



Director of
Central
Intelligence

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National Intelligence Daily

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7 July 1986

Approved for Release
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Contents

[REDACTED]	1	b1, b3
Philippines: Attempt to Form Rival Government	2	
Nicaragua: Government Crackdown Continues	3	
Eastern Europe: Economies Still Struggling	4	
[REDACTED]	5	b1, b3
Notes		
[REDACTED]	6	b1, b3
[REDACTED]	6	b1, b3
China: Oil Production Growth Slows	7	
China: Currency Devaluation	7	
[REDACTED]	8	b1, b3
[REDACTED]	8	
In Brief	9	
Special Analyses		
Eastern Europe: Aftermath of Chernobyl'	10	
[REDACTED]	12	b1, b3
[REDACTED]	14	

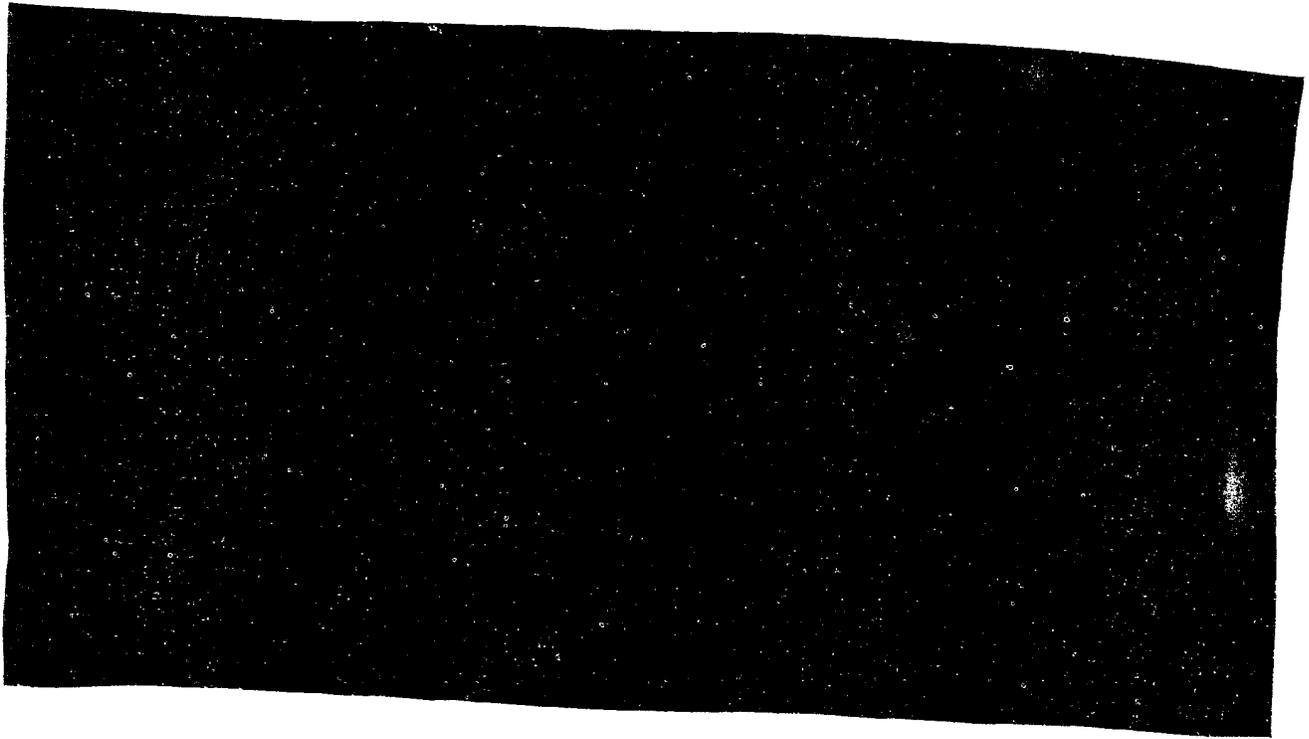
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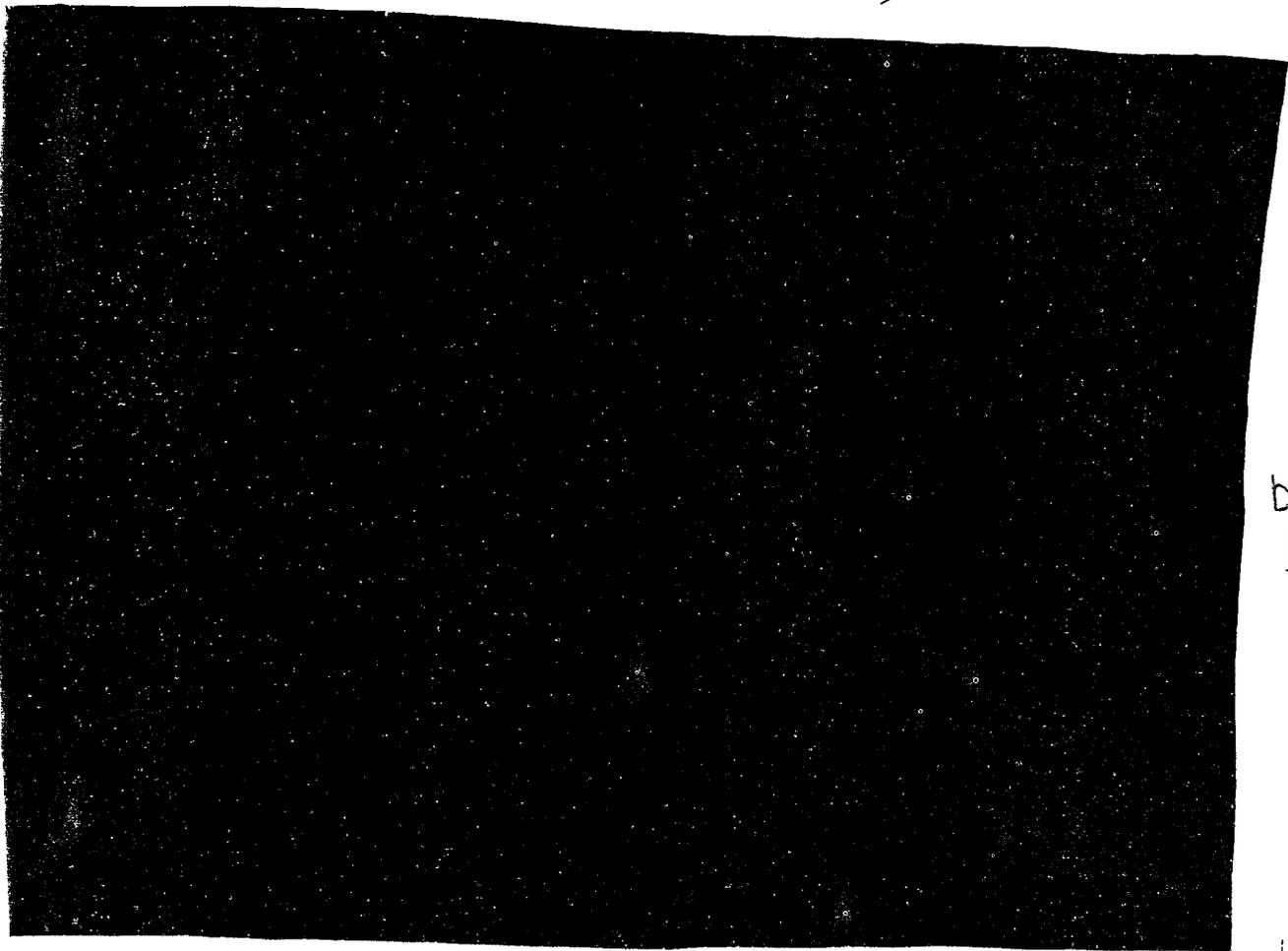
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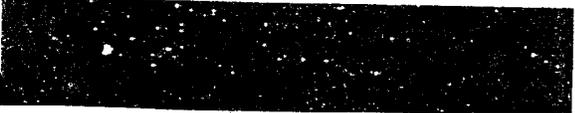
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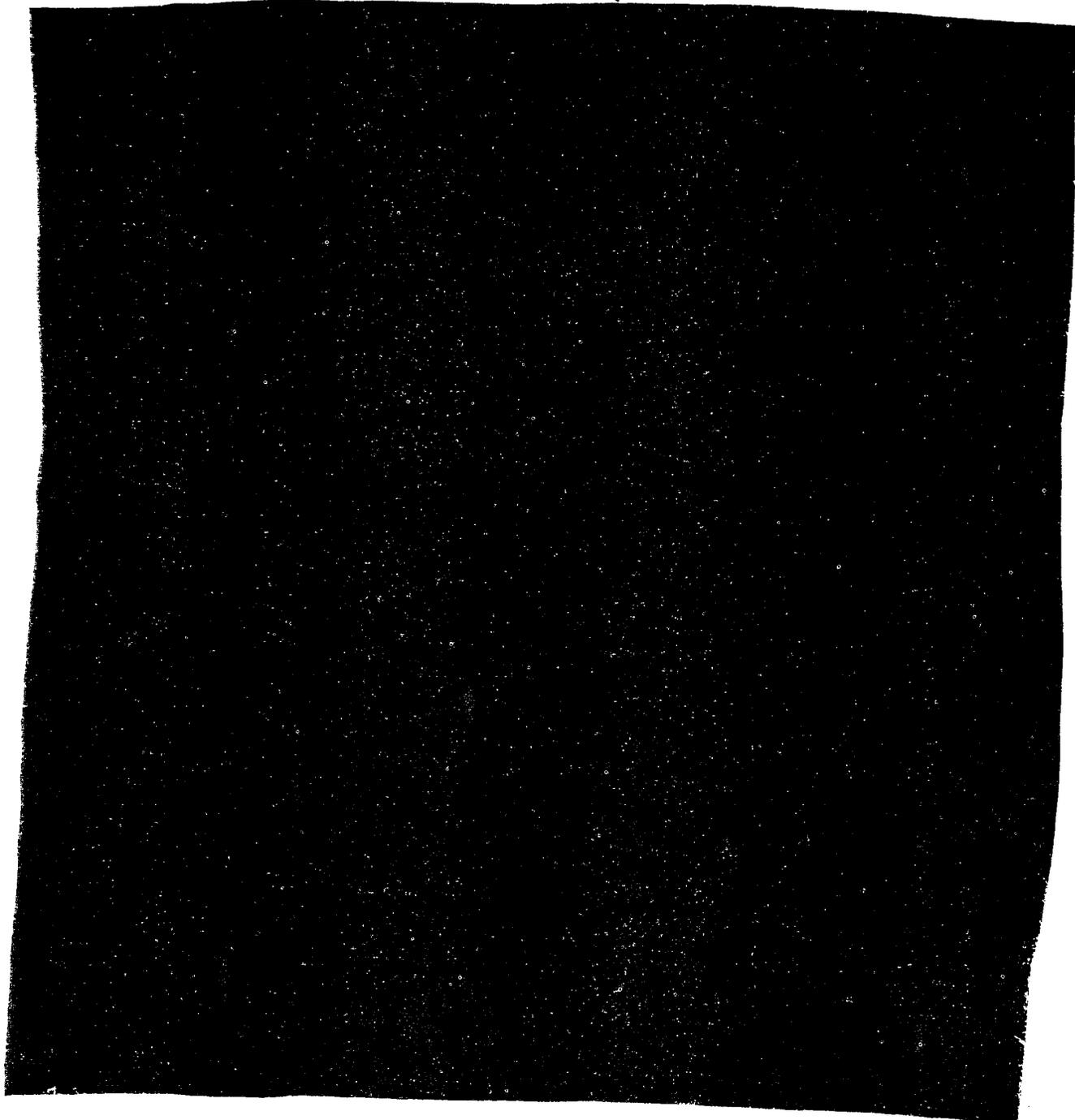
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PHILIPPINES:

