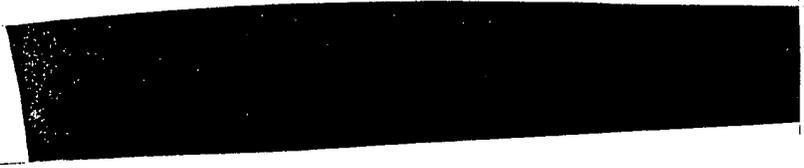
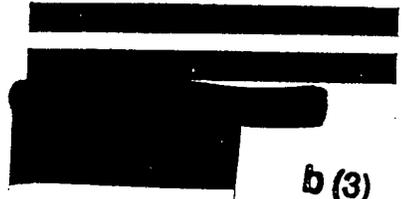


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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Friday, 2 August 1991



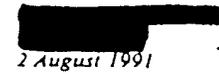
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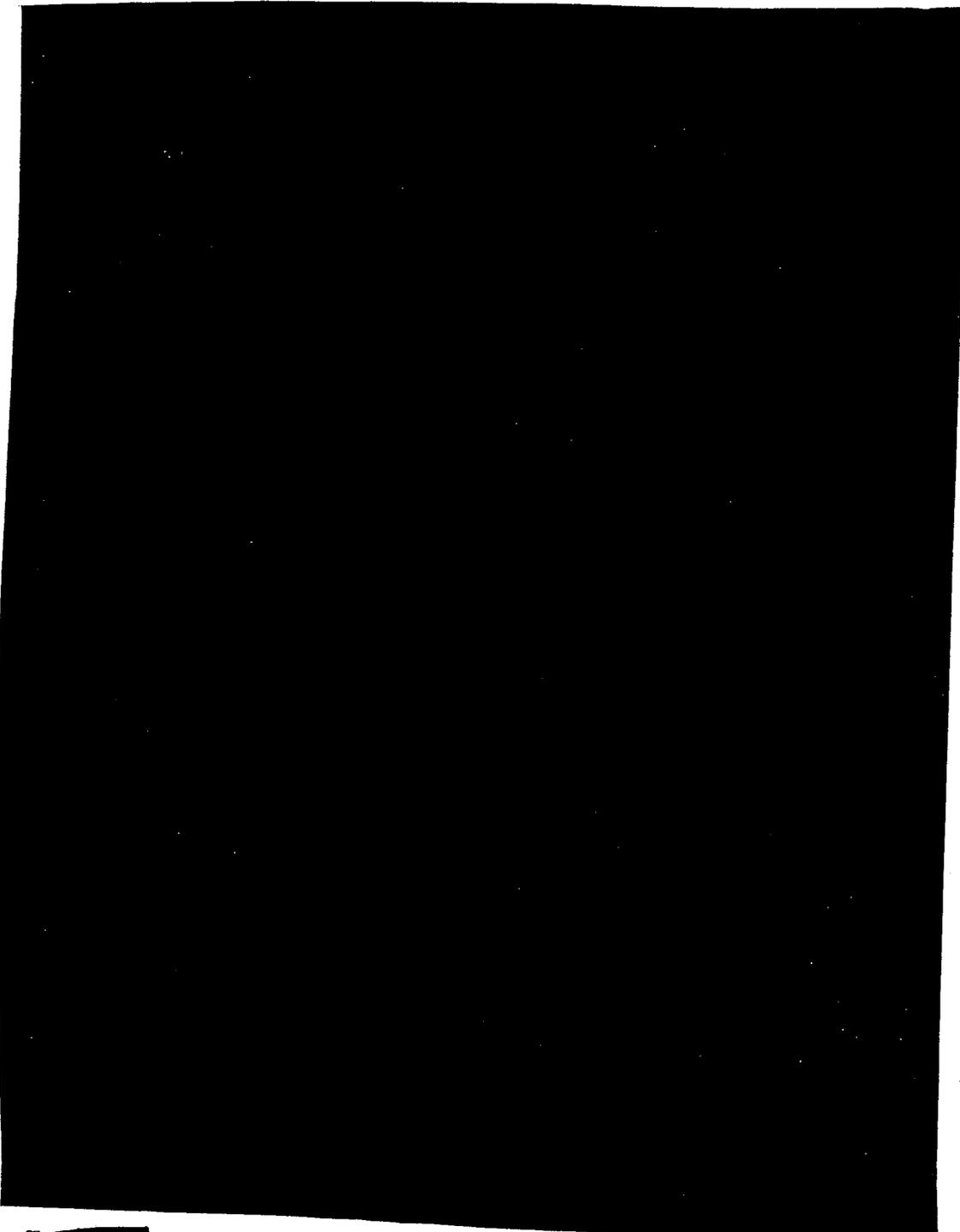
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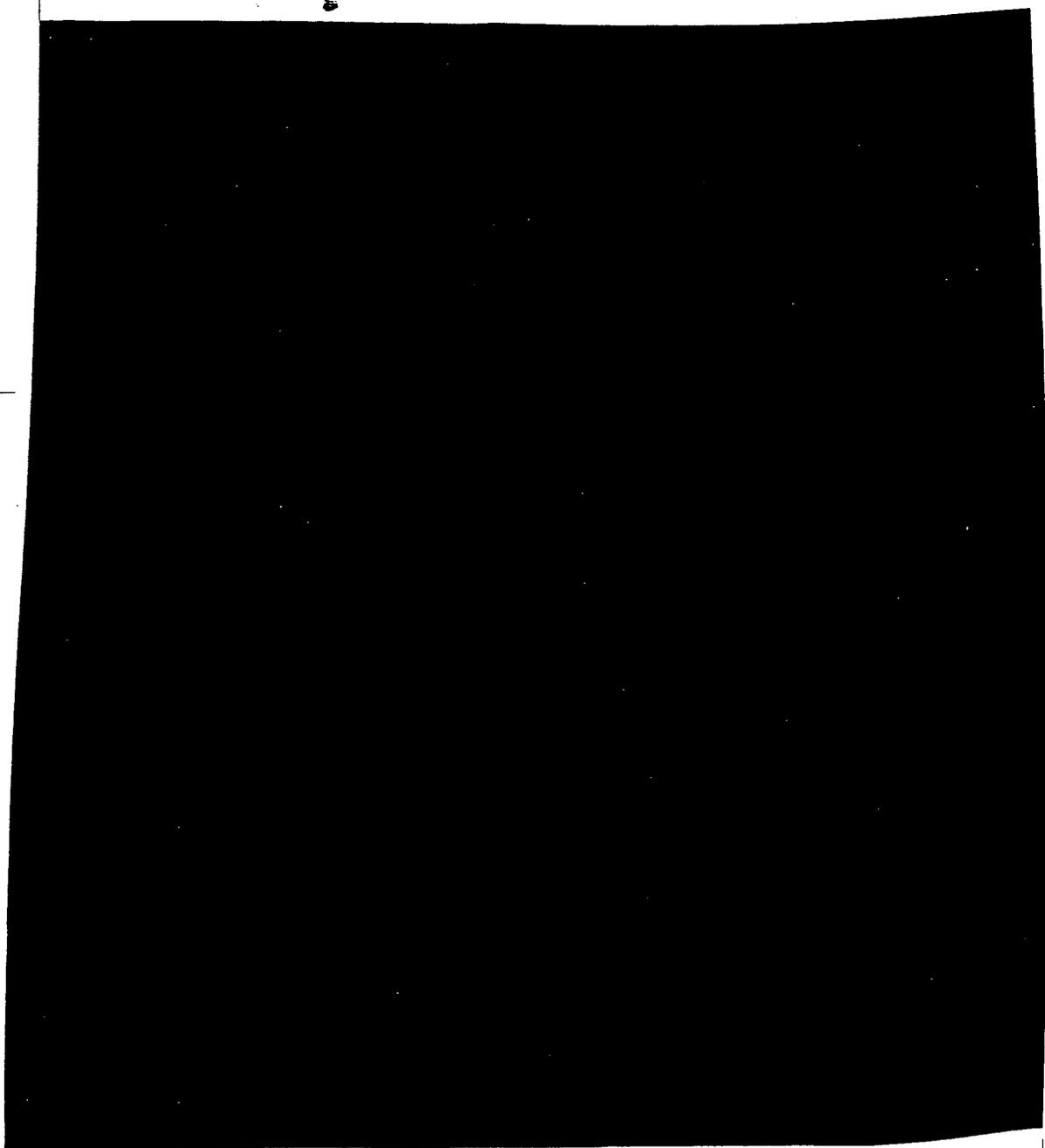
