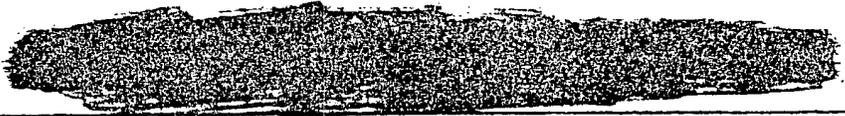




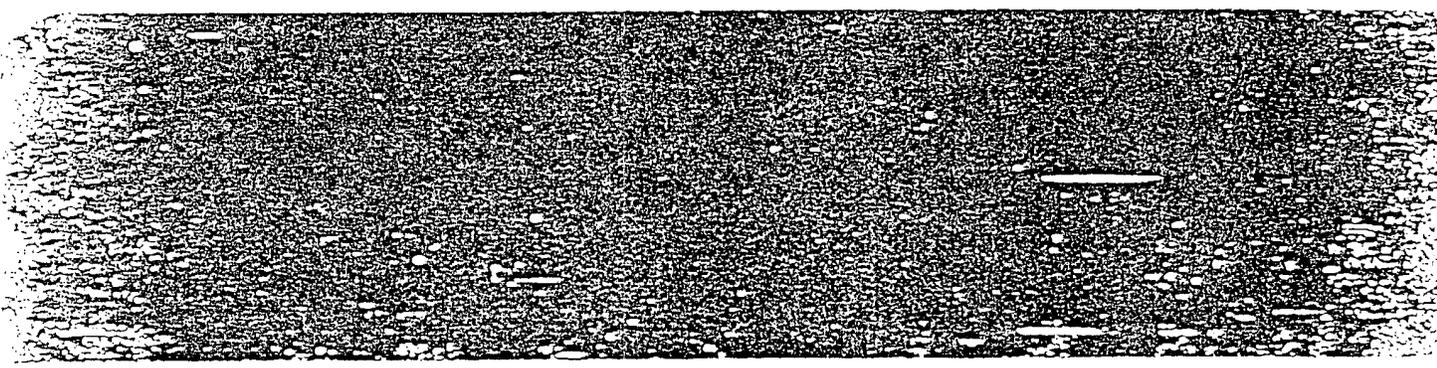
Director of
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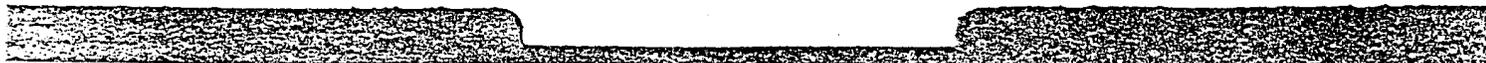
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ITALY:

Crucial Test for Craxi

Prime Minister Craxi is likely to carry out his threat to resign if the Communist-backed wage referendum passes in voting Sunday and Monday. [REDACTED]

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Craxi has announced his intention to step down immediately if the vote goes against him. He also left open the possibility of early elections. [REDACTED]

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The referendum seeks to restore the cuts in the automatic wage indexation system the Craxi government made last year. Restoration would increase a worker's pay by about \$9 a month after taxes, raise labor costs by about 1.5 percent, and fuel inflation, currently at a rate of just under 9 percent annually. [REDACTED]

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[REDACTED] Craxi is gambling that turning the wage referendum into a national vote of confidence will lead to a higher turnout and improve his chances of winning. There are signs that his tactic may be working, and the Communists, who have strongly opposed his austerity policy, have grown increasingly uneasy about their chances. [REDACTED]

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The referendum is only the first of many labor-management-government confrontations expected this year. Labor and management representatives say they will insist on further modification of the wage index however the referendum goes. The vote will be seen, therefore, as a measure of the bargaining strengths of the two sides. [REDACTED]

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A Communist defeat, coming on top of heavy losses in last month's administrative elections, almost certainly would increase tensions among party leaders and weaken support among the rank and file. A Communist win, on the other hand, would not only bring down the Craxi government, it would strengthen the Communists' influence when balloting to choose President Pertini's successor begins later this month, and it could set the stage for an early national election in the fall. [REDACTED]

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SUDAN:

[REDACTED]

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[REDACTED]