Attempt to Form Rival Government

The naming of a rival government by Marcos supporters yesterday is an embarrassing irritant to the Aquino administration that was probably designed to drive another wedge between President Aquino and Defense Minister Enrile.

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Arturo Tolentino, Marcos's running mate in the February presidential election, proclaimed himself acting president yesterday during a rally of Marcos supporters that included several hundred armed soldiers. Tolentino named several Marcos loyalists to his "cabinet" and said that he would retain Defense Minister Juan Ponce Enrile and Armed Forces Chief of Staff Fidel Ramos—the leaders of the rebellion that ousted Marcos and installed Aquino—in their positions.

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Under the command of officers loyal to Marcos and Tolentino, troops, estimated to number as many as 500, seized the Manila Hotel, the site of the demonstration. [redacted] some of the troops supporting Tolentino may be from Regional Unified Command III, where many provincial commanders owed their positions to Marcos's crony Eduardo Cojuangco in the past.

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President Aquino, visiting Mindanao yesterday, announced that when she returned to Manila today, Tolentino would face sedition charges. Both Ramos—who was traveling with Aquino—and Enrile have publicly reaffirmed their support for Aquino. Enrile ordered government troops to surround the Manila Hotel and sent a three-man team of officers to negotiate a peaceful dispersal of the Marcos supporters. Two hundred soldiers have already surrendered, leaving only former members of Marcos's presidential guard inside the complex.