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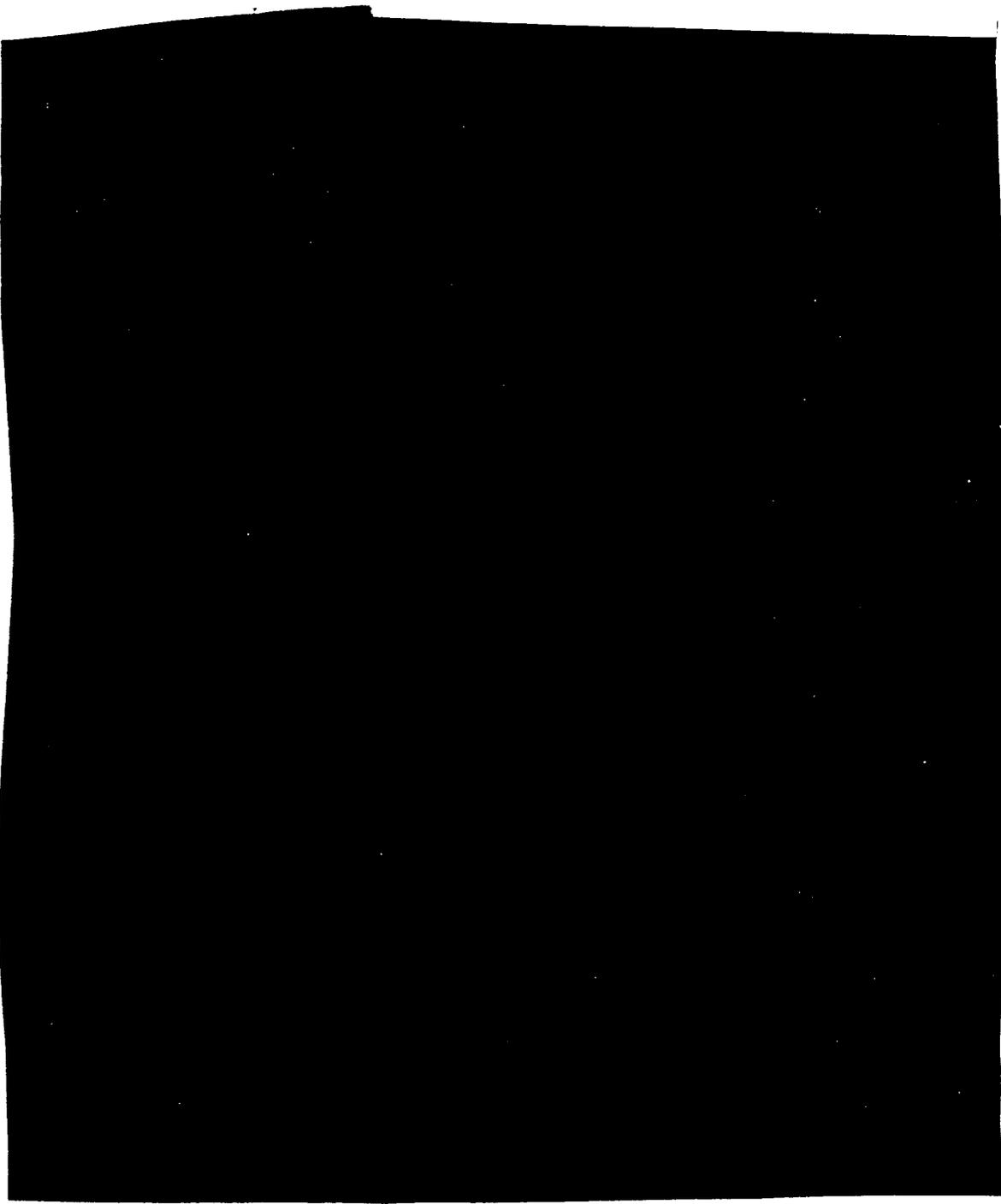
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USSR:

Situation Report

Gorbachev has been slow to react to the Lithuanian killings. Yel'tsin is challenging the center's prerogatives in Moscow but cooperating with it to resolve economic problems in the Soviet Far East.

