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**BI-WEEKLY WARNING ISSUES
FOR THE DCI**

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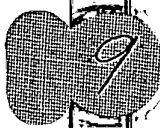
WARNING ISSUES

ECUADOR: Borja's Turn to the Left
SAUDI ARABIA/US: Drifting Away

SPECIAL WARNING TOPIC

IRAN/IRAQ: The Implications of Peace

Prepared by NIO/Warning and Staff



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WARNING ISSUES

ECUADOR: Borja's Turn to the Left

President Rodrigo Borja, who assumed office on 10 August, appears prepared to distance his country from its present close association with the United States. He intends to reestablish diplomatic relations with Nicaragua and to strengthen ties with Cuba, the Soviet Union and Eastern Europe. He is also likely to inaugurate a major shift away from outgoing President Febres-Cordero's free market economic policies. Borja may well join with other regional leaders to announce a plan that ties debt repayments to export earnings.

Despite this swing leftward, Borja has signaled that he is aware of the fears of the military and business leaders concerning his political and economic views and has indicated that he will avoid radical policies, such as the nationalization of banks or key industries. Moreover, despite his bias against the United States, Borja has expressed a willingness to continue cooperation on some issues with the United States, particularly the narcotics area.

SAUDI ARABIA/US: Drifting Away

The Saudi Government's statement last week that it reserves the right to buy weapons from anywhere "without restrictions or preconditions" if Washington does not meet its military needs is another sign that Riyadh gradually is moving toward a more independent posture and away from the United States.

Saudi unhappiness with the United States--particularly objections to Congressional restrictions on weapons deliveries--is likely to lead to still more deals like the Chinese CSS-2 sale and Britain's recent \$30 billion long-term contract for Tornados and other hardware. We expect

Riyadh to consider purchasing Soviet bloc military equipment--possibly soon; neighboring and conservative Kuwait long has bought bloc arms and Jordan recently evaluated a Soviet offer of sophisticated military aircraft. Over time, the Saudis may respond to Moscow's persistent diplomatic overtures, diversify arms purchases more, and become less pro-Western in orientation. Even some senior Israeli officials publicly have expressed concern over the US's declining influence in the Arab world and have urged their American friends to compromise on restrictions on the F-18/Maverick missile package for Kuwait recently approved by Congress.

SPECIAL WARNING TOPIC**IRAN/IRAQ: The Implications of Peace**

An end of the war between Iran and Iraq will bring major changes to the Gulf region and have significant implications reaching far beyond the Middle East. The extent of post-war changes remains unclear, but they will have both positive and negative consequences for US interests.

On the positive side, both regimes are likely to abandon some of their more radical positions, adopt more balanced foreign policies, and reintegrate themselves more fully into the world political order. Ayatollah Khomeini's retreat from his long-held position of bringing down the Saddam Hussein regime has been a significant setback for radical elements. Iranian pragmatists increasingly appear to be in charge--as evidenced by recent improvements in ties to Britain, France, and Canada--with an accompanying opportunity for gradually improved US/Iranian relations, despite residual animosities. The Iraqis may loosen ties with their major arms supplier--the USSR. They probably will also improve their political standing in the world community as the stigma of Baghdad's use of chemical weapons fades.

Peace will give both sides a chance to rebuild damaged industrial facilities and infrastructure and to improve the lot of their peoples--improving overall trade prospects and opportunities for billions of dollars worth of Western nonmilitary sales; this need for investment also will incidentally increase opportunities to build political influence as well. US allies in Western Europe, as well as Japan and South Korea, probably will have better chances

at making inroads than the United States, particularly in Iran.

The United States may be able to improve further relations with Gulf Arabs who have been reluctant--despite US convoy efforts--to forge ties too closely to the United States for fear of Iranian retaliation. This possibility will continue to be offset by the growing perception in the region that the United States is an unreliable arms supplier--and thereby friend--a view strengthened by Saudi Arabia's recent decision to turn to Britain for \$30 billion in military hardware, construction, and services.