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Tolentino's gesture, presumably made at Marcos's direction, highlights the former President's continued efforts to harass and attack the legitimacy of the Aquino government. Tolentino himself is no real threat to Aquino; he lost much of his credibility by becoming Marcos's running mate earlier. The inclusion of Enrile in Tolentino's "cabinet" was almost certainly designed to worsen the growing tensions between Enrile and Aquino. Enrile's public support for Aquino, however, has prevented the defection of more government troops to Tolentino. If Enrile is able to resolve the incident without violent clashes, he could strengthen his position in Aquino's Cabinet and eliminate some of her distrust for him.

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NICARAGUA:

Government Crackdown Continues

The Sandinistas' decision to expel another high-ranking priest—the second in less than a week—

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Bishop Vega's expulsion on Friday followed a heavy proregime media campaign that chronicled his alleged support for the insurgents. The Bishop's Council has issued a statement criticizing the expulsion, and Cardinal Obando condemned the action in measured terms in his sermon yesterday.

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The Sandinista press [REDACTED] is already claiming the regime has evidence against key opposition political leaders. Despite these warnings [REDACTED] many dissidents remain determined to oppose the new security measures.

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[REDACTED]

The expulsion of Bishop Vega, combined with that of the Cardinal's chief spokesman last week, robs the hierarchy of its two best known voices. The moves will force the Cardinal to assume still more of the burden in opposing the regime and substantially increase his vulnerability to Sandinista retaliation. Bishop Vega was also important in maintaining support for the Cardinal's confrontational posture within the Bishop's Council.

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Some in the civic opposition probably calculate they have little to lose in speaking out against the regime and will look for new opportunities to oppose the Sandinistas, but the new restrictions will sharply limit their ability to organize activities. Moreover, despite their joint statement, not all in the democratic opposition are likely to advocate confrontation, and internal debates will aggravate traditional personal rivalries.

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The Sandinistas almost certainly have selected their next targets, and extensive press attacks probably will be a key indicator of their likely moves. They will probably move gradually, however, perhaps calculating that, if they can force dissidents to leave without being forced to expel them formally, they can minimize international reaction and head off a politically damaging mass exodus.

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EASTERN EUROPE: Economies Still Struggling

Recently released data show Eastern Europe's economic performance for the first quarter of 1986 improved little over last year's poor showing. [redacted]

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The hard currency deficit for the region was an estimated \$900 million as increases in imports, especially from the West, outstripped export growth; in contrast, there was a slight surplus for the first quarter of 1985. The trade gap was particularly large for Hungary, Bulgaria, and Czechoslovakia. Officials in several countries have expressed disappointment with the trade figures, especially because economic plans had stressed reducing hard currency imports and expanding exports. [redacted]

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First-quarter industrial growth fell below the annual rate for 1985. Encouraged by a relatively moderate winter this year, East European regimes hoped for stronger showings as they began new five-year plans. Official criticism of inertia in the Czechoslovak economy has been unusually harsh, and [redacted]

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[redacted] Hungary's GNP might not increase at all in 1986. [redacted]

Prospects for these economies over the rest of the year are not bright. Declining oil prices in the West have cut demand for the region's refined oil products and reduced the ability of Third World oil producers to buy from Eastern Europe. Tourism and food exports to Western Europe have also suffered since the Chernobyl accident. [redacted]

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The slow industrial growth and the decline in hard currency trade performance indicate that the region's recovery from the economic stagnation and financial problems of the early 1980s is running out of steam. Further poor trade results may make bankers more cautious in lending to Eastern Europe. With the Soviets pushing Eastern Europe to increase economic growth and poor 1986 results already apparently throwing the new five-year plans off schedule, East European leaders will come under increasing pressure to take stronger actions in addressing economic problems. [redacted]

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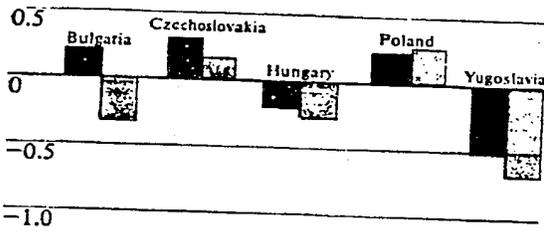
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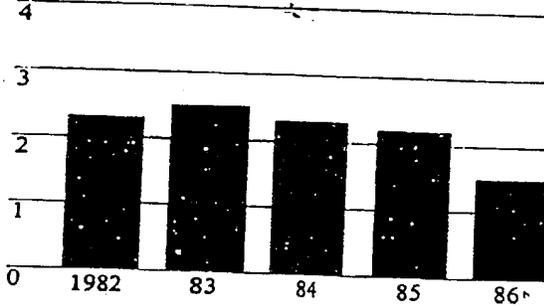
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Eastern Europe: Selected Economic Indicators

Hard Currency Trade Balances,
First Quarter 1985 and 1986*
Billion US \$



Estimated Growth of
Industrial Production, 1982-86
Percent



* Data for East Germany and Romania are not available.
* Data for first-quarter results adjusted to remove distortions of the winter of 1985.

[Redacted]

