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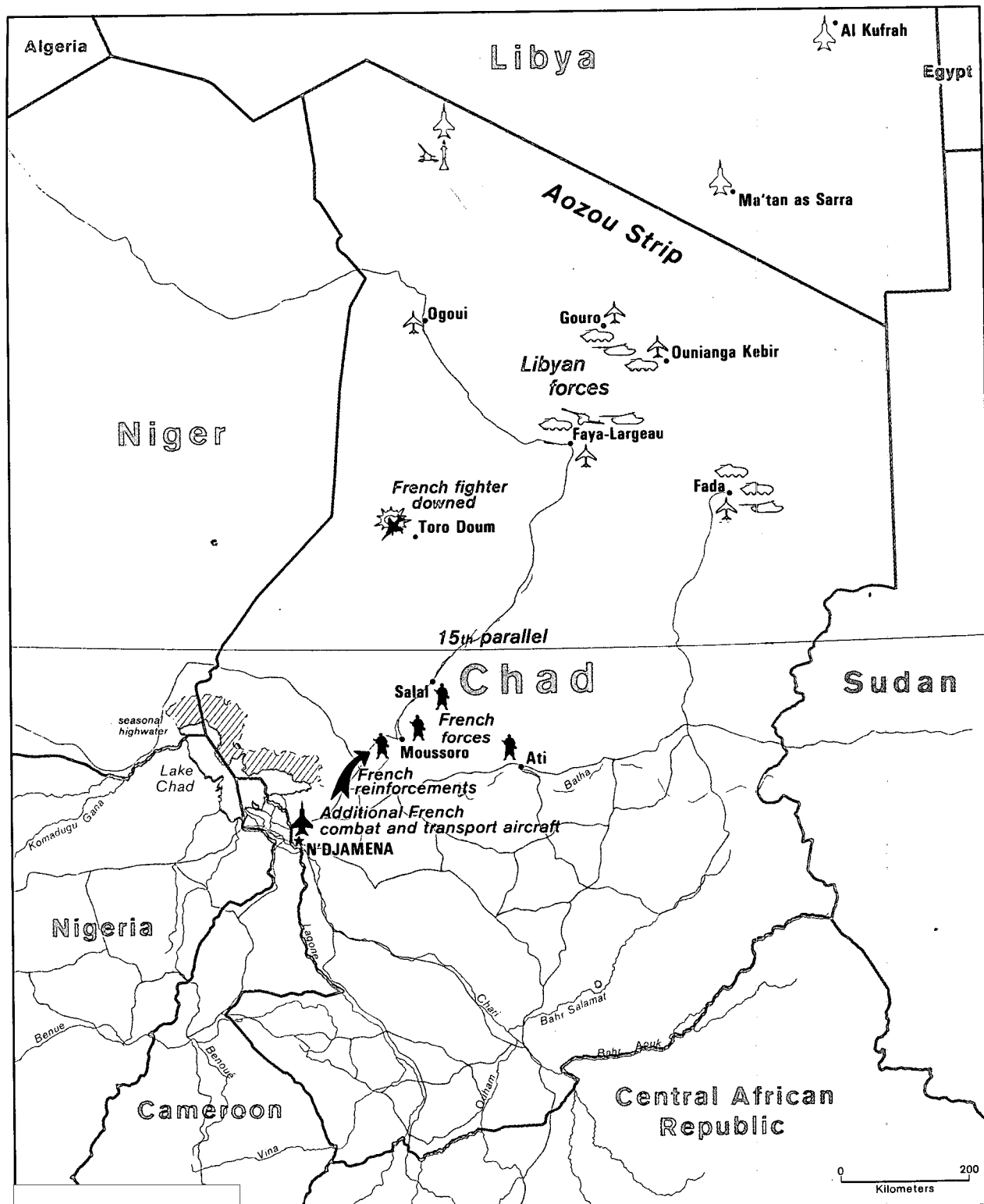
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FRANCE-CHAD-LIBYA: French Military Moves