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[REDACTED] a leftist-dominated group of professional associations that wants to establish a civilian government immediately has attracted 18 key unions to their ranks. This group has already rejected the Council's draft transitional constitution and may soon present a formal list of grievances under threat of a strike. [REDACTED]

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[REDACTED] Abdullah's resignation would give the unions an excuse to demand a new civilian government and declare a general strike. It would also make more likely a coup by younger officers. Whether led by Abdullah or another younger member of the Military Council, a new military junta probably would be less sympathetic to civilian concerns and even less stable than the present one. [REDACTED]

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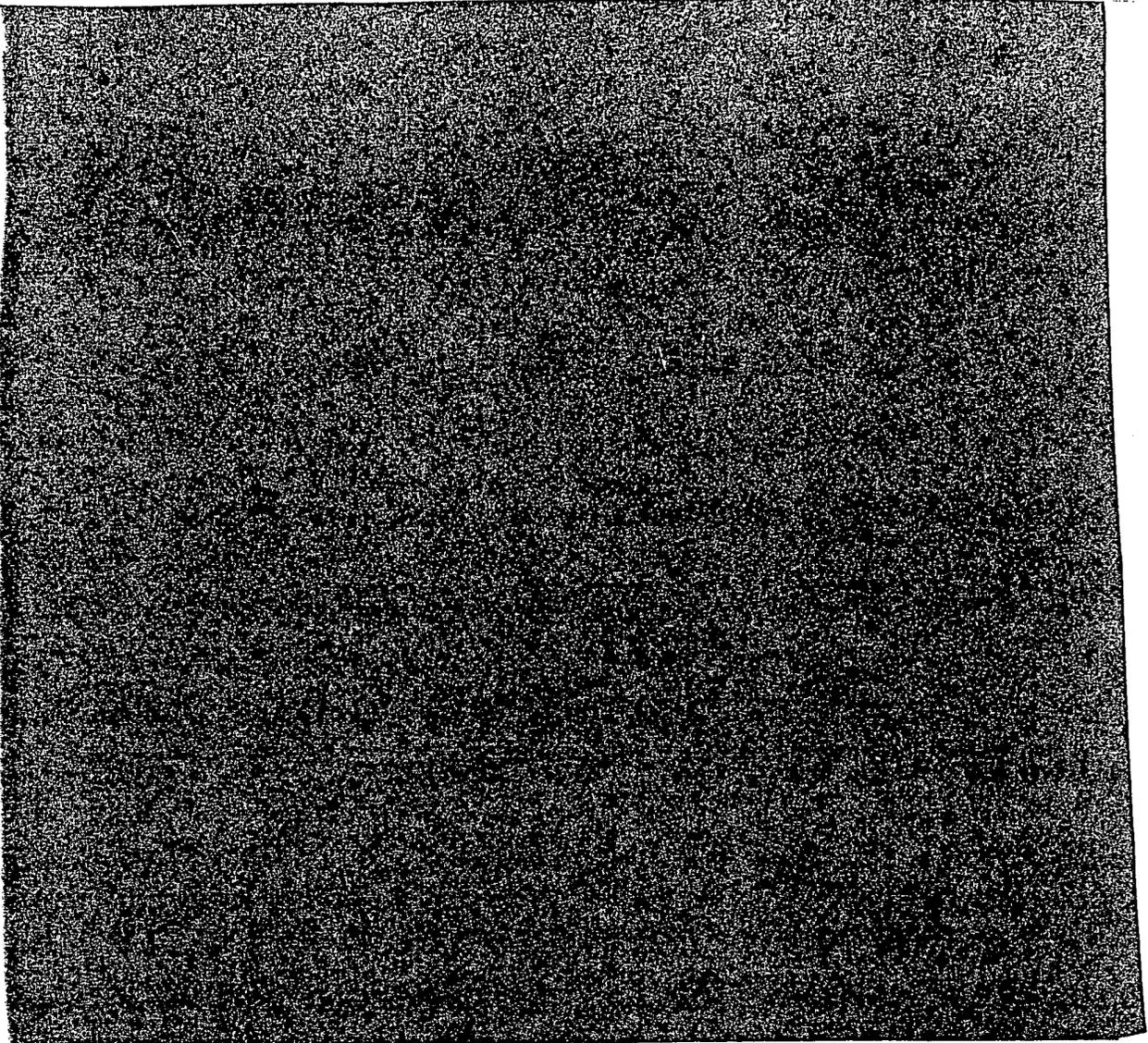
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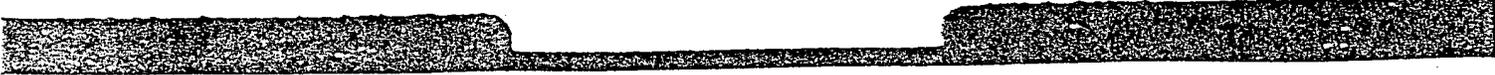
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SOMALIA:

