. Given the bloody clashes that have occurred, an agreement granting minorities special guarantees probably would be too little too late. It is likely that the republics would revert to repression of their minorities if the political deadlock is prolonged. Serbia's use of the police to administer Kosovo could be a model for Croatia.

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Systematic brutality, however, would increase the risk of civil war and almost certainly would broaden the limited population movements already under way.

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Yugoslav Breakup Could Spark Islamic State

Muslims in Bosnia-Herzegovina, who constitute 44 percent of the republic's population, are not strong enough to prevent the republic's division if Serbs and Croats reach an agreement and win Army support. Information on Muslim popular opinion in the republic is scarce, but potential support for an Islamic state may be significant. Islam has thrived in Bosnia-Herzegovina, and its Muslim community has extensive contact with the Islamic world. The Muslim-dominated Bosnian government has focused virtually all its foreign policy efforts on Islamic states, including Iran and Libya.

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many Bosnian clerics were educated in Iran, and Iran and Libya are widely rumored to have financed construction of many of the newer mosques in Bosnia-Herzegovina. If Bosnian Muslims faced a choice between association with Roman Catholic Croatia or Orthodox Serbia they probably would seriously consider seeking support from Muslims abroad. Any Islamic state, however, landlocked and wedged between Croat and Serb lands, probably would be highly dependent on Serbia or Croatia.

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Brokering, Implementing a Deal

Even if Milosevic and Tudjman decided to negotiate seriously, talks almost certainly would be drawn out and difficult. Implementation would be equally troublesome and probably would be accompanied by violence, particularly in Croatia and Bosnia-Herzegovina. Even a possible Serbian withdrawal would not end the political turmoil; more than 30 percent of Serbia's population is non-Serb, and the Albanian Kosovo and Muslim Sandjak regions already are gripped by breakaway sentiment. It might also be hard to exclude foreign involvement; both Albania and Hungary have hinted at territorial claims. [REDACTED]

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A territorial deal, however, may still be the best achievable outcome. With an agreement to form a loose confederation highly unlikely, the alternative to redrawing republic borders appears to be a prolonged and bitter civil war. If the republics negotiate a new territorial division, they may seek the international community's help in implementing it. The EC would be the most likely foreign partner, given its growing effort to manage the crisis, and Western governments would receive requests for financial and humanitarian aid to ease resettlement and refugee problems. [REDACTED]

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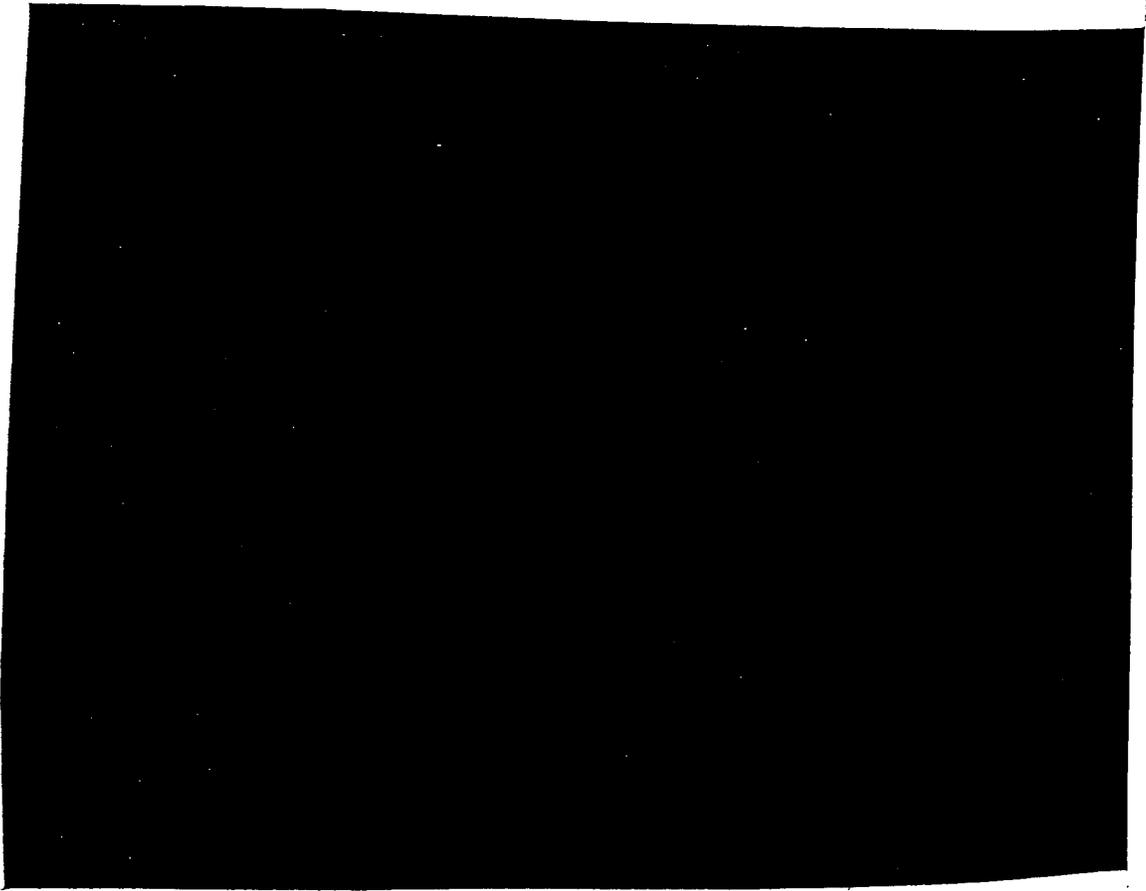
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Special Analysis