The French are deploying additional military forces in Chad for possible action north of the 15th parallel. [redacted]

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Four additional Jaguars, a KC-135 tanker, and several transport aircraft reportedly arrived yesterday in N'Djamena. [redacted]

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[redacted] the French also sent more armored reconnaissance vehicles and artillery to Moussoro. [redacted]

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A French presidential adviser yesterday told the US Embassy that French forces will soon launch a limited operation to destroy avionics equipment in the Jaguar that was shot down on Wednesday, retrieve the pilot's body, and free the two Belgian medics being held by the rebels. According to a source of the US defense attache in Paris, France has temporarily lifted restrictions on French military operations north of the 15th parallel. [redacted]

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The adviser says Paris may need several days to decide how the recent fighting will affect long-term policy in Chad. He indicated that, in his view, Chadian oppositionist groups are under Tripoli's control and that France and Libya have no choice but to negotiate mutual withdrawals. He believes France would have to consider further military action if such talks proved futile. [redacted]

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Meanwhile, the Libyan news agency has denied French charges that Libya is responsible for the renewed fighting. [redacted]

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Comment: Dust storms probably delayed earlier plans to launch a rescue mission. In addition, France's lack of an airborne early warning capability in Chad would make any airstrike against targets in the north vulnerable to Libyan fighters. [redacted]

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The recent fighting is likely to have strengthened the hand of French officials who favor a retaliatory attack even at the risk of a military showdown with the Libyans. President Mitterrand probably favors limited retaliation, followed by diplomatic efforts to obtain a Libyan withdrawal. [redacted]

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The Libyans probably are satisfied for now with the rebel victory at Zigey. They are likely to try to calm the military crisis, but they are ready to resist forcefully any major French strike in the north. [redacted]

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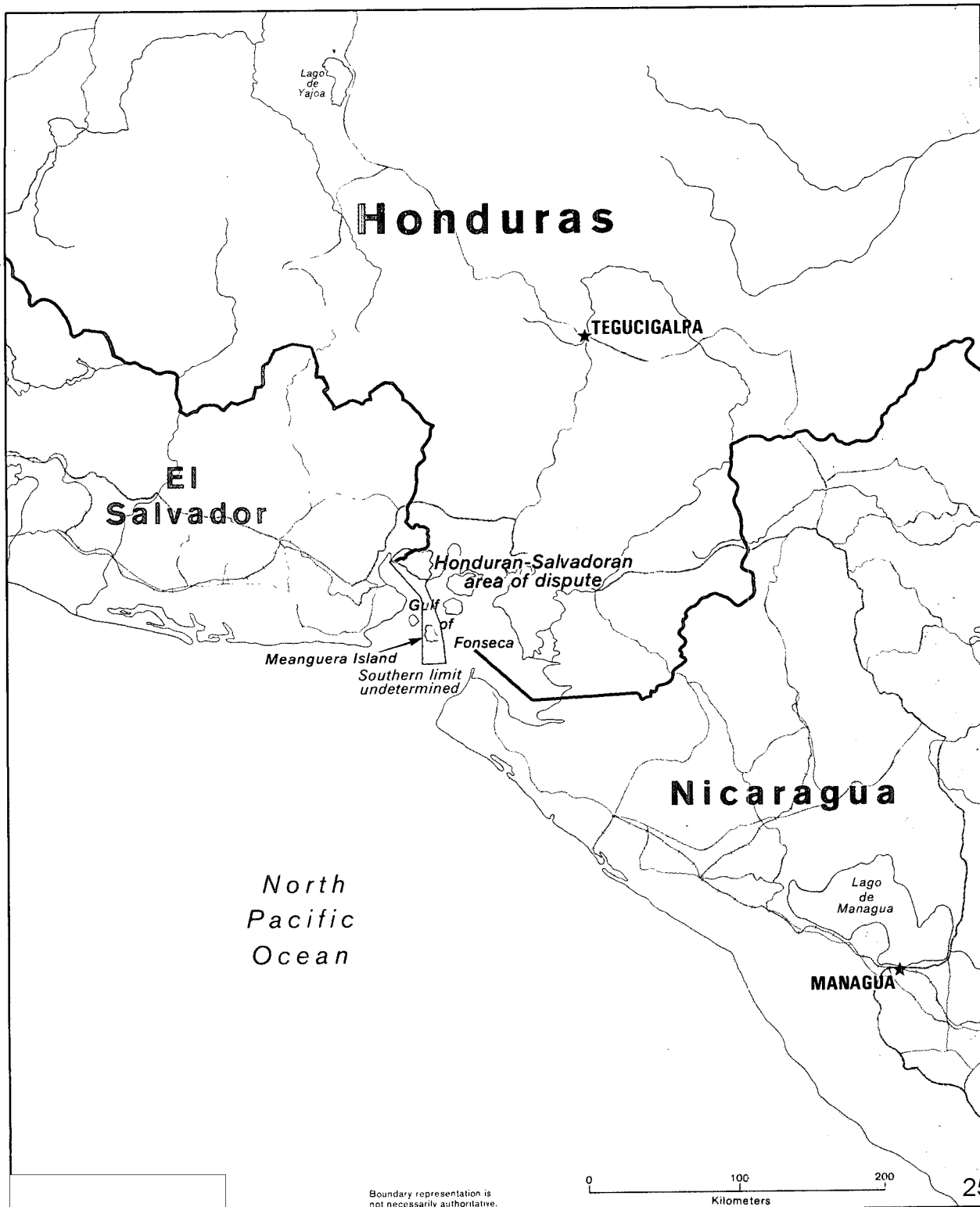
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HONDURAS-EL SALVADOR: Territorial Dispute