Siad Under Fire

Challenges to President Siad are out in the open following meetings of the ruling party's central committee earlier this week in which party leaders attacked his policies and called for his resignation. [REDACTED]

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Party officials criticized Siad for mishandling political and economic problems, condoning corruption, and furthering tribal favoritism. [REDACTED] They [REDACTED] are critical, too, of Siad's alignment with the US, which they charge has failed to bring the country more economic and military aid. [REDACTED]

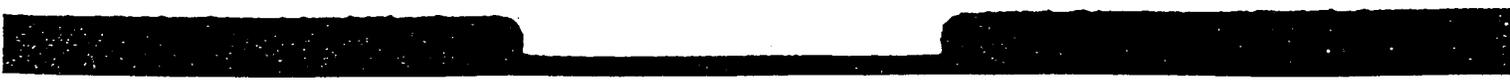
[REDACTED] Siad's tribal favoritism has aggravated traditional rivalries and narrowed his support base, making him increasingly sensitive to criticism of his economic reform proposals by his supporters. Despite the country's desperate economic straits, Siad may use this incident as an excuse to back away from IMF-sought austerity measures. To compensate, Siad is likely to appeal to the US for additional economic and military aid. [REDACTED]

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The President probably will be able to deflect the blame onto subordinates. If, as appears likely, he dismisses Samantar, he probably will retain the defense portfolio himself to gain tighter control of the military, the primary internal threat to the regime. That threat will persist, even though Siad probably will weather the present criticism, because underlying political and economic problems show no signs of abating. [REDACTED]