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Gorbachev's Response to Lithuanian Murders Slow

Gorbachev said publicly yesterday that KGB Chairman Kryuchkov has contacted Lithuanian President Landsbergis and offered to cooperate in investigating the recent murder of six Lithuanian border guards, but a Lithuanian legislative deputy denies Landsbergis received any call. Gorbachev says he will personally supervise the investigation.

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Gorbachev's failure to take decisive action quickly and his reference to Kryuchkov will be seen as indications he is more interested in damage control than in a thorough investigation. Kryuchkov is hostile to the Baltic independence drive and may conceal any involvement by central government traditionalists. Gorbachev would have been better able to ease concern about a coverup if he had at the outset appointed an investigating team with members having reputations for independent thinking, such as Shevardnadze or selected republic leaders.

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Yel'tsin Expands Moscow Mayor's Powers

Yel'tsin issued a decree Wednesday greatly enhancing the powers of Moscow Mayor Popov that will remain in effect until a Russian law on the city is passed this fall. It gives Popov control over the budget and over the traditionalist-dominated Moscow Oblast government.

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Yel'tsin's decree is another challenge to the center, which is pushing its own law on Moscow in the USSR Supreme Soviet. The center will not be happy that a pro-Yel'tsin mayor is being granted enhanced powers. A traditionalist-reformist coalition in the Moscow City Council has long feared losing its power to Popov and will try to reassert its authority; either side may legally challenge Yel'tsin's decree. Yel'tsin plans to seek legislative authority this fall to appoint local executives in Russia on an interim basis, and reaction to his decree will be an important indicator of his future success in doing so.

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Joint Decree on Soviet Far East Issued

Soviet Prime Minister Pavlov and Russian Prime Minister Silayev [redacted] have issued a joint decree to help ease the growing shortages of food and fuel in the Soviet Far East. Far Eastern enterprises, which have been allowed to keep only 10 to 40 percent of their hard currency earnings, will now be able to retain 60 percent, with the rest going to local authorities. Enterprises and their governments will be allowed to use their hard currency to import goods duty-free, and local authorities will have the right to issue export licenses. [redacted]

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[redacted] This is the first joint economic decree issued by the center and Russia and the first time they have agreed to give up all hard currency revenue. Their concessions indicate the economic importance they place on the Far East; the region is a major exporter of key commodities and a vital link between the Soviet heartland and the Pacific. Its natural resource wealth has also attracted the interest of foreign investors, especially Asian Pacific Rim countries. The decree reflects Yel'tsin's strategy of giving regions greater economic autonomy to deal with their economic problems. [redacted]

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Armenians on the Offensive

Armenian militants on Monday killed seven Azeri militiamen who were occupying a village from which Armenians had been deported. Armenians killed two Azeri villagers in a formerly Armenian-populated village on Tuesday and apparently attacked a column of Soviet Interior Ministry troops on Wednesday. [redacted]

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[redacted] These attacks will prompt harsh reprisals from Azeris—and possibly from central authorities—causing violence to escalate in the region. Recent Azeri and Soviet operations designed to curtail Armenian violence have instead stirred the Armenians to become more aggressive. [redacted]

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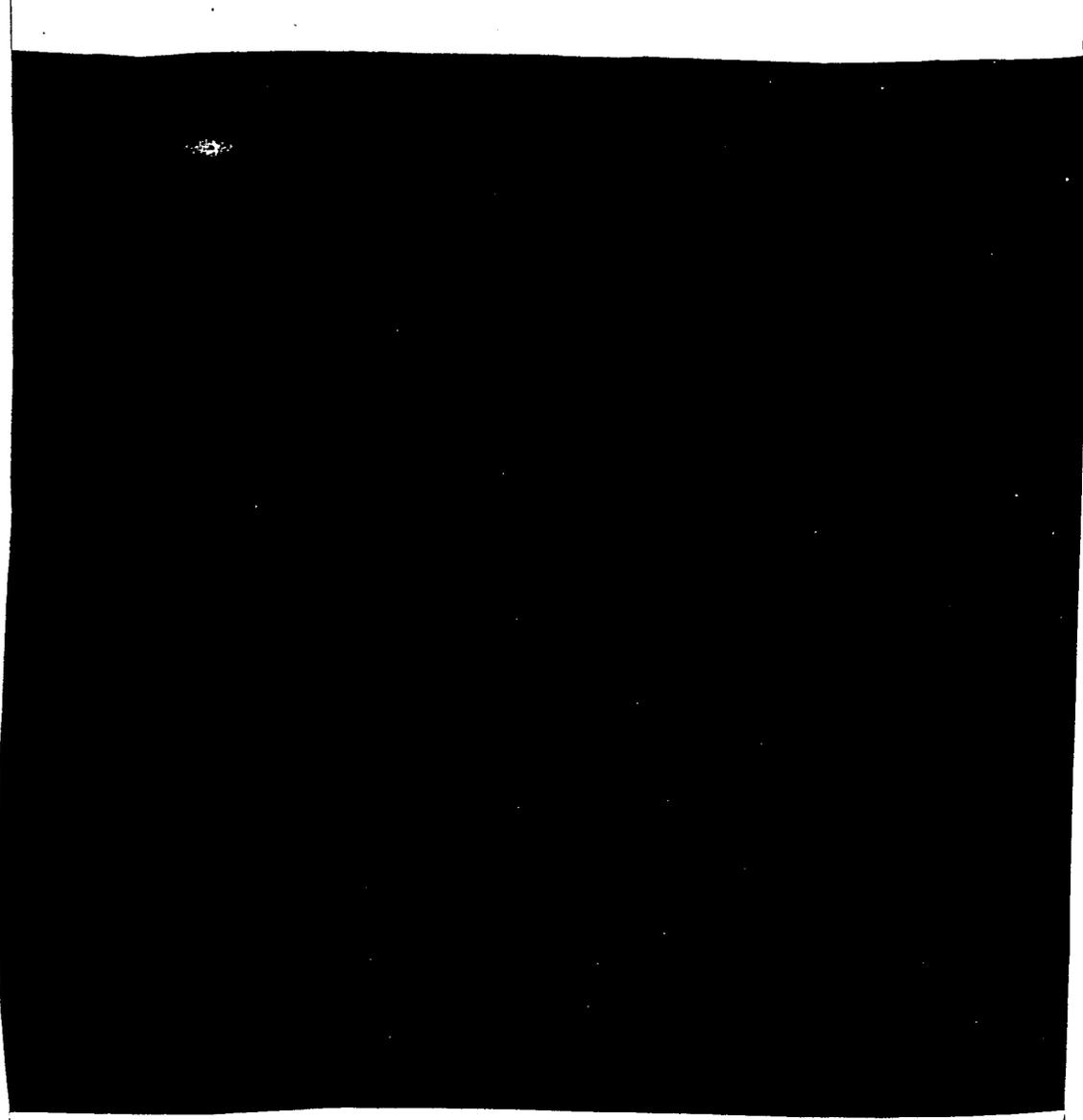
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YUGOSLAVIA: Situation Report

