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Director of
**Central
Intelligence**



National Intelligence Daily

**Friday
18 September 1987**



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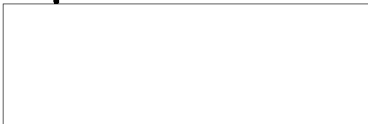
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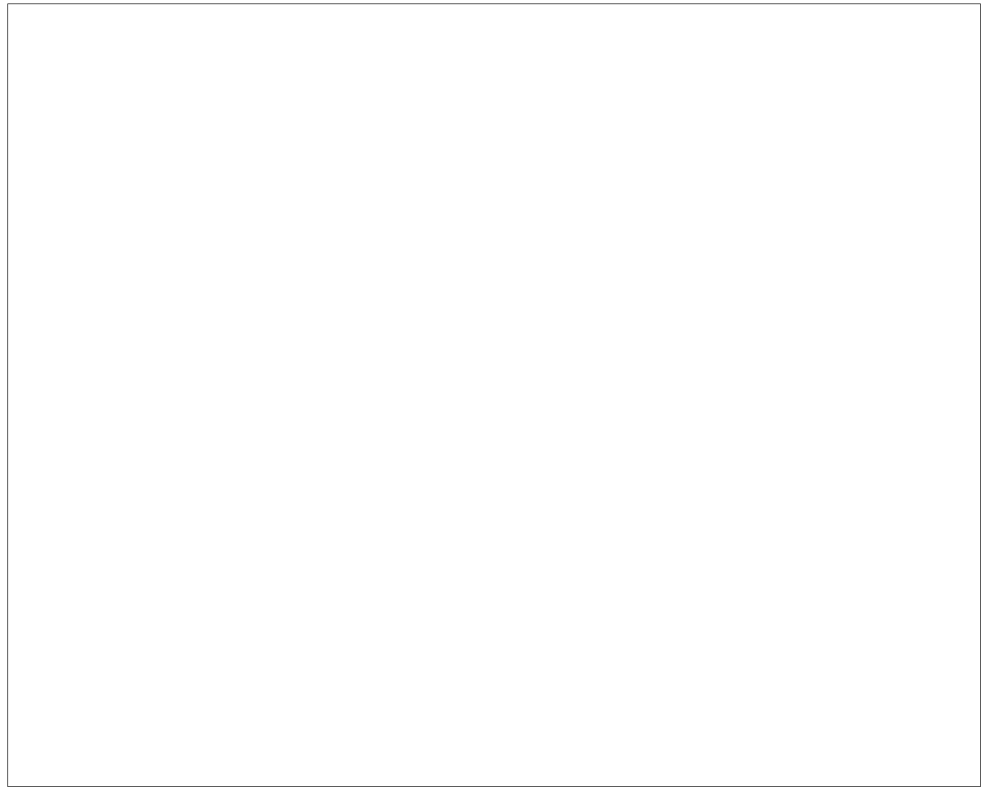
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KUWAIT-IRAN: More Iranians Expelled

Kuwait has ordered 27 of 30 nondiplomatic Iranian Embassy personnel to leave the country in addition to the five Iranian diplomats it expelled last week. The Iranian Chargé has accused Kuwait of "destroying relations with Iran." Meanwhile, the US Embassy reports Kuwaiti Government officials are concerned about the internal security situation and believe that fires at several Kuwaiti schools earlier this month may have been set by Iranian-sponsored terrorists.



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Comment: Short of breaking relations, Kuwait has been looking for ways to retaliate for Iran's seizure of Kuwait's Embassy in Tehran last month and the recent Silkworm missile attacks. Kuwait probably also hopes its action will seriously undermine Iran's ability to collect intelligence and sponsor subversive activity in Kuwait. Nevertheless, Kuwait's tough stance probably will further provoke Iran to increase its pressure on Kuwait in the coming weeks by sponsoring additional terrorism, sabotage, and even missile attacks.