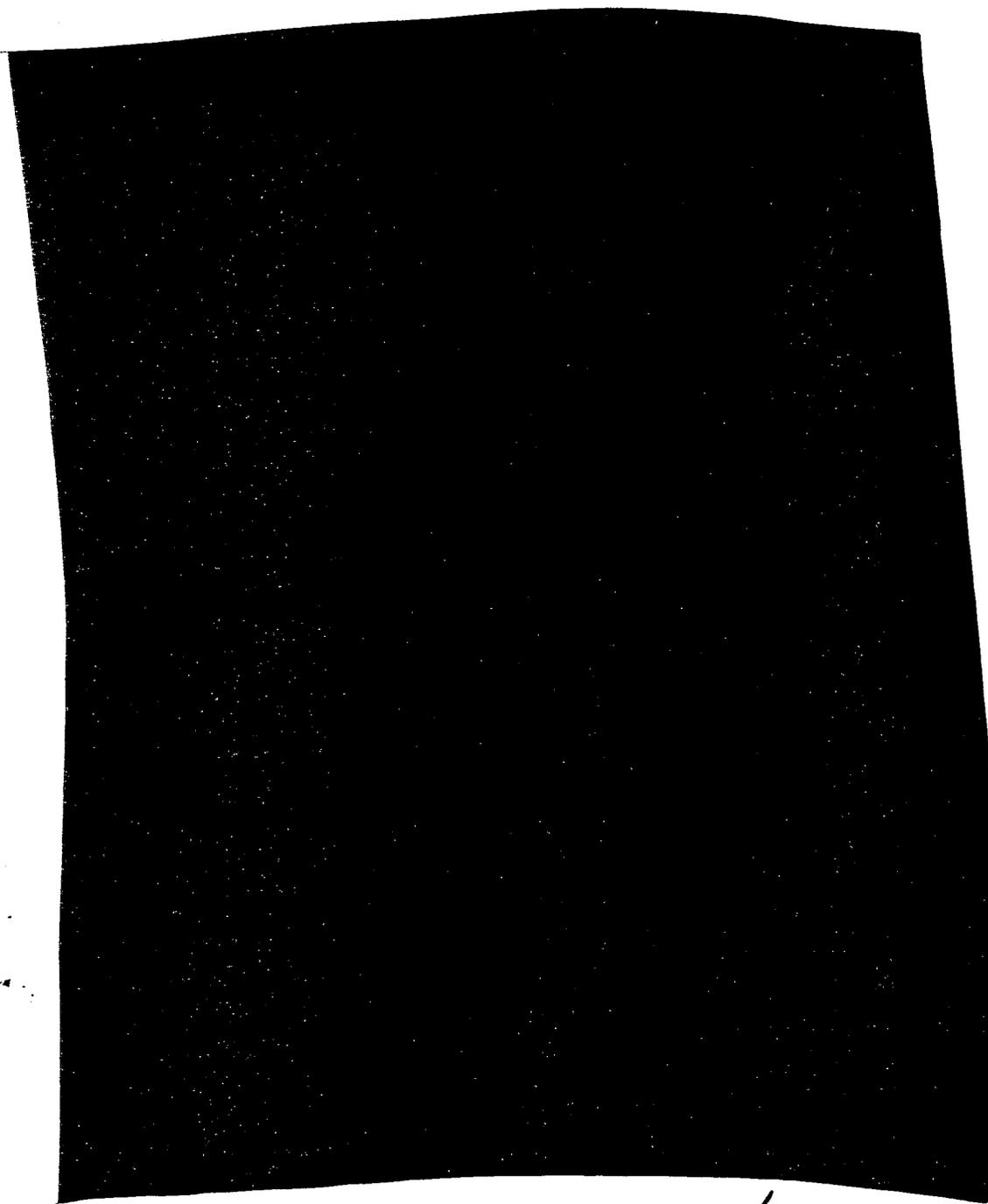
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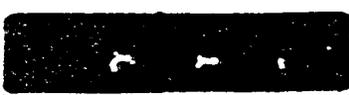
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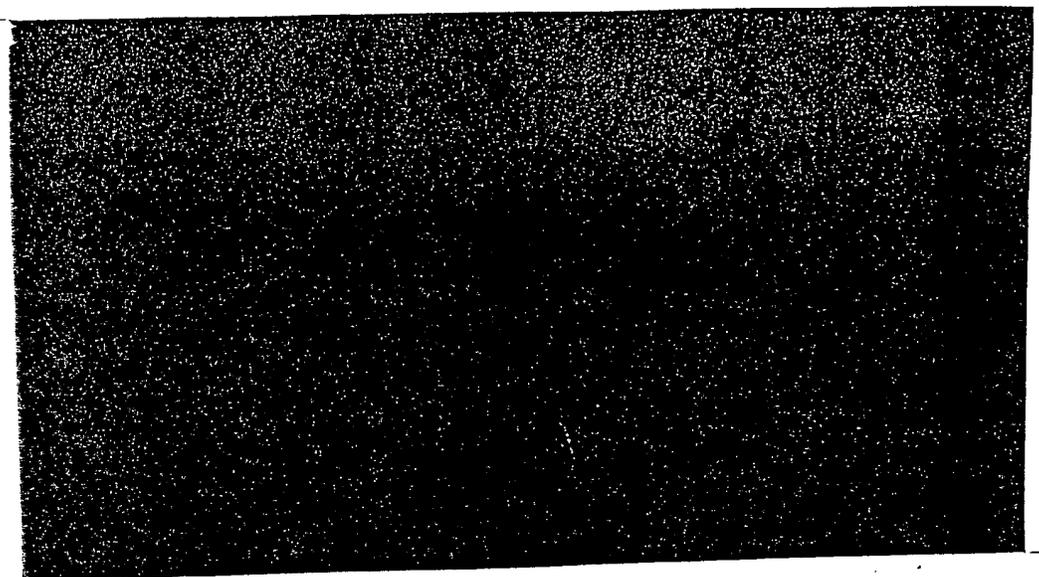
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EL SALVADOR: New Terrorist Targets

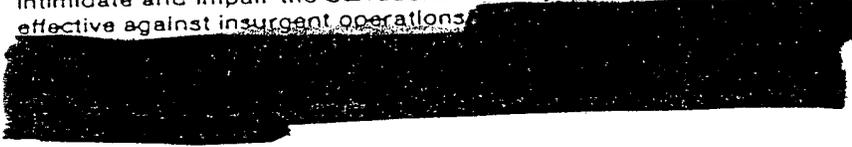
The assassination of a Salvadoran Air Force pilot last week highlights other indications that the guerrillas intend to focus on military personnel as targets for terrorist attacks.