Efforts to arrange a cease-fire begin again today as fighting continues in Serb-populated areas of Croatia. Croatian forces are continuing to take a drubbing, and Zagreb may be considering trying to cut its losses in

b(3)

Military Developments

The Yugoslav Army intervened yesterday in several clashes between Croatian and Serb forces. At Dalj in eastern Croatia, the Army used tanks from Serbia and destroyed a Croatian police station, killing 15 police officers. Air Force jets again strafed Croatian targets in the area. Western journalists have confirmed that Croatian forces late Wednesday retreated from Kostajnica, their last foothold in Krajina. Meanwhile, at least 100 federal Army tanks, armored personnel carriers, and trucks left Slovenia yesterday,

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Croatian forces have suffered a serious defeat in Krajina and are faring poorly in eastern Slavonia. Serb forces, with at least some support from local Army commanders, have dominated Croatian military units in recent clashes. Fighting in Krajina may taper off temporarily if Zagreb opts not to launch an offensive to retake lost ground and if ethnic Serb commanders do not expand operations into majority-Croat areas where they would lose the benefits of fighting on their home ground. Further violence is virtually assured in contested Slavonia, however, and probably in Krajina as well.

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Croatia at Loose Ends

Croatian President Tudjman yesterday told the republic legislature that Croatian forces are too poorly armed and trained to succeed against the Serbs and the federal Army, and claimed he has ordered Croatian forces to avoid provoking Army units. He nevertheless added that Croatian forces would resist future attempts by ethnic Serb paramilitary forces to seize Croatian territory, and he accused some federal Army elements of actively aiding Serb rebels. Tudjman also gave opposition figures several portfolios in his new "national salvation" cabinet.

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Following renewed fighting in eastern Croatia, the chief urged the legislature to declare war and grant Tudjman emergency powers. He also called on all able-bodied Croatians to register with the republic defense forces. Hawkish republic legislators yesterday harshly criticized Tudjman's handling of the Serb rebellion.

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[redacted] Tudjman's defensive speech suggests he may be considering writing off Krajina—already effectively lost—but will resist the Serbs' efforts to expand their influence in Slavonia. If Tudjman's own authority erodes further, the hawks—who still control security policy—may push Croatia into a broader conflict, which Tudjman views as unwinnable. His decision to bring opposition figures into the cabinet almost certainly is a bid to strengthen his position in his own party. [redacted]

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Presidency To Meet Again

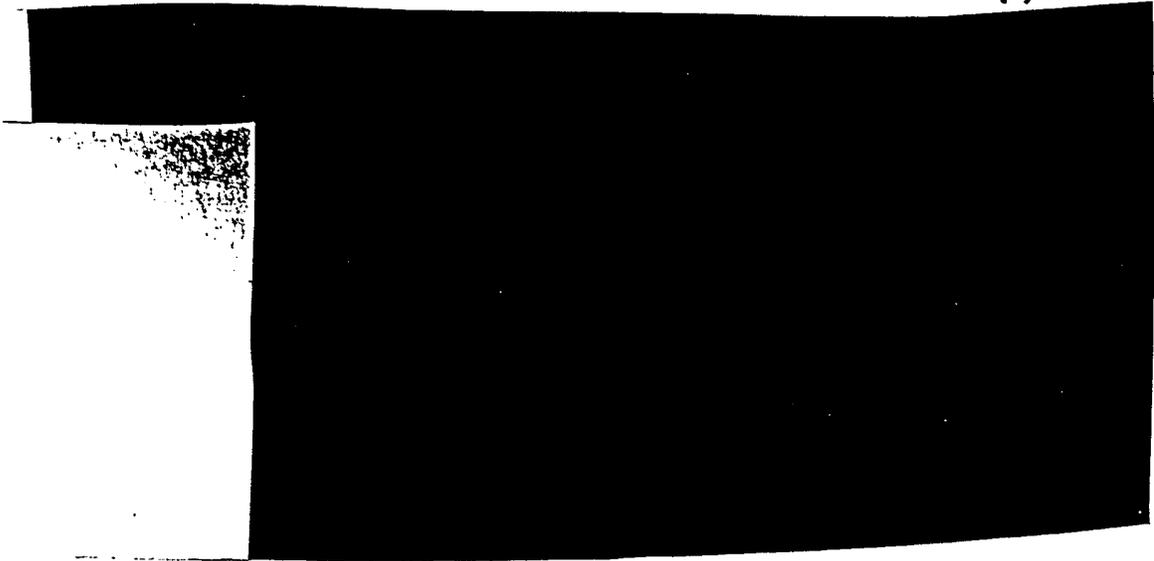
The federal Presidency will meet today to hear Croatia's response to its proposal for a cease-fire. The Presidency continues to demand Croatian demobilization before any Army return to garrison, according to US diplomats. Croatian officials say they still want federal troops to withdraw now. The Luxembourg, Dutch, and Portuguese Foreign Ministers, meanwhile, arrive in Zagreb today to push the EC cease-fire proposal, which hinges on joint Army-Croatian patrols. [redacted]

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[redacted] Serbia and its allies are driving the Presidency's cease-fire policy, virtually assuring that there will be no agreement on its terms. The EC mission may be able to push Tudjman toward an agreement, however. Tudjman specifically said yesterday that his "limited" military response to the Serbs thus far was partly aimed at satisfying Western demands for a peaceful path to independence. Winning agreement from the Serbs, who sense victory on the battlefield, probably will be more difficult, however. [redacted]