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**Soviet-East European Trade, First Half 1987***(Million rubles)*

	Soviet Exports	Percentage Change	Soviet Imports	Percentage Change	Balance
Bulgaria	3,050	— 5.4	3,317	10.1	—266
Czechoslovakia	3,375	0.2	3,480	5.2	—104
East Germany	3,704	— 3.2	3,488	0.0	216
Hungary	2,205	— 4.6	2,469	5.1	—264
Poland	3,042	—10.9	2,894	5.2	148
Romania	1,212	—10.6	1,157	— 6.8	54
Total	16,588	— 5.2	16,805	4.1	—217



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USSR-EASTERN EUROPE: Midyear Trade Results

Between January and June, the Soviets ran up a 200-million-ruble deficit in trade with Eastern Europe, the first midyear trade gap with the region since the early 1970s, according to recently released Soviet trade statistics. Lower CEMA oil prices—reflecting last year's sharp decline in world oil prices—helped cut the value of Soviet exports more than 5 percent, as compared with the first half of 1986. East European exports to the USSR expanded 4 percent, marking an improvement over the sluggish pace in the comparable period last year. In contrast with the regional upswing, Romania's exports dropped sharply, and exports by East Germany were level.



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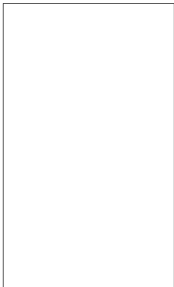
Comment: Moscow may have planned to run small deficits with East European countries over the next few years because they must repay trade debts by shipping more goods to the USSR. Since the mid-1970s, Eastern Europe has accumulated a debt of about 17 billion rubles—about \$26 billion—as Moscow extended trade credits to help the region adjust to higher oil prices. Soviet deficits may grow larger, however, because the value of exports to Eastern Europe is likely to remain depressed despite Moscow's efforts to offset lower oil prices by increasing deliveries of machinery and manufactured goods. To avoid larger deficits, Moscow may have to accept slower growth in imports, threatening plans for increased East European contributions to Soviet economic modernization.

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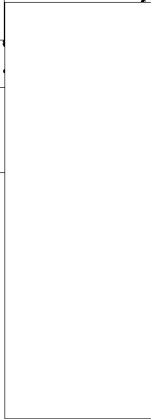
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YUGOSLAVIA: Strategy for Debt Talks

In major new debt talks with Western creditors next month, Belgrade probably will try to reschedule not only all maturing principal but also—for the first time—some interest payments. The proposed plan calls for reducing the amount of annual debt service to free resources for economic growth. Meanwhile, Belgrade will introduce unspecified new domestic policies that may include both economic reforms and a price freeze, ~~according to US diplomatic reporting~~



Comment: The proposal, which probably will be adopted by the Federal Assembly, follows a halt in principal payments to commercial banks and underscores the seriousness of Yugoslavia's financial problems. It increases the chances of lengthy disagreements during the forthcoming talks and of extended suspensions of both interest and principal payments. Most creditors will resist rescheduling interest payments, preferring instead to see further lending by the IMF as part of a new standby program. Belgrade probably hopes its domestic program will deflect creditor demands for a standby, although any economic reforms are likely to be limited.

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AFGHANISTAN-PAKISTAN: Resistance Leader Survives Bomb

on 16 September

The regime in Kabul is apparently continuing its efforts to eliminate prominent Afghan resistance leaders. Insurgent leader Gulbuddin ^{*reportedly*} was slightly wounded in a car bomb explosion in Peshawar on ~~Wednesday, according to the US Consulate~~ ^{*Wednesday*}. Pakistani police suspect that KHAD, the Afghan security service, was responsible. The attack was well planned. The car bomb was put in place only minutes before Gulbuddin's car was to pass and missed killing him by a few seconds. It did kill at least 12 people and injured more than 45. Police believe the timing and type of bomb used indicate the device was intended to kill a particular target rather than cause mass casualties. Three other resistance leaders have narrowly escaped similar bombings in Pakistan this year. 

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Comment: Although Gulbuddin has many enemies among the other resistance parties, the precision with which the attack was carried out suggests a KHAD operation. Because many of those killed or wounded were Pakistani, public reaction to the bombing is likely to be strong and may add to growing tensions between Pakistanis and the Afghan refugees. 



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PAKISTAN: Administration Uneasy


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Prime Minister Junejo is worried that an aggravation of chronic law-and-order problems in Sind Province may provoke President Zia to impose emergency rule. Junejo believes this would discredit his Pakistan Muslim League . The US Embassy reports that party leaders are hesitant to set a date for the nationwide municipal elections Junejo has promised will occur this fall; they are concerned that the opposition Pakistan People's Party might make a strong showing. 