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b3 [redacted] The assassination is the second attack in a month against Air Force officers, suggesting that the rebels may be trying to intimidate and impair the Salvadoran military branch that is most effective against insurgent operations.

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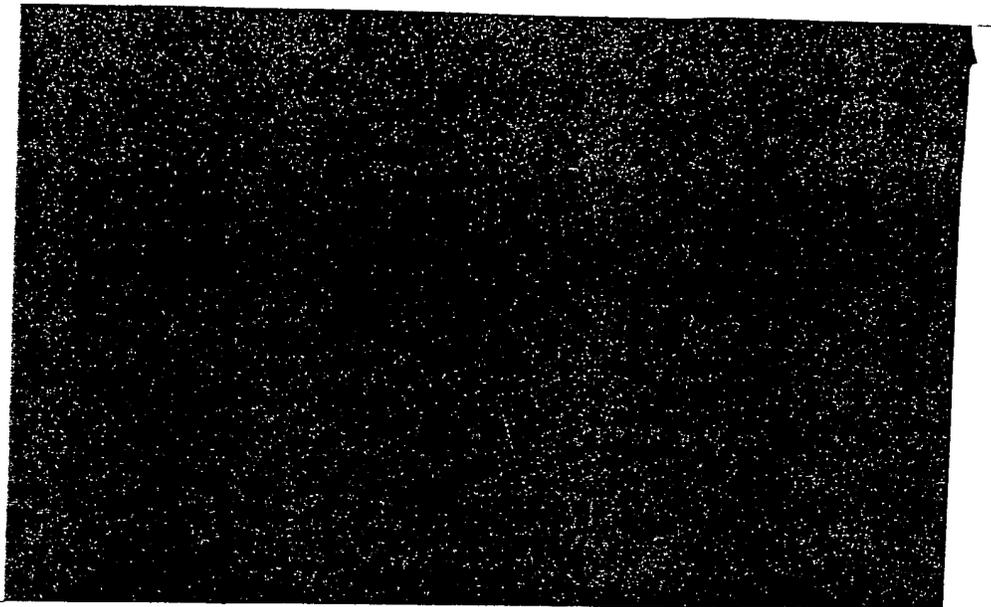


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DENMARK: Defense Compromise

The opposition Social Democratic Party has decided to support the purchase of three used coastal submarines from Norway if the government agrees not to reduce the number of regular Army troops. [redacted]. The Social Democrats still question the need for Danish submarines in the Baltic, but [redacted] they are convinced that purchasing the old Norwegian subs would be cheaper than leasing subs from West Germany. They expect Danish firms to benefit by helping overhaul the submarines, and their quid pro quo agreement also benefits Denmark's soldiers, who belong to a union that supports the Social Democrats. [redacted]

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[redacted] The Danes need to replace three submarines that will have been retired by 1988. When modernized, the Norwegian submarines should have a useful service life of 20 to 30 years, and the Social Democrats' acquiescence in their purchase may lessen future pressure from the party to phase out all Danish submarines in the 1990s. The NATO Allies [redacted] will welcome Copenhagen's decision to continue its mission of protecting the Baltic Straits. [redacted]

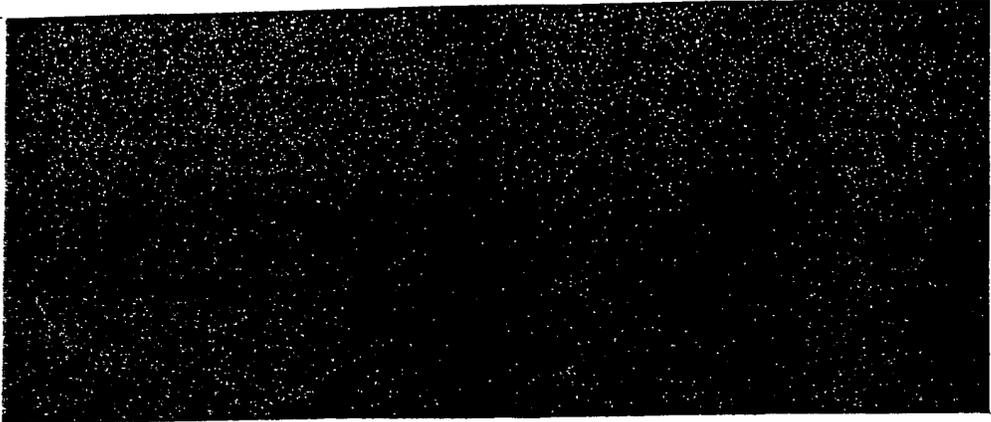
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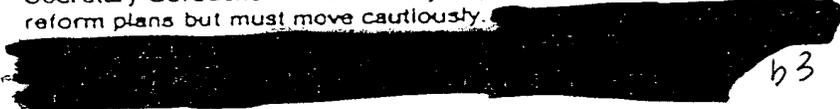
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HUNGARY-USSR: Tacit Approval of Reforms