Honduras is reemphasizing its territorial claim in the Gulf of Fonseca, aggravating the longstanding dispute in the area with El Salvador. [redacted]

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Honduran officials are publicly renewing their claims of sovereignty over Meanguera Island—which has been occupied by Salvadorans for more than a century—and are calling for an electoral census there. These actions follow two strong Honduran protests over language in the new Salvadoran constitution that implicitly asserts El Salvador's sovereignty over Meanguera. Salvadoran officials allege that Honduran reporters, soldiers, Navy launches, and census takers have visited the island twice recently. [redacted]

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Salvadoran President Magana wants to avoid further controversy over the Meanguera issue. Foreign Minister Chavez Mena says he is willing to meet Honduran officials at the earliest opportunity, but he indicated that a meeting scheduled for today with his Honduran counterpart and the Defense Ministers of both countries may be postponed. Meanwhile, the US Embassy has learned that the Salvadorans soon will send an elite reconnaissance unit to Meanguera for training purposes. [redacted]

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Comment: Despite efforts to calm the controversy, further problems are likely to arise. Candidates in El Salvador's current presidential campaign may inflame the territorial issue. Honduras is likely to view the deployment of a Salvadoran military contingent to the island as an escalation of the dispute. [redacted]

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Although a border commission established by a treaty of 1980 has been meeting on a fairly regular basis, both sides have been reluctant to schedule high-level discussions to resolve the dispute. The issue probably will remain deadlocked until it is referred to the International Court of Justice next year as stipulated in the treaty. [redacted]

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GUATEMALA: Political Developments

Chief of State Mejia issued a decree last week preparing the way for Constituent Assembly elections in July, but many political party leaders probably will not be satisfied. [redacted]

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Mejia did not accede to the parties' demand that the assembly have legislative functions, including the power to name a provisional president. He did respond to one of the politicians' demands, however, by allowing 23 of 88 assembly deputies to be elected as national at-large candidates. [redacted]

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The rightist National Liberation Movement—the strongest party—reportedly has agreed to an alliance with a smaller rightwing group to contest the elections, and it is discussing an election coalition with two other parties. Several leftist and centrist parties also are considering an alliance. [redacted]