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Comment: Speculation about emergency rule in Sind reflects friction but not a rift between Zia and Junejo. Emergency rule is unlikely to be imposed—barring a total breakdown of provincial security—because it would be interpreted as a lack of confidence in the Prime Minister by Zia. The Pakistan Muslim League is beset with organizational problems, but Junejo is unlikely to cancel the elections because this would be an acknowledgment of his party's weakness. He will delay setting the date and format of the elections as long as possible in an effort to minimize the ability of opposition parties to organize their campaigns. 

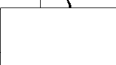
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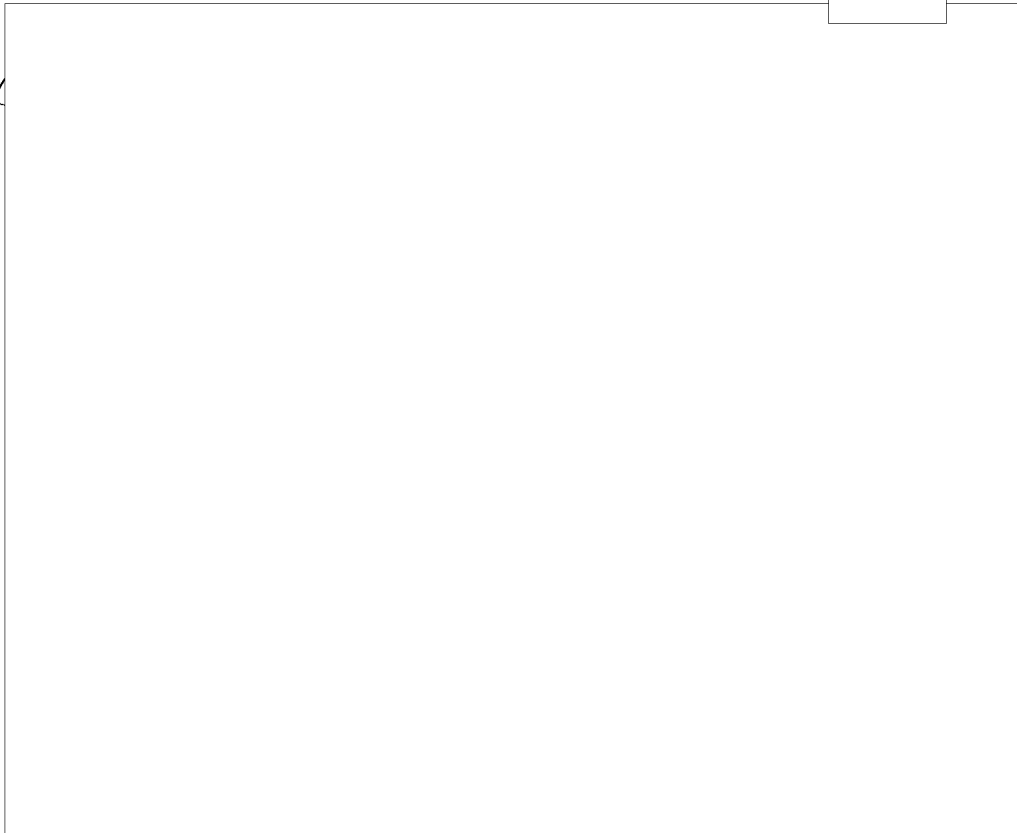
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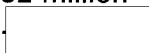


NORTH KOREA: Debt Rescheduling

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Western banks—which recently declared North Korea in default on \$790 million in debts—have suspended legal action to seize the North's assets, according to press reports. The move follows P'yongyang's agreement in principle to the banks' proposal for rescheduling. The North has demanded changes in the terms, however, namely a four- rather than a one-year grace period and a smaller initial payment. The two lead banks reportedly have accepted the changes but must secure approval of all 140 banks involved in the loans. North Korea must sign the agreement and make a \$32 million downpayment by 2 October to forestall further legal action.