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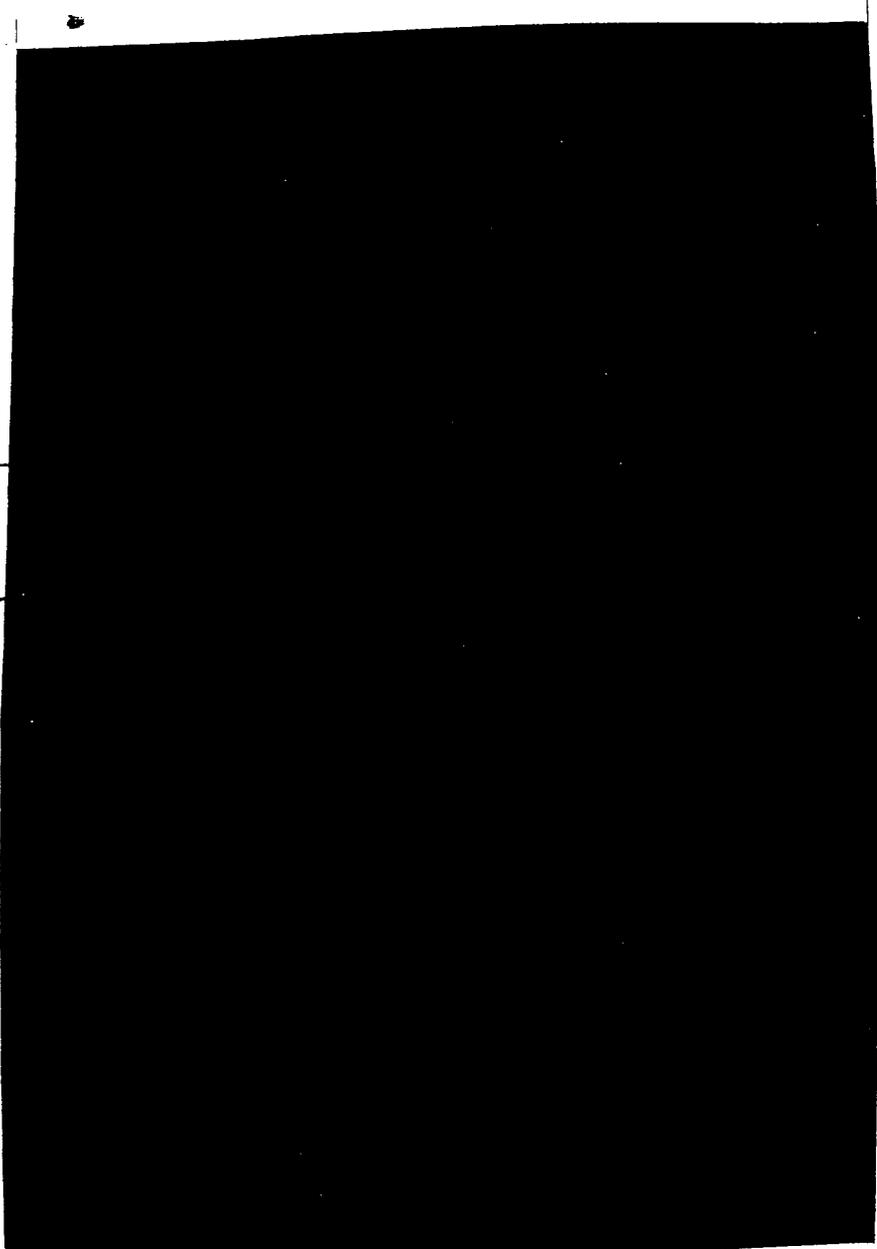
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LEBANON: Peace Conference Decision Draws Fire

The Harawi government's decision to participate in a regional peace conference—which the legislature has endorsed—has unleashed widespread public criticism from former government officials, mainstream legislators, and Islamic groups, including Hizballah.

[Redacted]

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Comment: The opposition emphasizes the government's fears that securing Israel's withdrawal from southern Lebanon may become hostage to other peace process issues and that Lebanese national reconciliation may stall. The government's decision could further strain Harawi's relations with some Muslim Cabinet ministers, who fear radical Islamic leaders will exploit the situation for political gain. The issue may become a rallying point for government members who are unhappy with Harawi's performance on such issues as the economy, administrative reform, and the Army's deployment into the Jazzin corridor.

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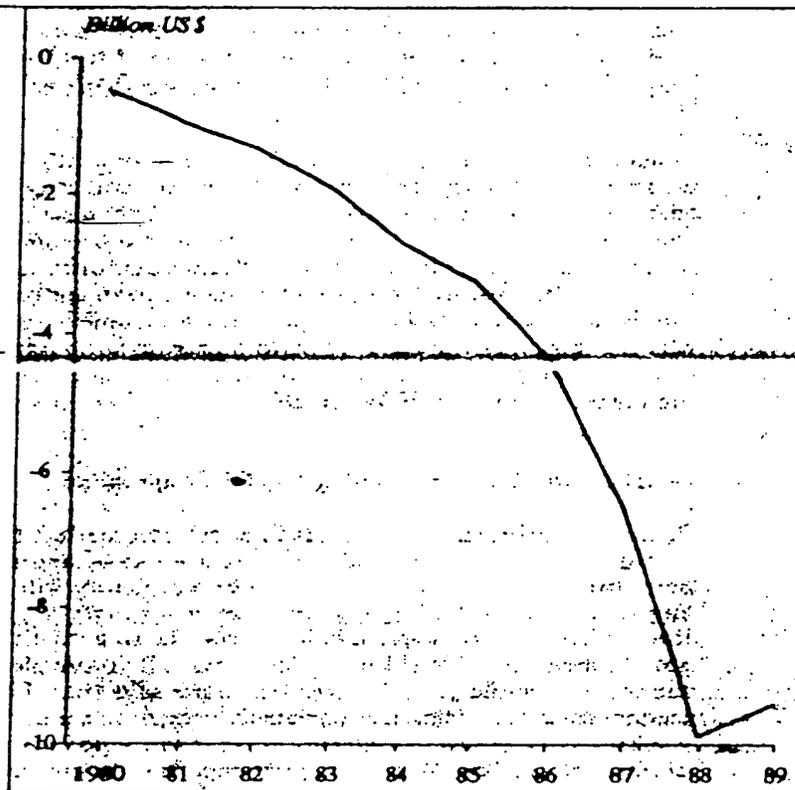
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European Community Technology Trade Balance
1980-89



Note: Includes semiconductors, computers, and telecommunications equipment.