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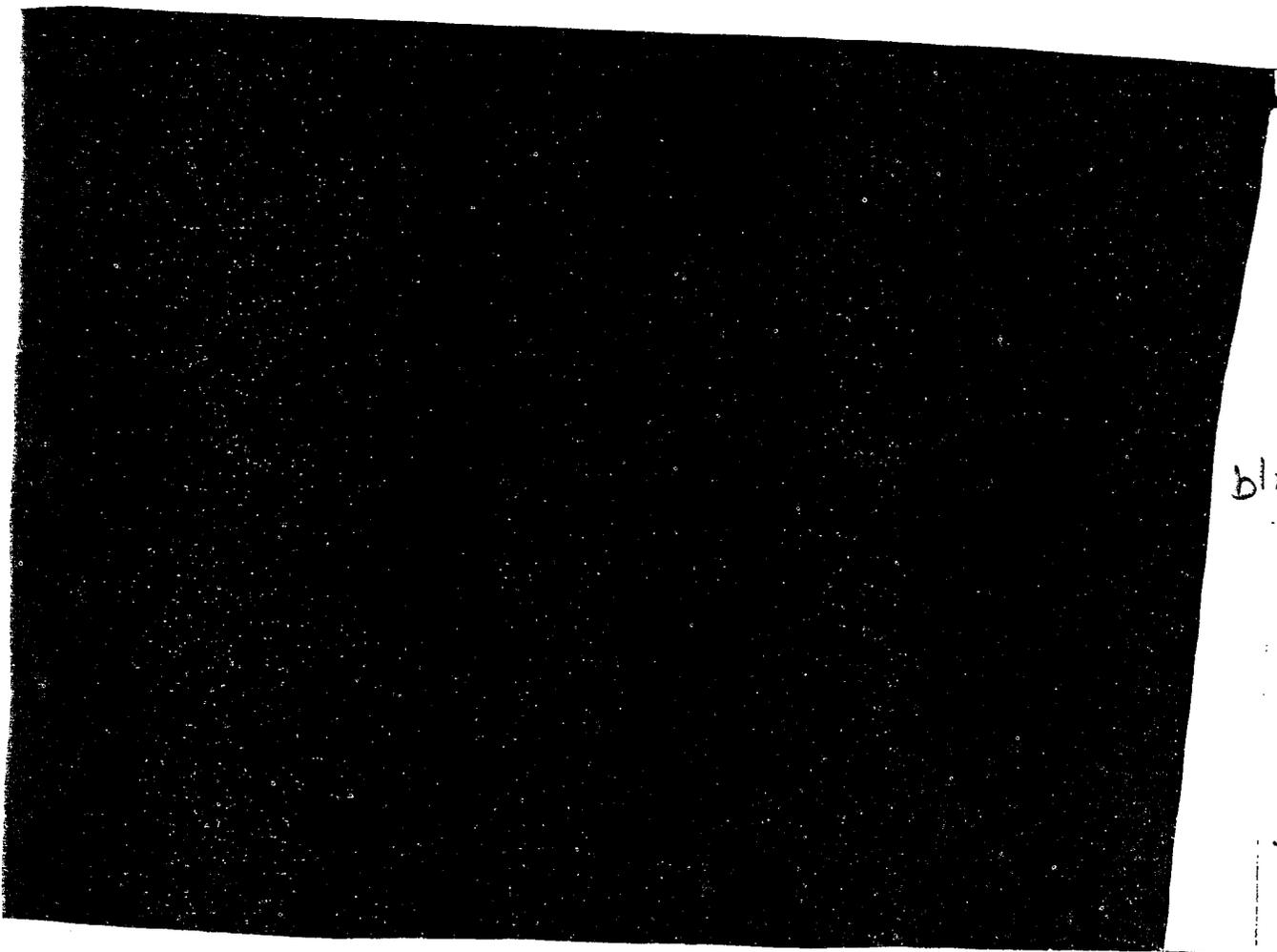
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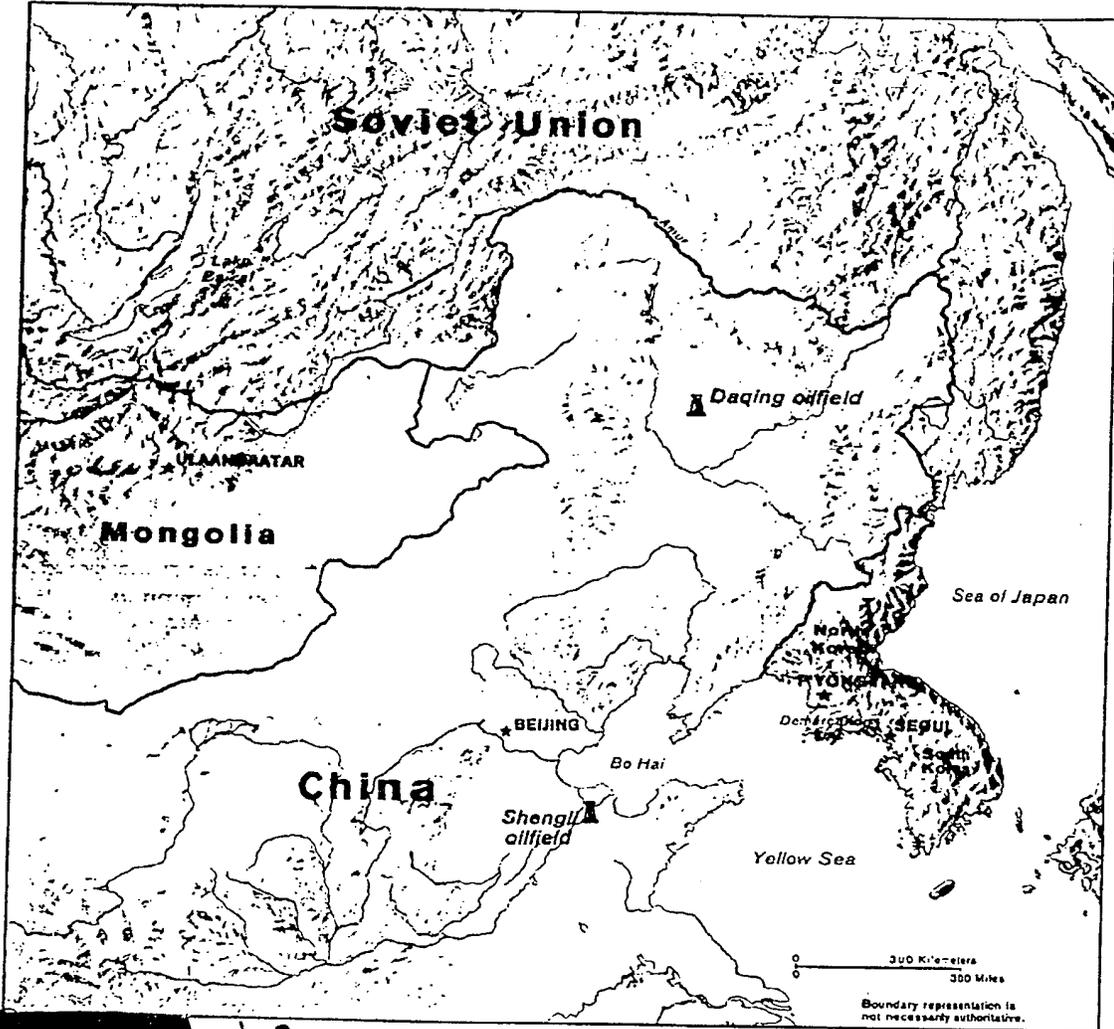
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CHINA: Oil Production Growth Slows

China produced 2.53 million barrels of oil per day during the first half of 1986, only 2 percent more than during the same period last year. Production at Daqing, China's largest field, declined 4 percent because an accident in January shut down one of the field's major power stations for several months.