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[redacted] Meanwhile, the government says almost 700,000 voters have been registered, mostly in Guatemala City. [redacted]

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Party leaders from both the right and left claim that the military's control over the civilian defense forces is paralyzing political organizing in the countryside. They also are concerned that the Army will manipulate the votes of the estimated 500,000 patrol members [redacted]

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Comment: Political leaders are likely to continue demanding that the assembly be allowed to nominate a provisional president, and they may claim that Mejia's continued opposition demonstrates his intent to remain in power. Mejia's opponents probably will use this argument to seek military support for their plans to oust him. Perceptions of the legitimacy of the elections—at home and abroad—also could be undermined if complaints of military involvement in the political process continue. [redacted]

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USSR-NIGERIA: Relations With New Regime

Soviet media have given increasingly favorable coverage to the new military government in Lagos. When Nigerian officials visited Moscow last week, TASS said the USSR confirmed its readiness to develop a "mutually advantageous" cooperative relationship.

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Comment: Moscow is trying to protect its economic interests, and it presumably hopes for expanded contacts with Lagos. Soviet officials, however, probably have no illusions that Nigeria will fundamentally change its economic and political orientation toward the West. The \$1.2 billion Ajaokuta steel plant in Nigeria is the largest Soviet aid project in Sub-Saharan Africa. The Nigerians have complained that the plant is badly planned, poorly constructed, and a source of corruption.

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ARGENTINA-CHILE: Status of Beagle Channel Dispute

Argentine and Chilean officials are optimistic following the signing of a "Declaration of Peace" this week on the Beagle Channel dispute, but growing opposition in Buenos Aires to ceding the islands claimed by both sides could delay final settlement.

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Comment: The opposition in Argentina currently is fragmented, but military leaders and rival Peronist politicians could exploit the issue to try to undermine President Alfonsin. If Alfonsin has to prolong the talks to seek greater public support, the issue could become increasingly tied to other controversial policy initiatives, and this might delay a settlement.

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JAMAICA: Stalling on Elections

Government officials say Prime Minister Seaga is planning to postpone local elections until the end of the year. Seaga is confident his party still enjoys majority support, but he fears a poor showing in local contests this spring would intensify pressure for new general elections. By delaying the local elections, Seaga believes he can stave off a general election until the middle of 1985. The Embassy reports that one prominent local pollster interprets the last-minute surge in voter registration this month as a sign that voters are swinging to former Prime Minister Manley and his People's National Party.

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Comment: Public sentiment clearly favors a new general election based on the updated voting lists. Seaga probably hopes to put it off until his program of creating public works jobs and the dispensation of political favors assure a victory for his party.

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UK-ITALY: Program To Develop Helicopter

The UK and Italy announced on Wednesday an agreement to develop jointly a long-range helicopter—designated the EH-101—for both military and civilian use. Participating Italian and British firms are to receive government funds to develop the civilian version. Each country's Navy plans to order large numbers of an ASW version, which is expected to enter service in the early 1990s. A military transport version capable of carrying six tons of cargo or 28 troops also will be developed.

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British and Italian firms began work in 1980 on a common design to replace current inventories of Sea King long-range ASW helicopters. The resulting design is slightly smaller than the Sea King and is powered by three rather than two gas turbine engines, providing greater lifting capability. Both countries are expected to market the helicopter abroad as a replacement for the Sea King.