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FRANCE-EC: Protectionism in High-Tech Industries

France's plan to increase protectionism in the EC information technology industry probably will get a cool reception from other EC members. The proposal—still at a preliminary stage in Community deliberations—would restrict non-EC firms' access to the Community market, increase subsidies for investment and research, and encourage closer cooperation among EC companies. A member-state working group will consider the proposal next month as part of a Commission effort to achieve an EC consensus. [REDACTED]

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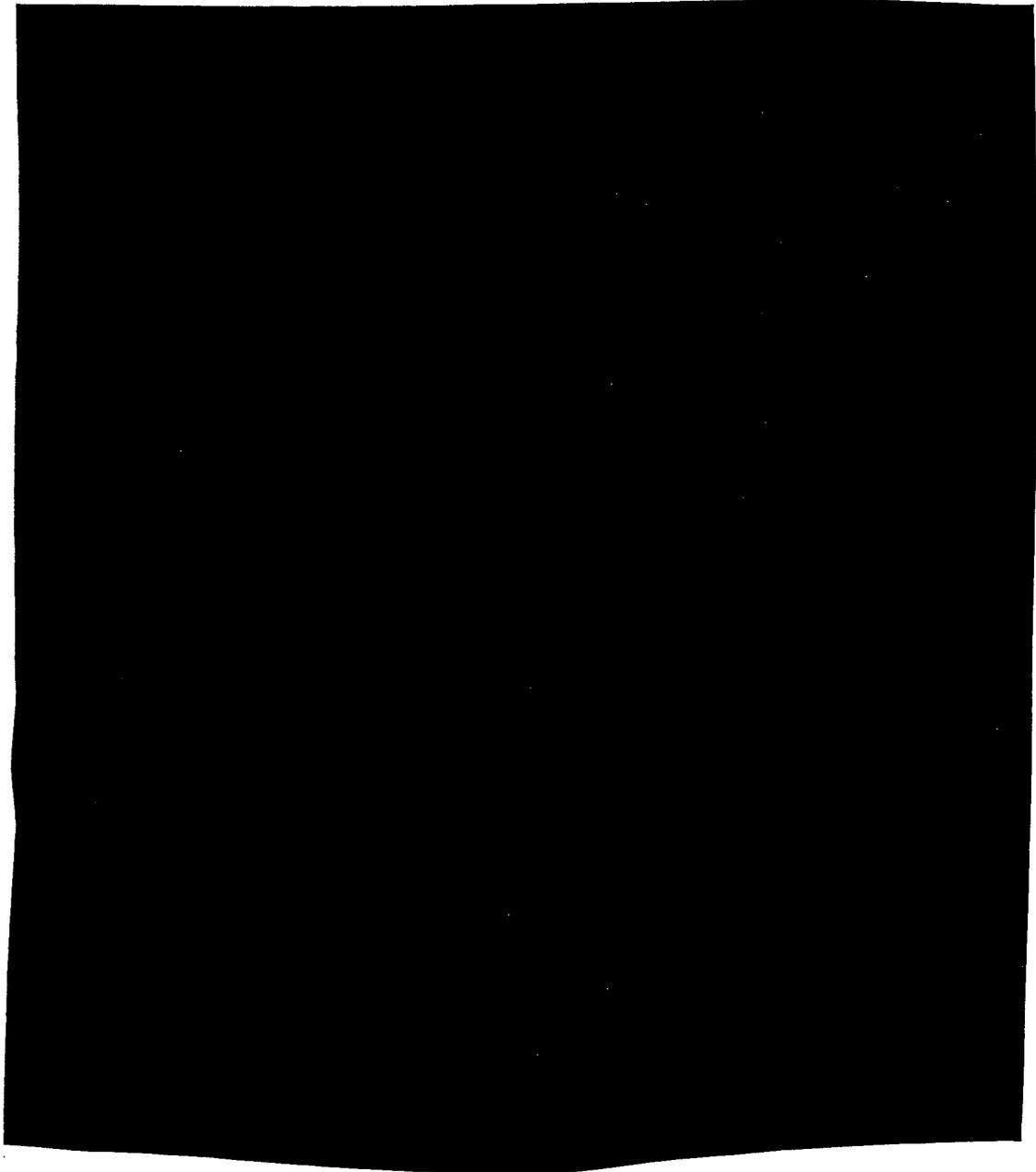
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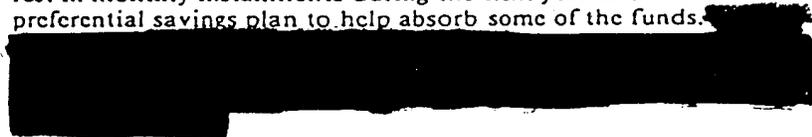


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BRAZIL: Releasing Frozen Funds

Brasilia this month will begin releasing some of the \$25 billion in savings account funds frozen since March 1990 under its anti-inflation program. In addition, the government plans to free the rest in monthly installments during the next year and has devised a preferential savings plan to help absorb some of the funds.



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[Redacted] Each installment equals 14 percent of the money supply and has the potential for rekindling inflation, which currently is rising at 10 percent per month. Brasilia hopes most of the funds will remain invested, but pent-up demand may lead to increased consumer spending. Moreover, uncertainty about future policies may prompt some investors to shift their funds overseas. In an effort to dampen inflation and enhance confidence in its program, the government is likely to introduce additional measures that would drain away liquidity and clamp down on expenditures. [Redacted]

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In Brief

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Europe

— EC Commission this week responded favorably to Austria's membership application . . . negotiations expected after 1993 . . . Austrian neutrality likely to be obstacle given EC's desire for common foreign, security policy. [Redacted]

[Redacted]