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[REDACTED]
The lower growth rate will have little effect on domestic oil supplies, which will benefit slightly from a drop in exports—down 11 percent in the first quarter. Nevertheless, Beijing will continue to ration domestic oil supplies tightly so it can expand exports if international prices rise. Significant new finds at Shengli probably will keep China's oil production growing through the rest of the decade.

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CHINA: Currency Devaluation

China devalued its currency by 13.5 percent against the dollar on Saturday in response to continuing concerns about its balance of trade. In 1985 China ran a trade deficit of about \$8 billion.

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[REDACTED] Preliminary Chinese data indicate that the trade deficit in the first quarter of 1986 was about the same as in the same period last year.

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[REDACTED] This devaluation, following a 7-percent devaluation in October, reflects Beijing's determination to improve its trade performance by using economic incentives rather than administrative directives. Premier Zhao Ziyang complained in March that, because of China's irrational price structure, the profits from domestic sales of many products are greater than profits from exports. The devaluation, by boosting the profitability of exports, will spur Chinese firms to divert more goods to foreign sales. At 3.7 yuan to the dollar, however, China's currency is still overvalued, and Beijing probably will devalue again before the end of the year.

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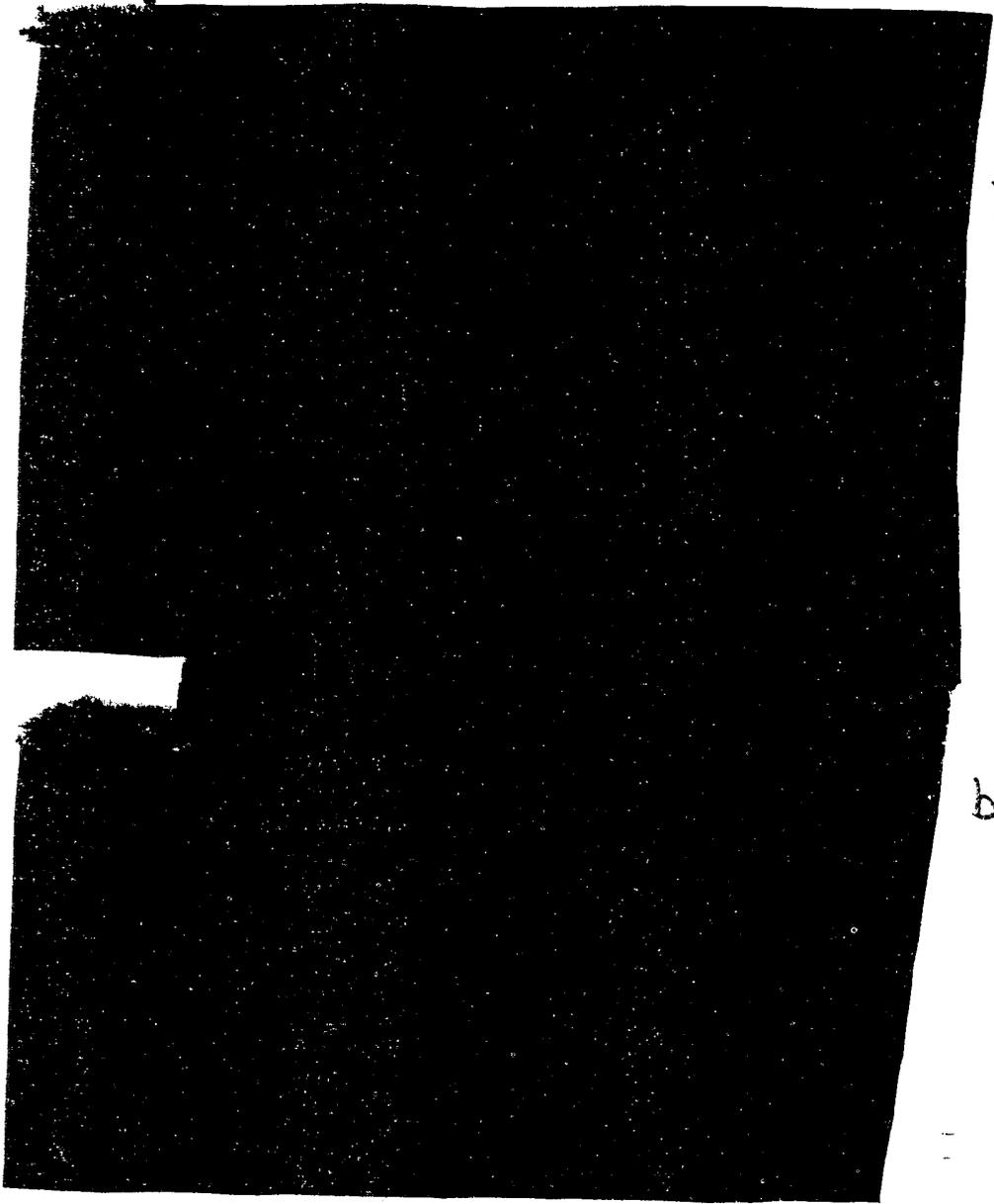
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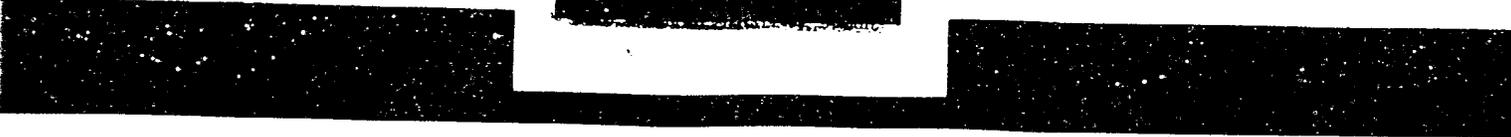
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In Brief

South Asia

— Initial reporting indicates low turnout for **Pakistan** opposition leader Bhutto's nationwide demonstrations on Saturday . . . officials in volatile **Karachi** had banned rallies for two weeks . . . only one incident of violence reported.

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Middle East

— [redacted] Warsaw Pact members will help fund UN force in **Lebanon** to improve chance **Polish** troops will replace a **French** unit . . . UN seeking replacements from current contributors, no success yet.

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Americas

— **Nicaragua** to adopt conventional military ranks . . . guerrilla commandants to become majors and colonels . . . four grades of general authorized, President appointing top three . . . gives officers chance to equal or outrank **Soviet, Cuban** advisers.

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[redacted]

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— **Cuba** suspended interest payments to Paris Club members last Tuesday, [redacted] . . . Havana refusing import cuts, reforms to reduce \$436 million financing needed this year . . . strained talks probably will resume this month.

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Europe

— [redacted] **East Germans** rankled by **Soviet** push for more open media policy . . . disliked Gorbachev's mentioning Soviet shortcomings at East German party congress . . . unhappy with Gorbachev's style.