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Comment: The North probably agreed to reschedule because it recognized it had no more bargaining room, but there is good reason for bankers to be skeptical about whether it will go through with the deal. Since North Korea took out the loans in the early 1970s, it has made few payments—and none since 1984—in spite of three previous reschedulings. Moreover, North Korea is also in serious arrears on the \$1 billion owed on other commercial bank loans and on government and government-backed credits from Western Europe and Japan.



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PERU: Inflation Provoking Labor Unrest

Some 600,000 Peruvian state workers shut down government services this week during a 48-hour strike for a substantial wage hike. The Marxist-controlled public workers' confederation threatens to walk out next week for an indefinite period if Lima does not grant a raise, according to ~~US Embassy and~~ press reporting. The radical teachers' union reportedly plans to use similar tactics next month in support of demands for higher wages and educational reform.

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Comment: Rising inflation ~~is now running at an annual rate of 100 percent~~ is fueling labor discontent. Although President Garcia included a 25-percent wage increase for government employees in the economic measures he announced in July, the raises are proving insufficient to head off militant labor activity. The latest unrest is already the most serious in Peru since a 24-hour general strike in May, and union agitation is likely to accelerate because Marxist labor leaders apparently believe Garcia is more politically vulnerable following successful protests against his recent bank nationalization initiative.

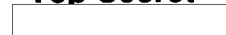
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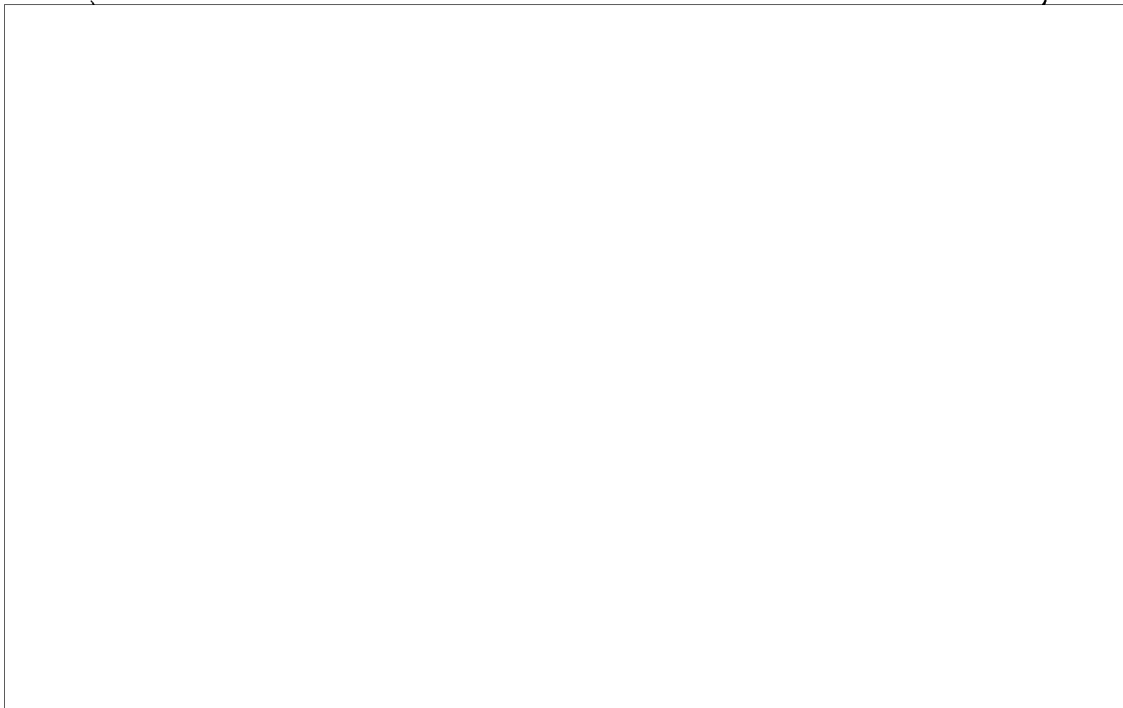


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GREECE: Hints of New Economic Policy

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In his annual economic address earlier this month, Greek Prime Minister Papandreou played down his commitment to make the economy more socialist and promised that wage controls—the keystone of his two-year austerity program—would be eased. Attributing the considerable improvement in Greek balance-of-payments accounts to his stabilization policies, Papandreou announced that he would continue to improve Greek competitiveness and that there was a need to stimulate private investment and reduce government intervention in the economy.