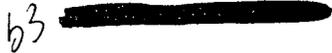
b3 [redacted] the Soviets tacitly approved Hungarian economic reforms at the mid-May meeting of CEMA in Moscow. b3 [redacted] said the Soviets are willing to accept separate paths of economic growth by individual CEMA countries; they will tolerate, for example, some reduction in the extent of administered prices controlled by central planners. [redacted] believes that Soviet General Secretary Gorbachev will eventually implement his own long-range reform plans but must move cautiously.

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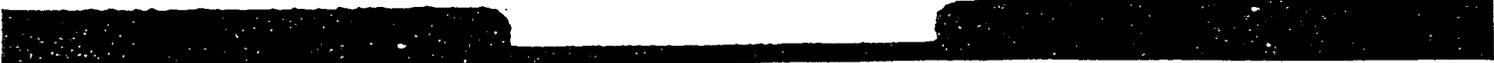
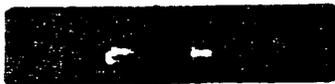


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b3 [redacted] The Hungarians were nervous at the CEMA Summit last year that the Soviets would criticize Hungary's economic reforms and its active economic relations with the West. The lack of criticism then and at subsequent meetings has apparently given the Hungarians confidence that they have at least a tenuous go-ahead—although not a ringing endorsement—to move forward with their reform program.



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ZAMBIA: Miners' Strike

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Most of Zambia's copper mines, which account for some 90 percent of foreign earnings, are closed as a result of wildcat strikes over pay and benefits. [redacted] Union leaders are caught between worker demands and government efforts to implement austerity measures. Government officials will meet with the IMF next week to discuss the austerity measures. [redacted]

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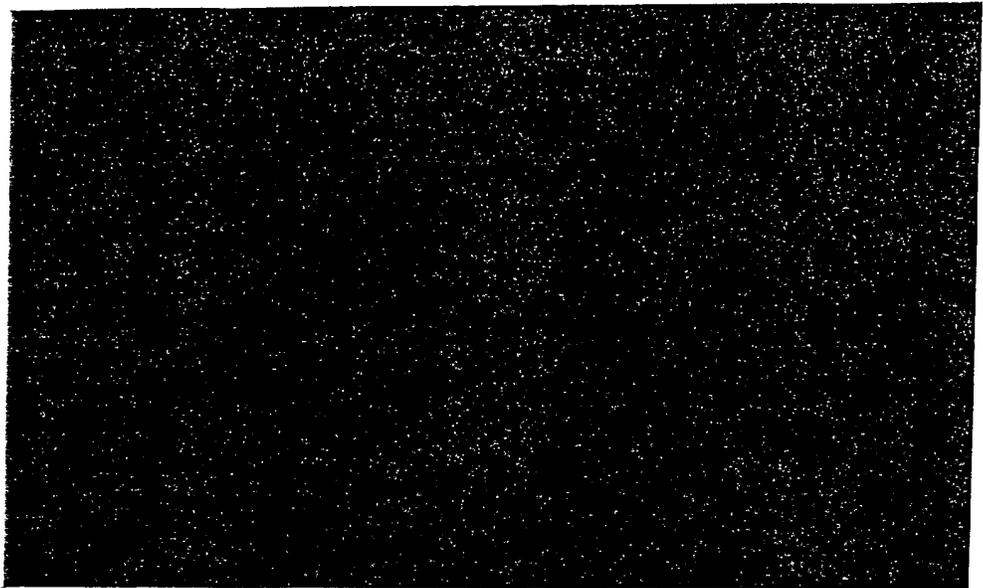
[redacted] Zambia has a strong and independent labor movement, which the ruling party has tried and failed to dominate. The government will probably make some concessions to end the strike, but existing and prospective IMF-mandated measures will likely lead to countervailing demands by the workers. Eventually the government may try again to bring the obstreperous union to heel. [redacted]