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— **EC** court invalidated 1986 EC budget . . . ruled budget violated EC spending restraint agreement . . . ruling will increase financing gap from \$3.9 billion to \$4.5 billion . . . budget revisions this autumn likely to cut nonagricultural spending.

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— **EC** members expected to approve interim settlement of EC-US farm trade dispute this week . . . allows continued US corn exports to **Spain** this year . . . **France** contends agreement too favorable to US but unlikely to block.

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East Asia

[redacted]

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Eastern Europe: Indicators of Reaction to the Chernobyl' Accident of 26 April

	Bulgaria	Czechoslovakia	Hungary	East Germany	Poland	Romania	Yugoslavia
Initial press announcement	4/28	4/30	4/28	4/29	4/28	4/29	4/29
First admitted Soviet casualties		4/30	4/29	4/30	4/30	4/29	4/29
Medical warnings issued	5/1	5/6	5/2	5/7	4/29	5/2	5/1
Increased radiation announced	**	**	**		**	**	**
Admitted economic losses	**	**	**		**	**	**
Accepted Western assistance					**	**	
Changed nuclear programs	**						**
Private statements of ire by officials	**		**	**	**	**	**
Requested compensation from Soviets			**		**	**	
Cited Voice of America as media verification					**		

* Double asterisk indicates date unknown.

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7 July 1986

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Special Analysis

EASTERN EUROPE: Aftermath of Chernobyl'

The Chernobyl' accident has introduced new frictions into Eastern Europe's relations with the USSR. It has also provoked anger toward Western Europe over the EC's temporary ban on East European food exports.

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Soviet failure to warn Eastern Europe of the accident quickly and to share information, despite a CEMA agreement, angered leaders in many countries. Moscow has shown no willingness to accommodate the East Europeans' reported demands for compensation, however, and the ire expressed in some countries toward Western Europe has not slowed efforts to establish formal EC-CEMA relations.

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Relations With the USSR

[REDACTED] East European governments did not extend the customary formal condolences over the disaster to the Soviet Government.

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Attempts to follow Moscow's line by minimizing the accident eroded the populace's already limited confidence in the governments of most East European regimes.

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Many people, distrustful of government information, assumed the threat to public health was worse than announced and relied on Western radio for news on the accident. The Polish regime even cited the Voice of America to calm the population's fears of health hazards. The accident also stimulated fledgling environmental and antinuclear groups, which will probably fuel political dissidence.

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Relations With the European Community

[REDACTED] Hungary, Poland, and Yugoslavia quickly denounced the EC import ban as a politically motivated move to protect domestic agriculture. The East Europeans claim the ban cost them more than \$100 million in lost earnings in May, and financially troubled Poland and Romania have used the ban as an excuse for not making debt payments.

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Despite their anger, however, all East European countries responded positively to a recent EC proposal to pursue bilateral and CEMA-EC agreements simultaneously.

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the Community will probably launch trade negotiations with Romania, Hungary, and Czechoslovakia in the near future.

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Outlook

The Chernobyl' incident appears unlikely to affect the East Europeans' relationship with Moscow in any fundamental way, even in the short run. the Soviets and East Europeans discussed the compensation issue in Moscow. and the East Europeans were determined to press the issue.

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Compensation may also have been on the agenda of the unprecedented meeting Soviet leader Gorbachev had with East European party leaders following the regular session of the Warsaw Pact's Political Consultative Committee in Budapest that involved larger delegations. In public, however, the Soviets have avoided any hint they might compensate any country.

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The Soviets have disappointed East European hopes that Gorbachev would treat his allies more like equals than did his predecessors. The East Europeans believe themselves unfairly penalized by the accident, but they have little leverage with Moscow. At most, they may signal their displeasure by dragging their feet in future economic negotiations with the Soviets.