On the negative side, there are a number of potentially serious adverse implications of "peace" for the United States:

- o Cessation of combat may allow Iraq, after a period of recuperation, to direct its battle hardened forces against other targets. Saddam Hussein may revive Iraqi irredentist claims on Kuwait to secure oil, territory, and port facilities directly on the Persian Gulf. Israel will be alert for hostile Iraqi intent and may be even more willing to strike preemptively at Iraqi offensive capabilities such as its missiles and chemical weapons production plants to disrupt a possible joint Syrian/Iraqi attack--in the unlikely event that Damascus and Baghdad can resolve their differences. The Israelis already are expressing publicly their concern. President Assad, however, presumably is wary that Iraq may

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turn on him for his lengthy support of Iran in the war. Israel is likely to do its best to foster Syrian/Iraqi discord.

- o "Peace" probably will give the Soviets openings to improve ties with Tehran at US expense. Deputy Foreign Minister Vorontsov has been in the region recently, including Tehran. Moscow already has offered to mediate a definitive peace agreement in a Central Asian city. The Soviets also may use additional economic offers to boost entree to Iran.
- o World oil markets probably will be volatile for some time. Traders will be watching to see whether Iran and Iraq will work more harmoniously to ensure OPEC production discipline--driving up prices--or whether the reopening of Iraqi sea lanes and the end to air attacks on production facilities will encourage greater exports and lead to a price collapse. Lower prices will increase the strain on oil exporting Third World countries and the international banking system, while higher prices will tend, among other things, to rekindle inflation and cut economic growth in consuming countries.
- o Weapons suppliers who have profited from the war since 1980 will seek other markets to maintain earnings. North Korea, Brazil, China, and Eastern Europe all have major hard currency shortages that have been ameliorated in recent years by munitions sales to both sides. Reduced earnings would increase economic troubles domestically and payments problems could negatively affect international banks. A new push by

suppliers would accelerate arms races in the Third World, especially, increasing the chances of regional conflicts and diverting resources from domestic programs.

- o Iraq will no longer use so much of the output of its chemical weapons production capacity on the battlefield. It may decide to sell some output to raise cash or help friends, accelerating the proliferation of chemical weapons. The Iraqis also, perhaps more likely, might provide technical assistance to Third World states wanting to develop their own chemical warfare programs.
- o Kurdish rebels in both Iran and Iraq are likely to be punished by both sides for their actions during the war in support of a Kurdish nation. The Kurds could suffer heavily and may ask the United States for help. Conflict could spill into southeastern Turkey, exacerbating the difficult situation there.

Either or both sides may use the truce or even a peace agreement to rest and recuperate prior to another round of fighting. Iran--tired and bloodied but with the larger resource base--has more to gain by a respite. Tehran may actively plan to resume the war when it is stronger; recognition of this possibility is a major factor driving Iraq's suspicion of Iran's acceptance of Resolution 598. An Iraqi seizure of Iranian territory would virtually ensure Iranian intent to resume the war eventually. Iraqi recognition of this possibility, however, will continue to preoccupy Baghdad and curtail its adventures elsewhere.

LOOKING AHEAD

Traditional Islamic 40-day mourning period for victims of *Iran Air 655* ends on 13 August ... likely to be marked by demonstrations against the *United States* ... could be occasion for terrorist retaliation, possibly by radicals unhappy with Tehran's acceptance of Resolution 598.

Chile's junta to announce government presidential candidate on 30 August with plebiscite likely in early October ... Pinochet probable candidate ... opposition remains fragmented ... upsurge in violence likely during campaign.

Clashes along *Angola/Namibia* border could escalate into large-scale fighting despite ceasefire agreement ... Castro came close recently to ordering *Cuban* artillery attacks on major *South African* base in Namibia ... aggressive patrolling along border likely to lead to more firefights ... South Africans boosting air strength, reorganizing and strengthening ground forces into a combat division.