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Comment: Papandreou's moderation contrasts markedly with the socialist rhetoric of his first term. The speech was short on specifics and was intended to appease leftists by easing austerity and moderates and businessmen by emphasizing a smaller government role in the economy. Papandreou also left open the possibility that he may implement expansionary economic measures before the national election due by 1989. Doing so would be risky, however, because the current-account deficit is still large and its improvement since 1985 is mainly the result of lower oil prices and increased EC aid.

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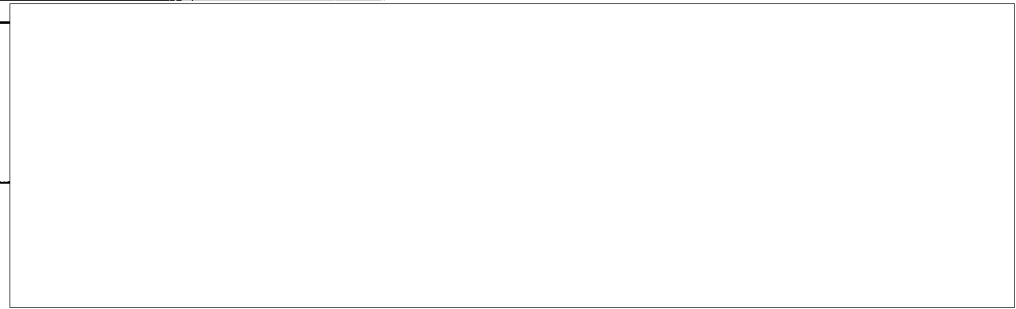
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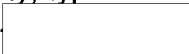
In Brief

Middle East

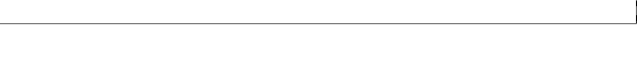


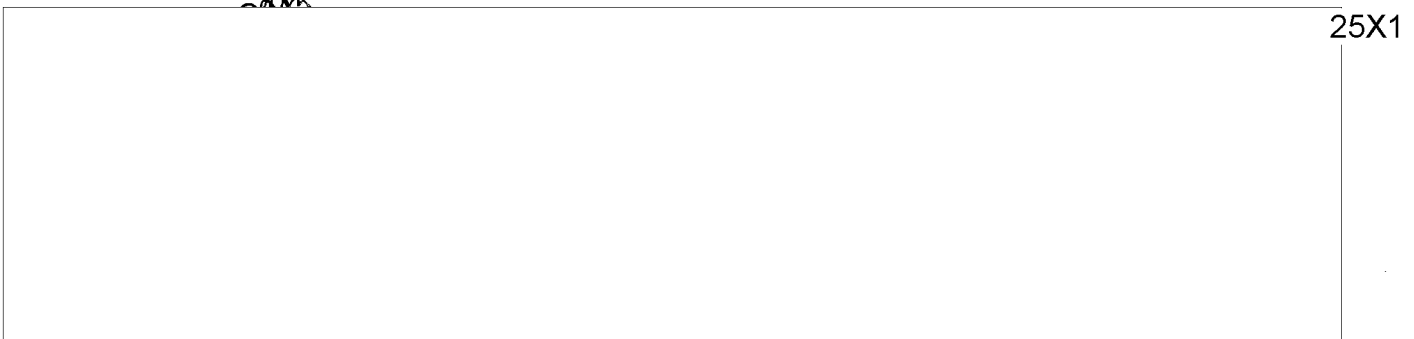
— Brigadier General who heads **Israel's** West Bank Civil Administration resigning, according to press . . . leading proponent of greater self-rule for West Bank Palestinians . . . departure will snag efforts to grant them more local authority.  X 25X1

Africa


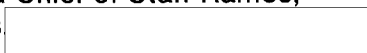
— Four **South African** military personnel killed by antitank weapon Sunday, according to press . . . location not specified, but report implies **Namibia** . . . ambiguity, type of weapon involved suggest incident occurred in **Angola**.  CW 25X1

Europe

— **UK** cautioning **Kuwait** against reregistering more ships under British flag . . . London concerned about overcommitment in Gulf, domestic criticism . . .  X 25X1