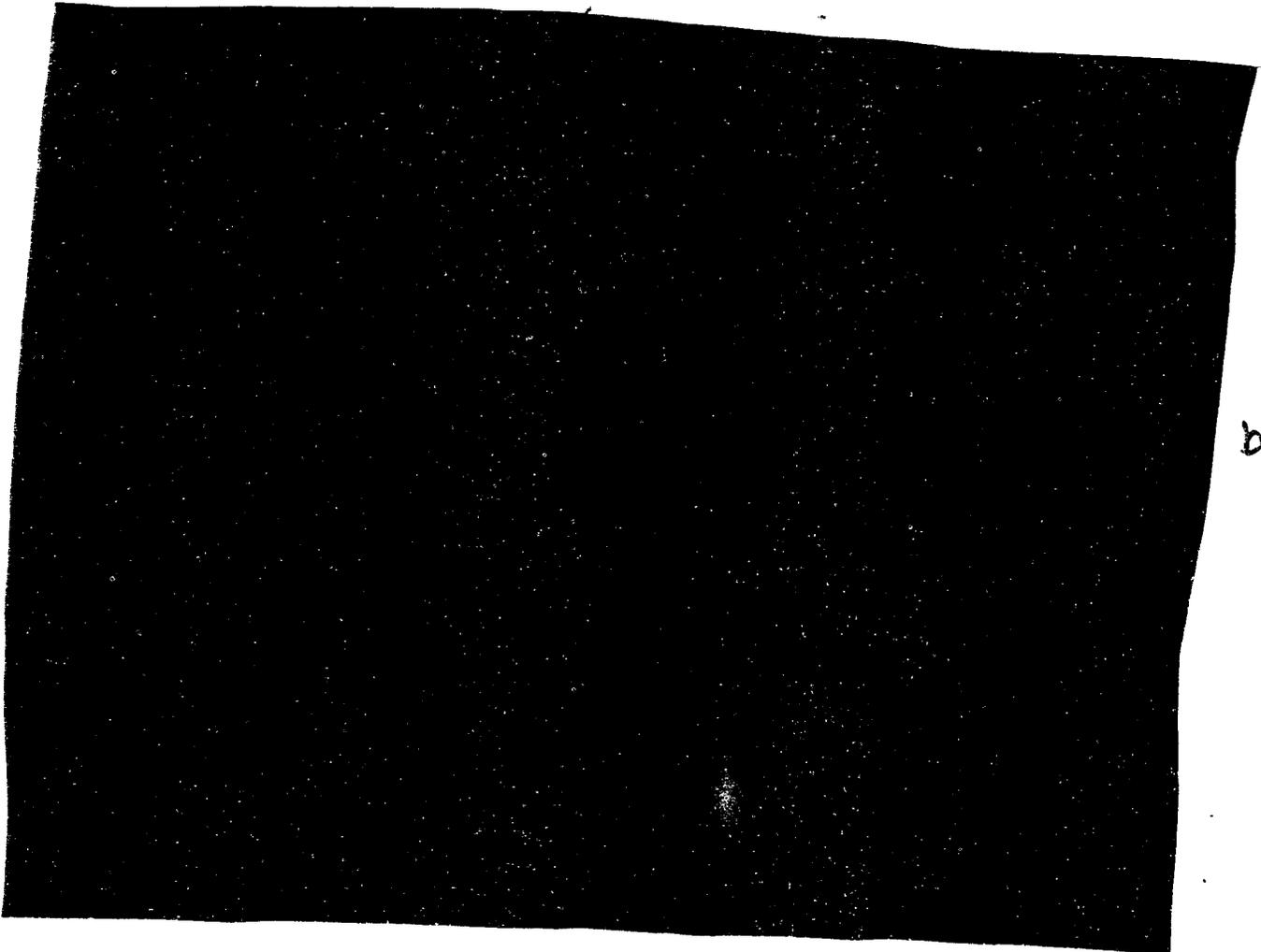
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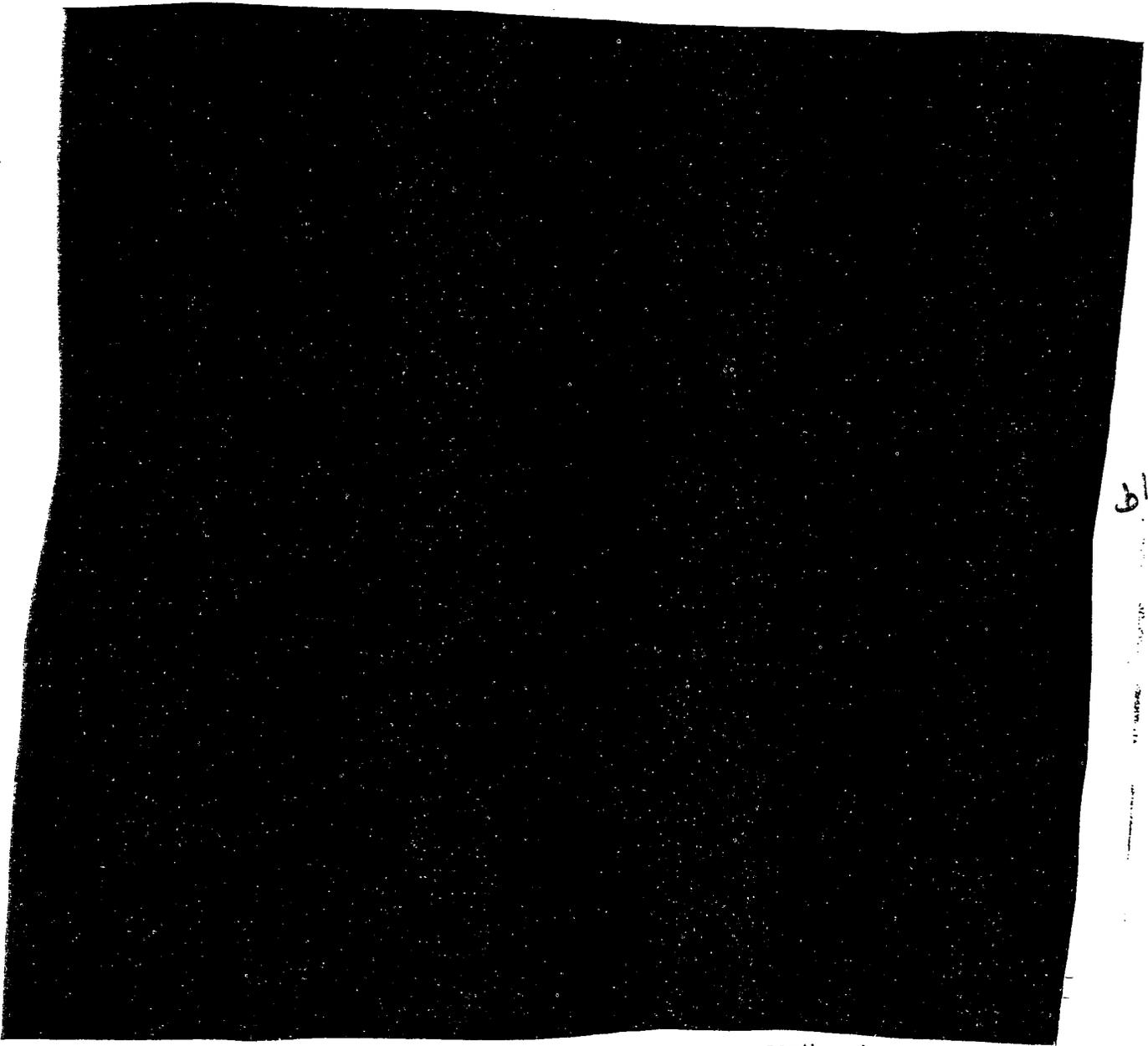
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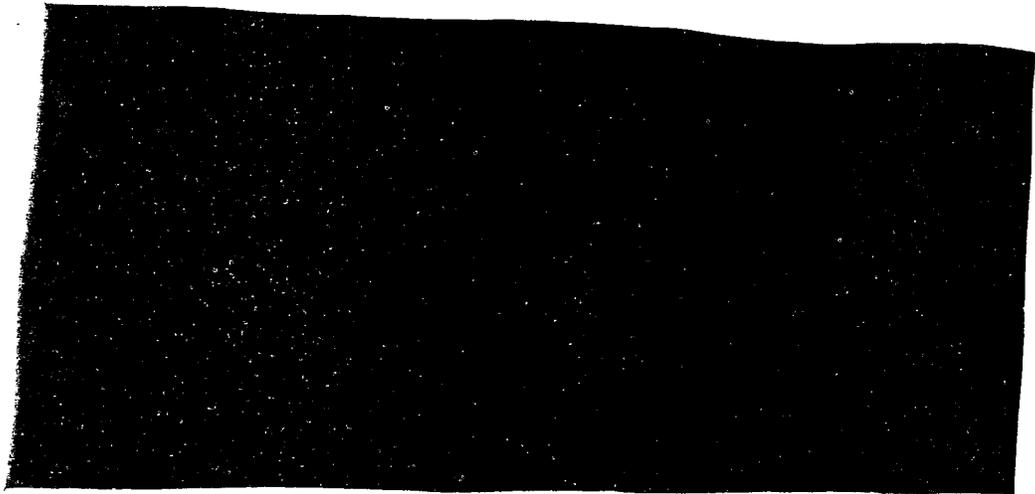