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SAUDI ARABIA-PAKISTAN: Arrest of Pakistanis

Saudi security forces arrested a large number of Pakistani nationals in Medina last month for publicly staging an Islamic ceremony prohibited by Saudi law, according to the US Embassy in Jiddah. Several Saudi Shias took part and also were arrested. The US Embassy in Islamabad reports that the arrests prompted a demonstration last Saturday in front of the Saudi Consulate in Lahore. Saudi Interior Minister Nayif made an unscheduled visit to Islamabad on Tuesday to confer with President Zia. [redacted]

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Comment: Public demonstrations in Saudi Arabia of any kind, especially by foreign workers, are rare and usually evoke a strong response from security forces. There is no reporting to indicate that the disturbances were the result of Iranian subversive efforts, but Saudi Shias were involved, and there is considerable evidence that Iran wants to promote disruptive activities in the Persian Gulf states. Nayif's quick trip to Pakistan—only two days after Zia had visited Saudi Arabia—shows Riyadh's desire to prevent the incident from damaging bilateral relations. [redacted]

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JAPAN-USSR: Prospects for Foreign Ministers' Meeting

Foreign Minister Abe reiterated his interest in promoting a political dialogue with Moscow during Soviet Ambassador Pavlov's courtesy call on Monday, according to a senior Japanese official. Pavlov acknowledged that it was Foreign Minister Gromyko's turn to make a visit but added that it would have to be preceded by "solid preparations." Japanese officials say Abe is interested in meeting with Gromyko—despite serious reservations in the Foreign Ministry—even if he does not come to Japan. Abe "would consider" a stopover at the Moscow airport on one of his trips to Europe this spring if the Soviets proposed such a meeting. [redacted]

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Comment: Abe hopes to become prime minister and believes a successful diplomatic opening to the USSR would work to his benefit. The Soviet media remain critical of Tokyo's foreign policy, and their comments on Abe's current US visit suggest their belief that a meeting with Gromyko would not accomplish much. The media also have reported, however, that Abe has called for improved relations. The Soviets might propose a meeting at the airport, if only to test Abe's sincerity. [redacted]

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EASTERN EUROPE-USSR: New CEMA Project

A Romanian official has told the US Embassy in Moscow that Romania probably will join East Germany, Hungary, and Czechoslovakia in construction of the Krivorozye iron ore combine in the Ukraine. The combine will cost the equivalent of an estimated \$3.6 billion, and, on completion in 1990, will produce 12.8 million metric tons of iron ore pellets annually. The East European states will provide manpower, equipment, and possibly hard currency in exchange for iron ore deliveries over a 10-year period. Czechoslovakia has announced it will contribute the equivalent of nearly \$500 million and will receive 1 million metric tons of ore annually from 1991 to 2000. [REDACTED]

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Comment: Approval of this project—the first major CEMA joint investment since the mid-1970s—reflects a renewed Soviet push for East European investments in return for deliveries of raw materials. In the past, however, such projects have been hindered by difficulties in reaching agreements on pricing and the amount of East European investments. The East Europeans are facing poor prospects for trade with the West and Moscow's tough line on future exports of oil and other raw materials. As a result, they now may believe that they have little alternative to greater participation in Soviet resource development. [REDACTED]

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Major Insurgent Attacks Against Economic Targets, 1983

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Special Analysis

NICARAGUA: Economic Decline Continues

Nicaragua's economic slide of the past two years has been accelerated by damage caused by the anti-Sandinista insurgents, but the harm has been far less than that caused by the guerrillas in El Salvador. Since July, increased insurgent activity against Nicaraguan military targets has also affected some economic facilities, including oil storage tanks, port facilities, and state cooperatives. The USSR, in a significant departure from its past economic aid policy, is helping to make up the losses from insurgent attacks on oil facilities by shipping petroleum to the Sandinistas. The insurgents claim to have laid mines near Nicaragua's main oil port, however, and they could deal a major blow to vital trade.

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The Sandinistas claim that the attacks have cost over \$100 million. Most recent analysis indicates that the total direct and indirect damage, however, does not amount to more than \$30 million, or about 1 percent of Nicaragua's output in 1983. The actual drain on the treasury is less because many facilities and materials have yet to be rebuilt or replaced.

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The largest direct costs stem from the destruction of oil facilities. Damages from the raid in October on the port of Corinto probably amount to \$5 million, including loss of \$2.1 million worth of diesel fuel. About \$650,000 worth of fuel and equipment has been destroyed by the sabotage of other oil facilities.