East Asia

 — **Philippine** President Aquino's new Executive Secretary, Catalino Macaraig, is competent, apolitical technocrat . . . as Joker Arroyo's deputy, was channel between Aquino and Chief of Staff Ramos, Defense Secretary Ileta on military issues  X 25X1

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Special Analysis

**USSR-CUBA-
CHILE:**


Support to Chilean Opposition

Increasing opposition in Chile to the regime of President Pinochet has encouraged the USSR and Cuba to prepare their allies in Chile for the possibility of violent revolution. The formation of democratic governments in several key South American countries has helped to focus regional antipathy on Pinochet and reduced Moscow's concerns about a regional reaction to its support for Chile's leftist opposition. Nevertheless, the public outcry in Chile and the region after the discovery last year of a 70-ton Cuban-supplied arms cache and a subsequent attempt on Pinochet's life appears to have induced Moscow, at least, to proceed more cautiously in supporting the use of violent tactics. 



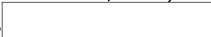
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Both the USSR and Cuba consider the Chilean Communist Party—for many years the Latin American party closest to Moscow—to be the most important of the leftist opposition parties in Chile. They have been attempting to put the party in a position to emerge as the dominant group within any successor government to the Pinochet regime and have given it guidance, funding, training, and other assistance. To maximize resistance to Pinochet, they—together or individually—have also given such support to the Manuel Rodriguez Patriotic Front, the Movement of the Revolutionary Left (MIR), and the Almeyda faction of the Chilean Socialist Party. 

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In recent years, the Soviets and their allies have increased this assistance. In 1985 Moscow provided \$5 million for Latin American leftist groups, much of which went to the Chileans, 

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 a Chilean committee in Havana supports various Chilean leftist political parties, including the Communist party and the MIR, with a yearly stipend of \$500,000 provided through the Bloc embassies in Havana. 

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Since 1984 approximately 1,500 Chilean leftists have reportedly received military and political training in Communist and revolutionary Third World countries. 

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Havana has apparently taken the lead in supplying increasing amounts of arms, as evidenced by the large quantity of weapons—enough to arm 4,000 fighters—discovered in northern Chile last year. Moscow, Havana, and East Berlin have also provided safehaven to many Chilean exiles. 

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Differing Views in Moscow and Havana

Moscow's prime objective is to position the Chilean party to govern Chile someday—as the immediate successor to Pinochet if possible. The Soviets are prepared to support violence and terrorist activities to achieve this goal, but it is increasingly evident they do not want to jeopardize the party's long-term prospects with a premature or ill-conceived attempt to overthrow Pinochet.

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For now, the Soviets are urging the party to work with other leftist groups, although they are careful to avoid giving these groups enough support to challenge Communist leadership of the leftist opposition. Moscow has, in fact, withheld support for the Cuban-backed MIR, believing that the MIR's radical policies undermined President Allende in the early 1970s.

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Havana, in contrast, is intent on driving Pinochet out of office and seems less concerned than Moscow about which group leads the revolution. Fidel Castro is prepared to back almost any group in support of this goal. The Cubans probably assume the Chilean Communist Party will ultimately emerge as the dominant group in a successor government and are more inclined to support potential rivals such as the MIR in order to bring to bear as much pressure as possible on Pinochet. Havana's support for the MIR—the oldest and historically most violent leftist group in Chile—makes clear Cuba's continued commitment to the use of violence in Chile.

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Moscow may be advising the Chilean Communist Party to proceed cautiously, at least for the time being. the party is trying to exercise more control over the Manuel Rodriguez Front and has reduced funding for the Front's terrorist activities. Castro, on the other hand, appears undeterred by the discovery of Cuban involvement with the caching of weapons. He has pledged to replace the weapons confiscated by the Chilean security forces and, has continued to train Chileans to ferry supplies clandestinely into Chile.

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In the Future

Despite tactical differences, the Cubans are likely to follow the Soviets' lead in supporting the Chilean opposition if Moscow forces the issue. If Pinochet leaves office by 1989 and a civilian government with broad popular support is established, Moscow will probably urge the party to return to nonviolent tactics and focus its immediate attention on obtaining legal status. If, however, an intransigent Pinochet retains the presidency after his term ends in 1989, Moscow probably will encourage the Communists to turn increasingly to violence in the hope of promoting an all-out insurrection against the government.