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Terrorist Watch

Latin America

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- [redacted] Peru's leftist Tupac Amaru Revolutionary Movement [redacted] plans to attack the US Ambassador's residence, US-owned firms, and the Argentine Embassy during the current visit to Lima of Argentine President Alfonsín. The group has claimed responsibility for several anti-US terrorist incidents, including a shooting at the US Embassy last fall. It has not conducted attacks on the scale indicated in the reported plan, however. [redacted]

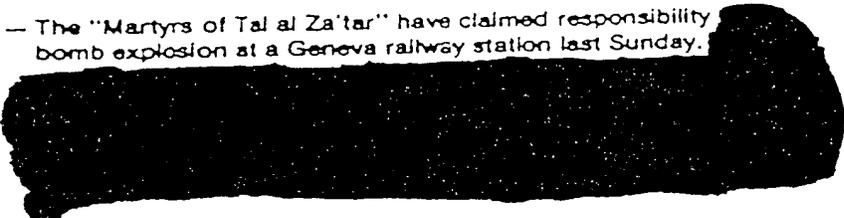
Middle East

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- The "Martyrs of Tal al Za'tar" have claimed responsibility for a bomb explosion at a Geneva railway station last Sunday.

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In Brief

Middle East

- Iraq continues strikes on Iranian cities ... bombed Khark Island, petrochemical plant at Bandar-e Khomeini, Tehran yesterday ... fired surface-to-surface missiles into Ilam and Kermanshah Wednesday ... Iran retaliating on Iraqi border towns. b3

South Asia

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[REDACTED]

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Americas

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USSR

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[REDACTED]

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Europe

- Hungarian dissidents issued declaration criticizing regime's stage managing of multicandidate parliamentary elections tomorrow ... attempt to nominate own candidates failed ... calling for boycott but dissident leaders privately skeptical about impact. b3

- Turks reacting cautiously to new Papandreu government in Greece ... Turkish officials have warned they will adopt tougher policy if their "olive branches" rejected ... press suggests concern about possible Western pressure to conciliate Athens. b3

Africa

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- [REDACTED] Zimbabwean Prime Minister Mugabe has offered Harare as site of next Nonaligned Movement summit ... Tanzanian President Nyerere said to be encouraging Mugabe to seek chairmanship. b3

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- [REDACTED] Somalia received \$5 million from Libya last month to finance agricultural project ... [REDACTED] ... apparently quid pro quo for Somali decision to resume diplomatic relations last March. b3

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[REDACTED]

[REDACTED]

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Special Analysis

CHAD:

Habre's Third Year In Power

President Habre's position is stronger than ever as he celebrates his third anniversary in power today, but he continues to face formidable domestic problems and the threat of destabilization by Libya.

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Habre has demonstrated growing confidence and renewed commitment to national reconciliation in the last several months through travels to all but one prefecture in the portions of the country unoccupied by the Libyans. Serious fragmentation among the approximately 17 opposition groups based both in and out of the country has enhanced his legitimacy. He almost certainly will remain cautious, however, about entering into formal talks recently proposed by Congo because of Brazzaville's apparent connivance with Libya to supply southern insurgents. Moreover, the situation in the north remains stalemated:

[REDACTED]

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Nevertheless, [REDACTED]

The Libyans are also sending more supplies to dissident groups in the south despite a lull in the insurgency there over the last several months. With the onset of the rainy season—normally the most active period for the rebels—another surge in activity is probable by late summer.

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Libya also has [REDACTED] since April to join the southern insurgents.

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Meanwhile, Habre faces severe budget deficits, notwithstanding the austerity measures he has imposed and the [REDACTED] assistance he has received. [REDACTED] this year's disappointing cotton crop—cotton exports are the government's largest source of revenue—is expected to total less than 100,000 metric tons. One result is that civil servant and military salaries are being paid only erratically.

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[REDACTED]

[REDACTED]