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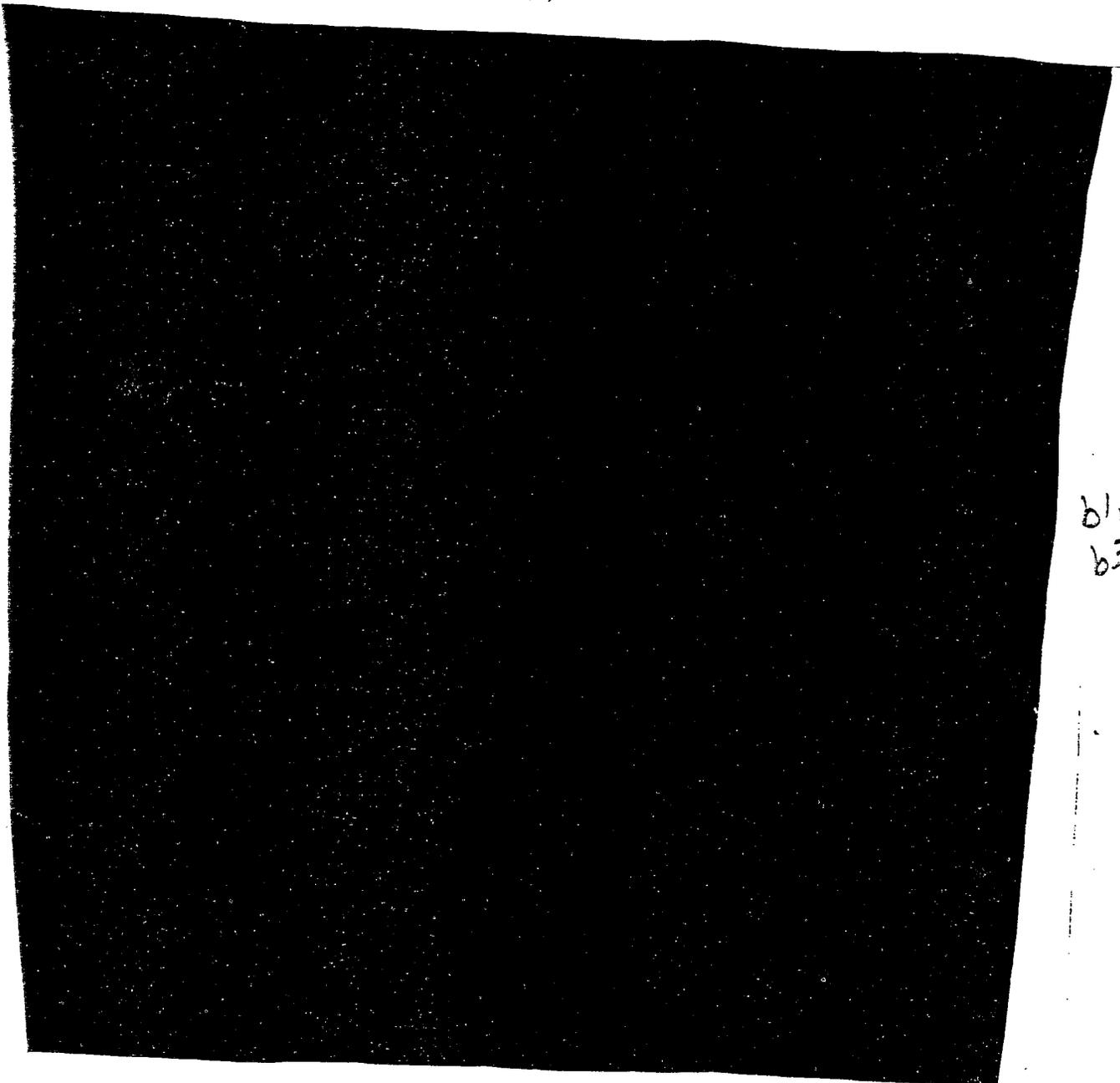
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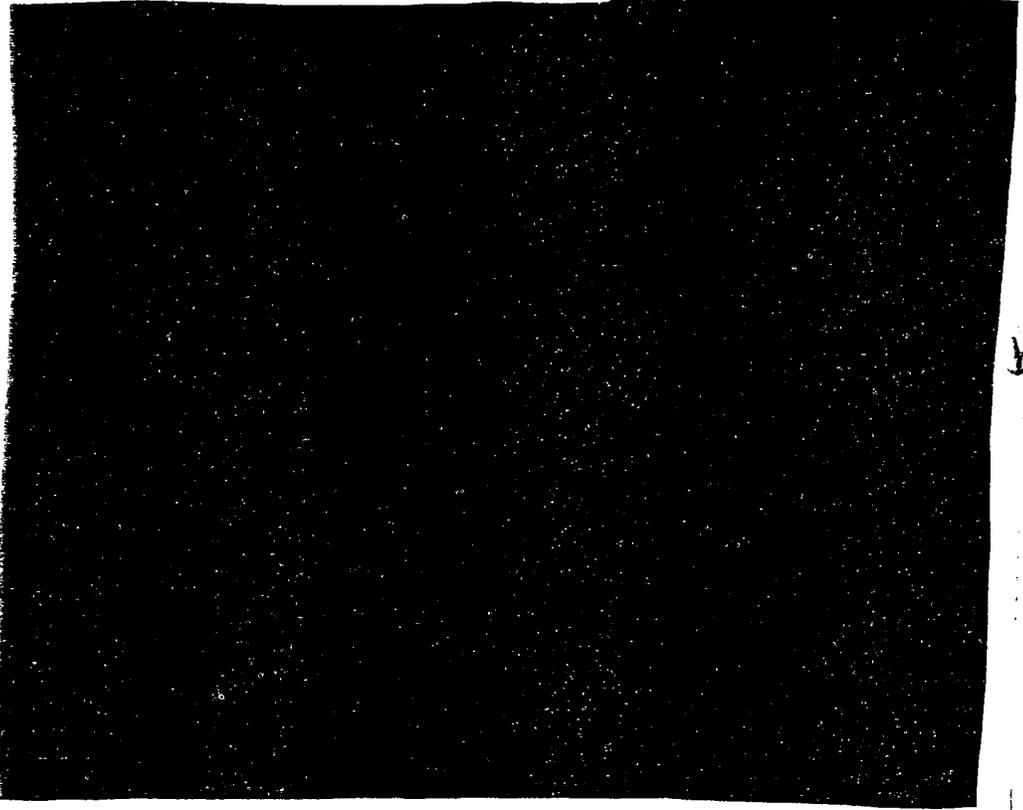
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