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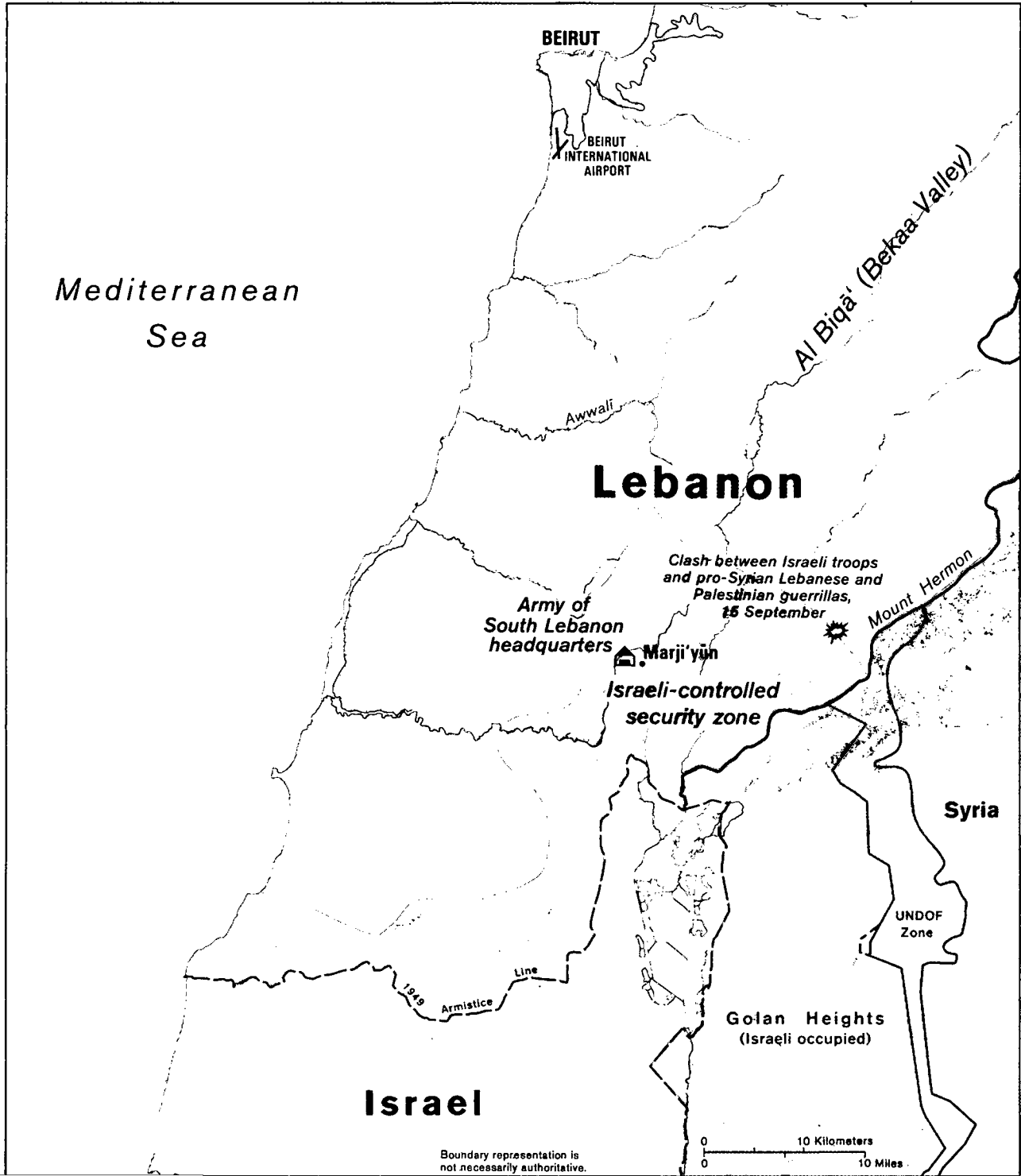
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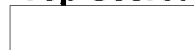
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Special Analysis

ISRAEL:

Strengthening Army of South Lebanon

Recently increased Israeli support for General Antoine Lahad's Army of South Lebanon has markedly improved the militia's combat effectiveness and morale. Nevertheless, radical Shia and Palestinian forces in the region are also growing stronger and are likely to stage more frequent and lethal attacks akin to the ambush on Tuesday of an Israeli patrol by pro-Syrian Lebanese and Palestinian guerrillas. 