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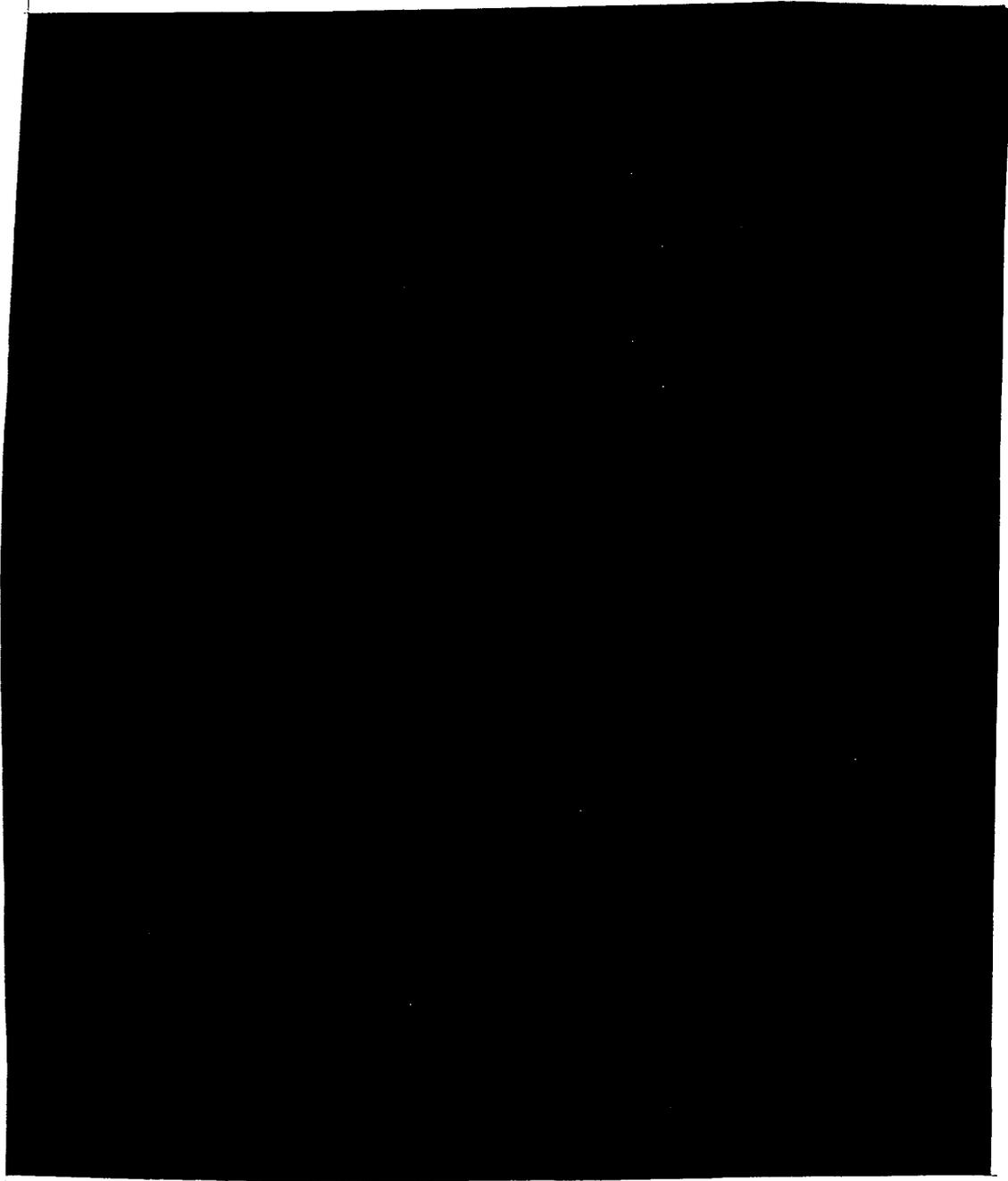
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Special Analysis