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The indirect costs of the insurgency are more difficult to estimate. Gold exports, which normally account for 4 percent of export earnings, were slowed at least temporarily by the loss of fuel.

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Insurgent attacks in the interior also have hampered commerce and agriculture. The guerrillas have kept some coffee harvested for export bottled up in the interior and frightened away some coffee harvesters.

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The insurgency, however, has not yet prompted the regime to spend substantially more on defense and security. Government figures show that spending in 1983 for these purposes was virtually the same as in 1982.

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Most of the national security budget of \$200 million—15 percent of total spending—and a fair portion of the personnel on active military duty probably would have been used for military purposes

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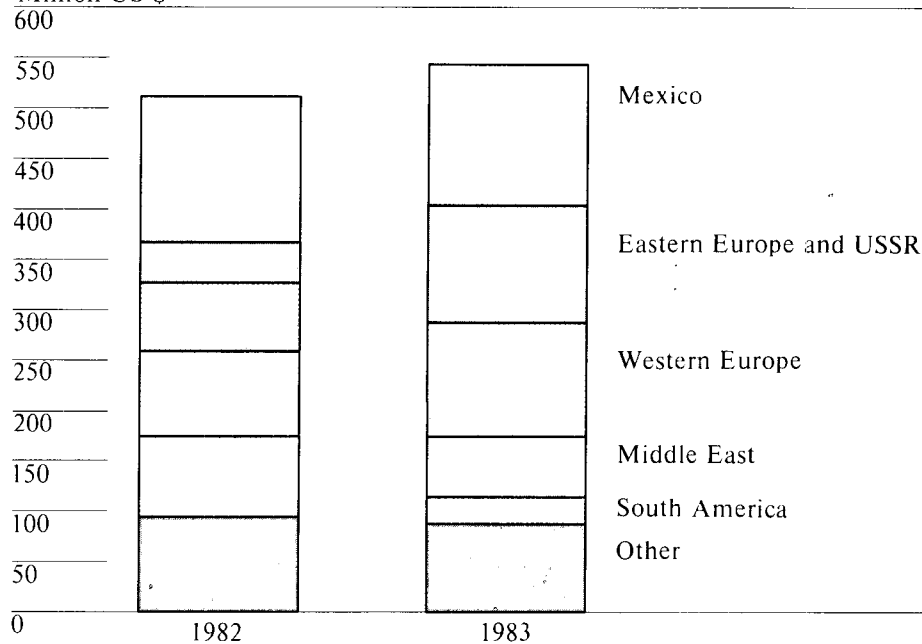
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**Nicaragua: Estimated Drawdowns of Official
Foreign Economic Aid
Grants, Loans, and Supplier Credits**

Million US \$



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even if Nicaragua were not facing an insurgency. The government spends little on arms and ammunition because Cuba and the USSR provide most of these items without demand for immediate cash payment. [redacted]

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Searching for Help

The economic decline last year was mainly the result of the burden of a \$3 billion foreign debt, bankers' refusal to extend new loans, growing shortages of skilled labor, the junta's economic policies, and low world prices for commodities. These problems have led to 19-percent unemployment, 20- to 30-percent inflation, scarcity of clothing, and rationing of gasoline and some foodstuffs. [redacted]

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With output already down about 25 percent from prerevolutionary levels, the Sandinistas are worried about any additional economic hardships. To strengthen their appeals for international aid—and to deflect domestic criticism on economic issues—the Sandinistas exaggerate the cost of the insurgency, at one time putting it at \$4 billion. Despite such claims, and the actual increase in insurgent activity, Managua last year received less non-Communist aid than in 1982. [redacted]

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The Outlook in 1984

The insurgents have not seriously damaged Nicaragua's basic infrastructure, but they could still cripple key export earnings and imports. If mines that the insurgents claim to have laid at Puerto Sandino sink any oil tankers, for example, shipping costs could soar. Resulting cuts in hard currency receipts and vital imports would immediately strike hard at all sectors of the economy. [redacted]