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 Israel has made substantial progress in training ASL members and has provided more direct military support in the security zone, including artillery fire to repulse attacks. Despite almost daily hit-and-run attacks against its units, the ASL is demonstrating greater confidence in its military strength and an increased willingness and capability to engage Shia forces. 


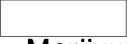
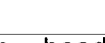

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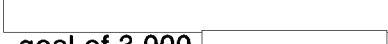

More Support for Lahad

After the major Hizballah offensive in late May, in which several ASL positions were attacked and two briefly captured, Tel Aviv intensified its military cooperation with Lahad. It has since fortified the militia's defensive positions, improved weapons training, and provided rapid and heavier Israeli artillery support, 


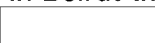
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Israel also has increased financial support to help ASL recruiting efforts among the southern Shia community in hopes of countering Hizballah, which receives considerable funding from Iran. Earlier this year Tel Aviv began paying Lahad's militiamen in US dollars and allows their relatives to work in Israel, according to    reporting. Moreover, Israel funds medical facilities in Marjiyun—headquarters for the Army of South Lebanon. 

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 ASL recruited nearly 300 new members in the first half of the year, apparently in part because of the Israeli support.   current militia strength is 2,400 with a goal of 3,000. 

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Lebanon's dismal economy has also contributed to Lahad's recruitment success.  the ASL is now attracting Druze and Shias as well as Christians from Beirut. The Chief of Staff of the Christian Lebanese Forces recently told the US defense attache in Beirut that he had lost 300 members to the lure of ASL dollars. 

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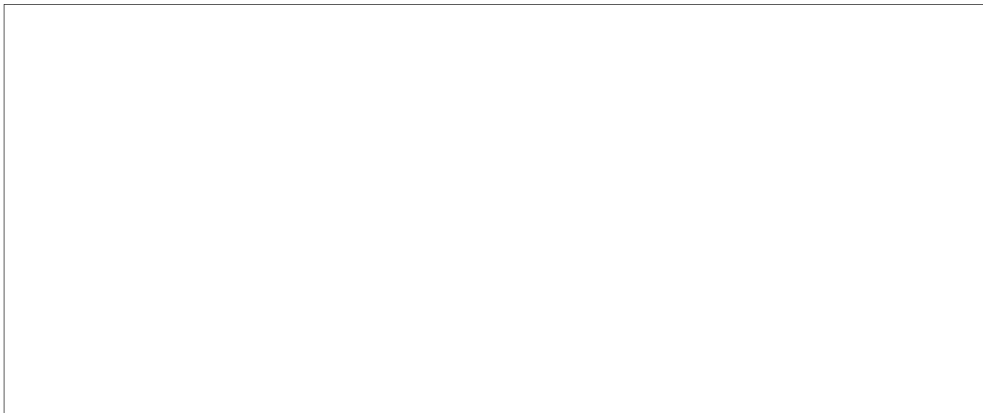


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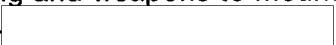
The clash Tuesday that killed three Israeli soldiers was the most lethal for Tel Aviv in more than two years and underscores the additional threat from leftist Lebanese and Palestinian factions. The evident difficulty in capturing the guerrillas was made more so by the rugged, virtually inaccessible terrain of Mount Hermon, an ideal hiding place.



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Outlook

Despite its recent gains, the Army of South Lebanon will continue to rely on Israel for support against its increasingly effective enemies. Hizballah, leftist Lebanese, and radical Palestinian groups retain the initiative and have the training and weapons to mount large assaults on vulnerable ASL positions.



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Israel's recent efforts to strengthen the ASL underscores its commitment to the security zone as the only viable near-term method of ensuring security for Israel's northern settlements against Hizballah attacks and Palestinian infiltration attempts. Strengthening Lahad's units reduces the need for Israel to reinforce its relatively limited presence in the security zone—about 1,500 men—and is consistent with Tel Aviv's policy of increasing its forces only for infrequent, limited ground attacks within and, if necessary, north of the zone.



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