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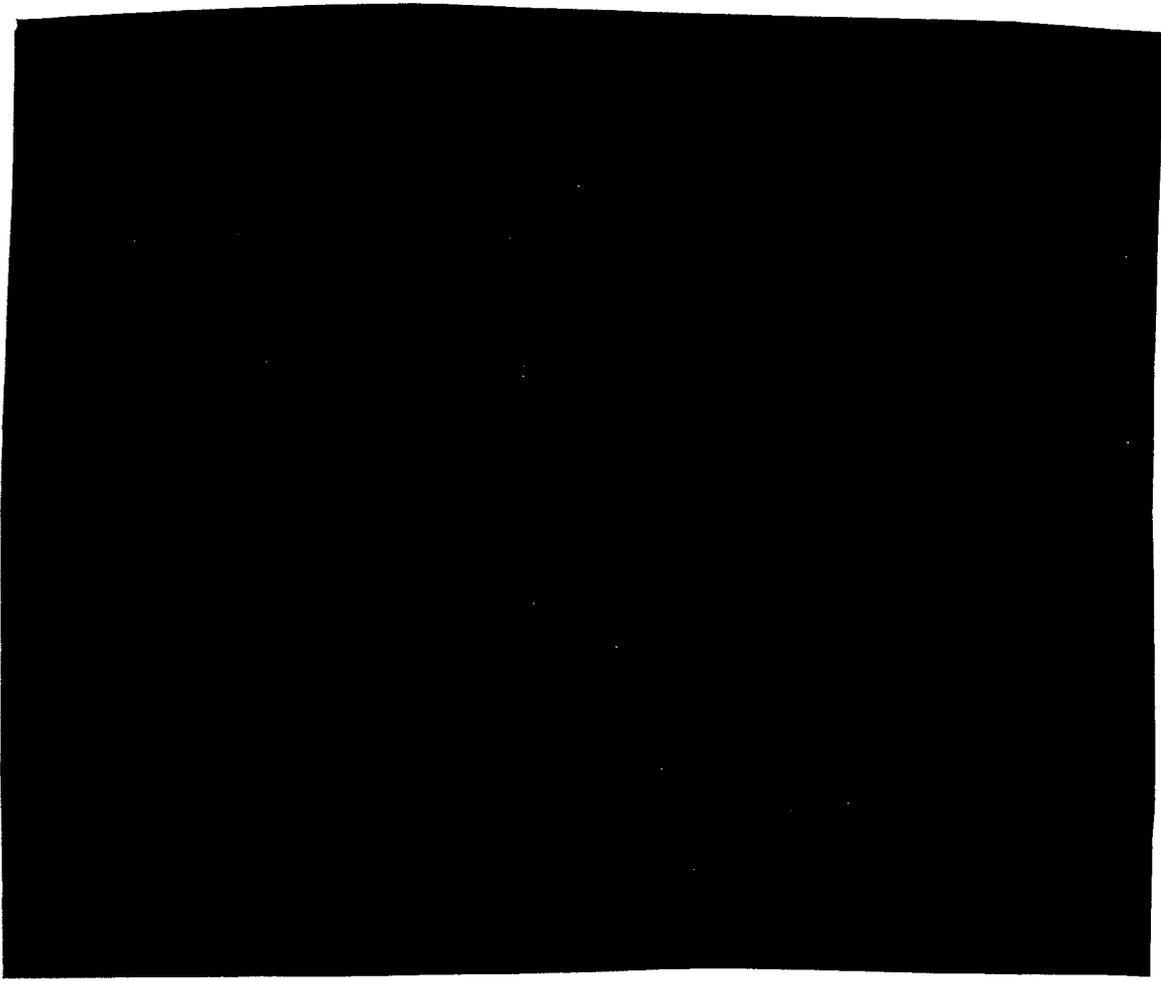
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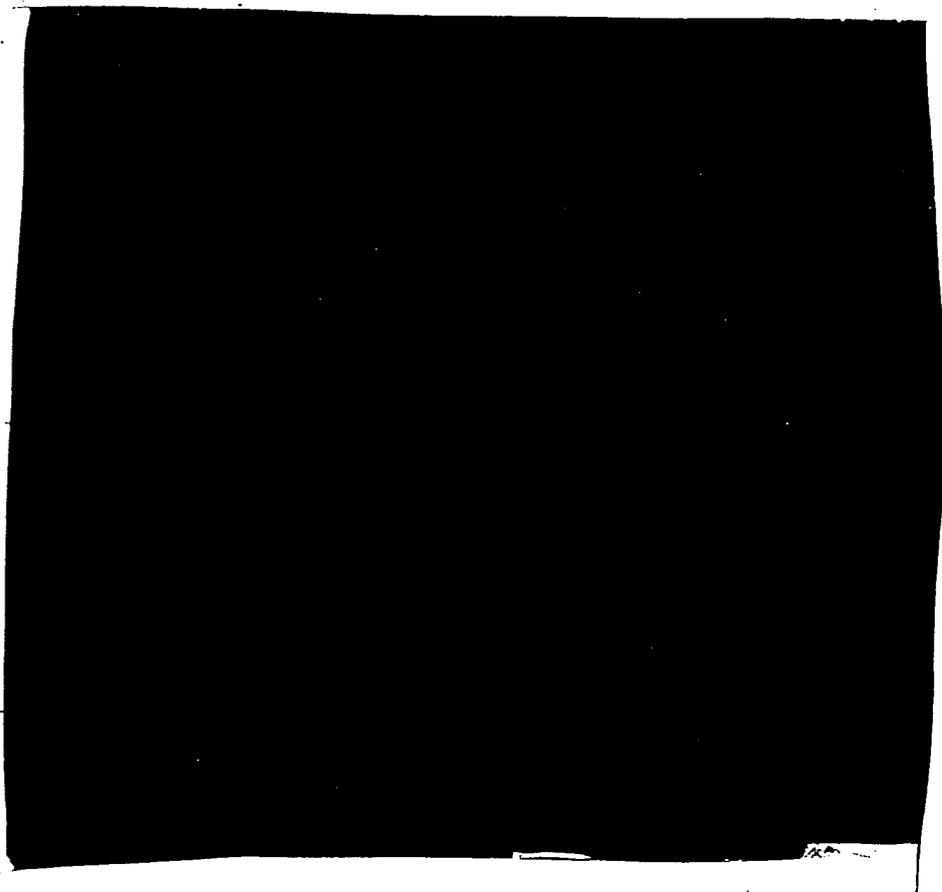
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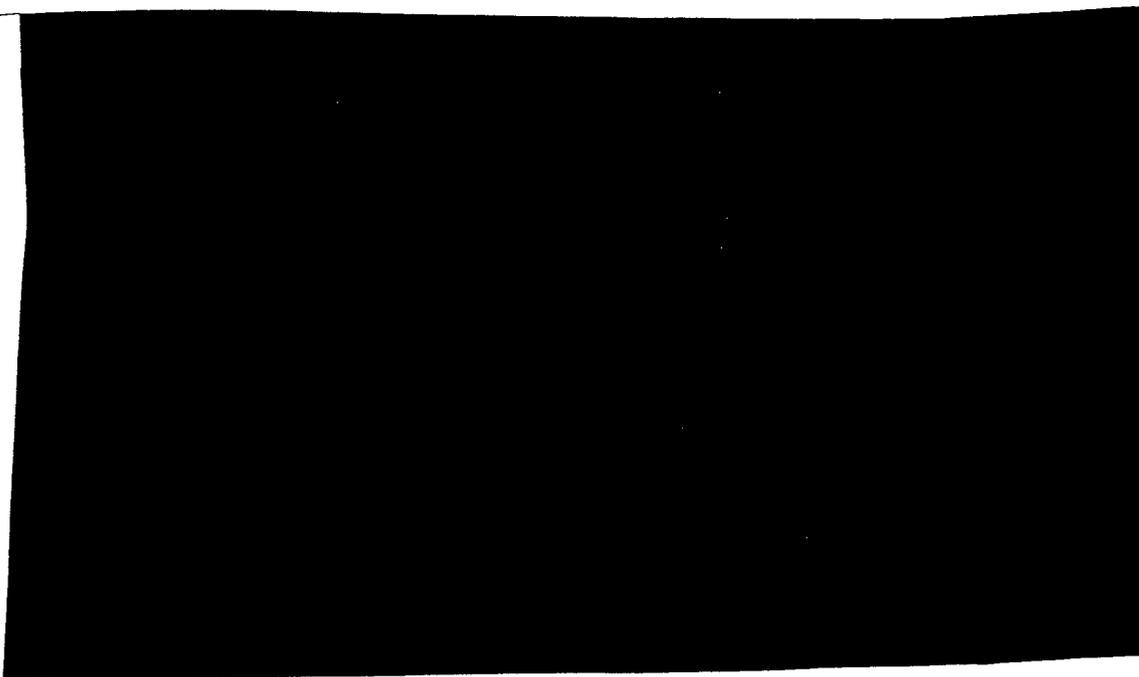
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