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Nicaragua's other key concern is to secure enough financing to import the oil it needs just to run the economy at the level of last year. Next month Mexico is scheduled to begin reducing oil shipments by about one-fifth—a drop of some \$25 million annually. [redacted]

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Special Analysis

SYRIA-IRAN: Outlook for Relations

The Syrians continue to view economic and political ties with Iran as beneficial despite the basic incompatibility of the two countries' long-term regional objectives. Their attitude toward Tehran is shaped chiefly by a concessionary oil arrangement and shared hostility toward Iraq, the US, and Israel. Nonetheless, President Assad almost certainly recognizes that Iran's ultimate goal of establishing Islamic republics throughout the region will eventually bring the two sides into conflict.

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In recent years, common short-term policy objectives toward Iraq and Lebanon have prompted the Syrian and Iranian Governments to establish close relations. Assad opposes Iraqi President Saddam Husayn and has assisted Tehran's war effort by refusing to allow Iraqi oil to transit the pipeline through Syria to the Mediterranean. He also has facilitated Iran's procurement of military equipment since the start of the war.

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In return, Iran provides Syria with substantial quantities of high-quality crude oil at below-market prices. Although Damascus invariably fails to pay most of its debts to Tehran, the Iranians remain eager to supply oil as an inducement to keep the Iraqi pipeline closed. Assad probably realizes that no other government would offer his country such generous terms or allow it to fall so far behind in its payments.

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The two regimes also share the immediate goal of getting the Multinational Force and Israeli troops to leave Lebanon. The Syrians allow some 300 to 700 Iranian Revolutionary Guards to maintain camps in the Bekaa Valley in Lebanon and to train local Shias to conduct terrorist activities against US, French, and Israeli forces. Damascus thus exerts pressure on the Lebanese Government and MNF contingents while avoiding direct involvement.

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Long-Term Incompatibility

Despite common interests, the two governments have irreconcilable long-term goals. The Iranians want to transform Iraq and Lebanon into Islamic republics. Damascus in turn seeks to install pro-Syrian regimes.

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The establishment of Islamic republics in the region would threaten Assad's secular Alawite regime. Moreover, the President almost certainly recognizes that Tehran hopes to replace his own government with a fundamentalist Islamic one. [REDACTED]

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Assad probably is concerned that Iran's support for radical Lebanese Shia groups could become a problem for Syria over the long term. The growing presence of Iranian-backed Shia terrorists in the Bekaa Valley could threaten Syria's ability to control the situation in Lebanon. [REDACTED]

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Differences also exist in the two countries' willingness to work with the US to ease regional tensions. Assad—under certain circumstances—would be willing to strike a deal. Iran and its Lebanese surrogates, however, oppose all negotiations and would use terrorism to try to sabotage any conciliatory moves by Syria. [REDACTED]

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Prospects

At this stage, Damascus apparently believes that the advantages of an arrangement with Tehran outweigh the disadvantages. Assad probably doubts that the Iranian-backed Shia extremists pose a serious threat to Syrian interests so long as they remain a small minority in Lebanon. He may be apprehensive about the long-term spread of Iranian-inspired Islamic fundamentalism in the region but probably is confident that his regime is in no immediate danger. [REDACTED]

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In addition, Syria presumably believes that its control over the Iraqi pipeline gives it considerable leverage in dealing with the Iranians, who want to prevent Iraq from collecting oil revenues. Assad could threaten to reopen the pipeline if Tehran embarked on a policy that he opposed. [REDACTED]

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Assad's attitude probably will harden, however, as the latent strains in the alliance become more pronounced. A major regional development, such as the end of the war between Iran and Iraq or the assassination of Saddam Husayn, also could prompt a change in Syrian policy. In time, Damascus almost certainly will abandon its ties to Tehran, because the relationship has increased frictions with the Persian Gulf states and deepened Syria's isolation in the Arab world. [REDACTED]

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