PAKISTAN: Urging Afghan Rebels To Intensify Efforts

Pakistan apparently believes the US is about to halt lethal aid to the Afghan resistance and is pressing for significant military gains and for political unity. The resistance is making a major effort but probably will fall short of Islamabad's goals.

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Situation on Ground

The resistance has recently initiated more fighting over a wider area than at any time in the past two years, believing such activity will overextend regime forces and prevent them from responding effectively to every threat. Resistance commander Masood followed the tactical and psychological achievement of the Khowst victory in March by overrunning three small garrisons in the north and attacking the Salang highway. He now is moving against the provincial capital of Feyzabad and the remaining regime enclaves in Takhar province.

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Operations against Jalalabad, Gardeyz, and the Kabul security belt should begin soon. Regime efforts to preempt insurgent attacks and open key supply routes have had only limited success.

Despite the increased military activity, prospects for a resistance breakthrough this year appear poor. A few more small garrisons or provincial capitals are likely to fall, but most resistance field commanders appear unprepared to try to capture major cities. Continued factionalism will prevent the resistance from achieving

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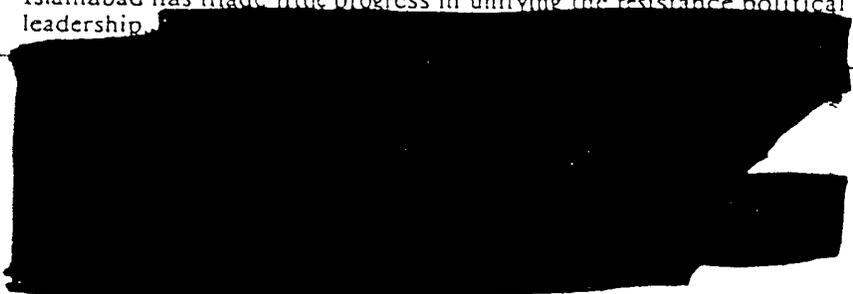
the nationwide coordination necessary to topple the regime quickly. Masood—who is extremely cautious—probably will limit his operations this year to consolidating control over his northern bastion. Islamabad may again try to persuade resistance leaders Gulbuddin and Sayyaf to combine a major assault against Kabul with an attempted coup by their allies within the regime. Such a plan, however, would be at best a long shot because it would pit the insurgents against the regime's strongest defenses and because rival resistance groups in the area would oppose it. [Redacted]

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Political Prospects Dim

Islamabad has made little progress in unifying the resistance political leadership. [Redacted]

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Special Analysis

MIDDLE EAST: Palestinians View Peace Process

Palestinian leaders are hardening their stand on conditions for participating in peace talks.

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At a press conference Monday, several Palestinian leaders from the occupied territories said they had met with Secretary Baker on the PLO's behalf and stressed that the PLO would decide which Palestinians would attend peace talks. The group's leader, Faisal Husseini, said the delegation must include a representative from East Jerusalem and insisted he would not meet with Jordanian officials about forming a joint delegation without PLO approval.

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Husseini and other moderates are under heavy attack from hardliners. The Popular and Democratic Fronts for the Liberation of Palestine this week said publicly that the US peace initiative must be rejected because it excludes the PLO and fails to "pressure" Israel. The Popular Front's principal representative in the territories openly criticized Husseini and said the Front would work to undermine US "plans for the region."

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Arafat and other PLO moderates have also sharply criticized the US initiative. Arafat claims the US wants to achieve "another Camp David" that normalizes relations between Israel and the Arab states, while offering the Palestinians only limited autonomy in the occupied territories. Yasir Abd Rabbu, a senior PLO moderate, has said the Palestinians will boycott any conference not based on the principles of full Israeli withdrawal from the territories and Palestinian self-determination.

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