



Director of
Central
Intelligence

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[Redacted]

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National Intelligence Daily

Saturday
25 June 1988

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b3 **WESTERN EUROPE- Assessing Toronto Summit**

Preliminary reactions to the Toronto summit are emphasizing US "concessions" on both Third World debt and farm subsidies, as well as the unprecedented lack of conflict that marked the meetings this year. [redacted] b3

Most European media have hailed the agreement on Third World debt as a shift of US policy toward the European position. [redacted]

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EC officials have applauded the summit's lack of acrimony, despite what some characterized as a confrontational US approach on agricultural subsidies. Other EC spokesmen are insisting that the agreement to negotiate a framework on farm subsidies, which included no deadline for eliminating subsidies, is a victory for European interests. [redacted] accounts appear to support assertions by the same EC officials that the concessions reflected US determination to avoid controversy at President Reagan's final summit. [redacted] b3

Several leaders and media reporters have praised the summit process as an effective vehicle for multinational economic coordination. The European media have generally endorsed the judgment of most summit leaders that such coordination helped avoid a crisis after the October stock market crash. [redacted]

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The media and summit leaders have been effusive in praising President Reagan's initiative on East-West issues. One [redacted] daily argues that Allied views have now correctly focused on Soviet leader Gorbachev's need to lower East-West tensions in order to enact his reforms but that the West should proceed cautiously on arms control. [redacted] b3

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b3 [redacted] Media reports and official reactions agree that the improved world economy allowed summit leaders to avoid divisive issues and to emphasize cooperation. [redacted]

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PANAMA:

Budget Pressures Still Plaguing Regime

Low revenues will probably force the regime in Panama to take more politically difficult steps to reduce spending unless substantial new foreign financial support is arranged. b3

The government's initiatives to trim its payroll have been largely ineffective. Most recently fired public workers were reinstated after the National Federation of Public Employee Associations threatened to strike. b3

[REDACTED]

[REDACTED]

On Wednesday, he told a rally in Panama City that government income has dropped 50 percent and cash on hand cannot cover scheduled payrolls.

[REDACTED]

The regime has had some limited success recently in lining up foreign financial assistance.

[REDACTED]

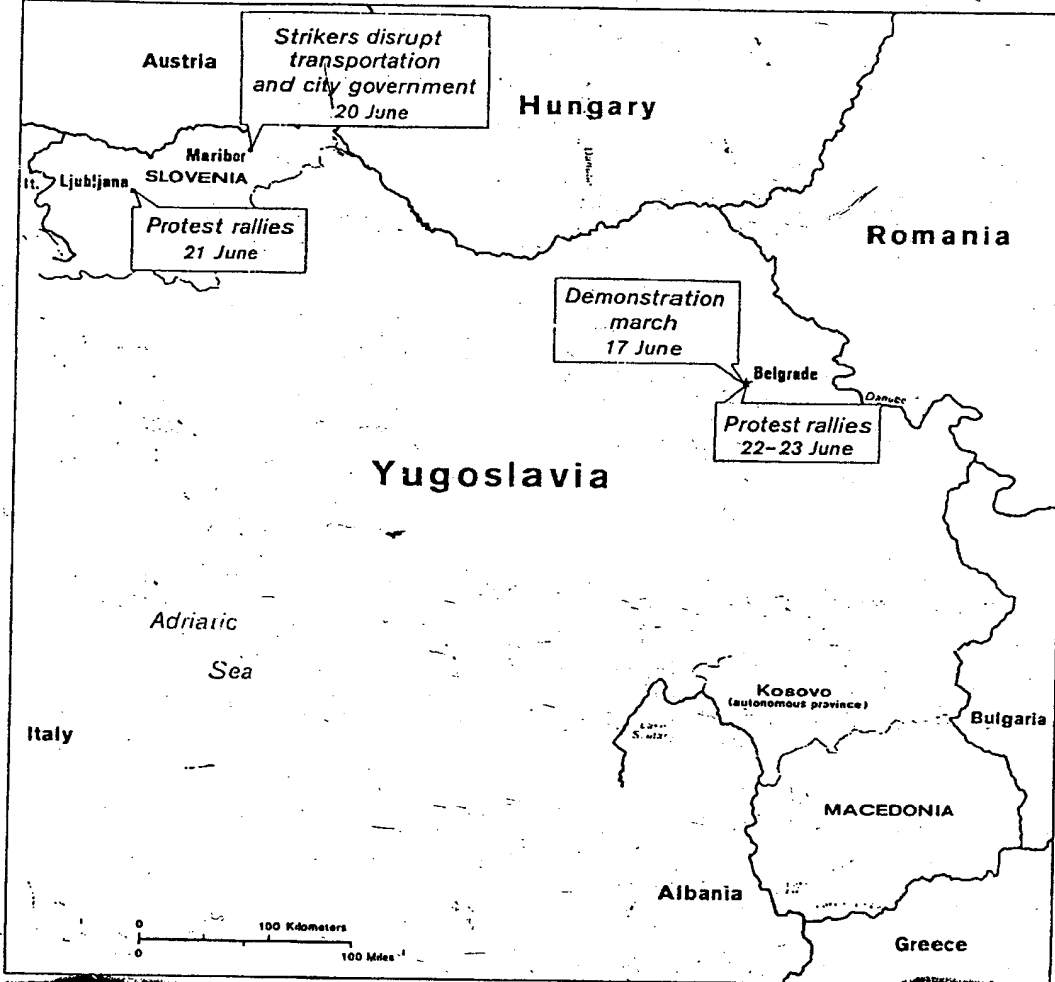
Government revenues will probably remain 50 percent less than the precrisis level until the political situation is resolved and economic sanctions are lifted. Without substantial new foreign aid, financial pressures to trim the public payroll further will almost surely intensify. b3

The regime will continue to pay the military first and move cautiously in dismissing civilian workers to avoid potentially costly strikes and public protests. Spending for public-sector enterprises and government procurement has already been cut to the bone, and additional diversions of resources could halt many government services. b3

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Recent Unrest, June 1988



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YUGOSLAVIA:

Growing Unrest

Growing public protests are increasing the chances of clashes with security forces and of a government crackdown, particularly in the Slovene republic.

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Labor unrest with antigovernment overtones has intensified in recent days as Belgrade has begun implementing new IMF-imposed austerity measures. More than 10,000 demonstrators marched on the National Assembly in Belgrade last week to protest the austerity measures, corruption, and official incompetence. This week in Slovenia, nearly 5,000 strikers demanding higher wages disrupted rail and street traffic, attacked a city government building, and called on the federal government to resign.

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About 20,000 Slovenes rallied this week to protest the arrest of two Slovene journalists and an army sergeant. The military, angered by critical articles in the youth press, is holding the three on charges of betraying military secrets.

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Several hundred Albanians from Macedonia held unprecedented protests this week in Belgrade against discrimination by local officials. Ethnic Serbs in Kosovo Province this week submitted a petition against discrimination by Albanians with 50,000 signatures to the National Assembly.

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Disorders are at their highest level in recent years, and a miscalculation by protesters or local authorities anywhere in the country may spark violence. The odds are about even that Slovene and other authorities will take some repressive measures, such as bans on public gatherings or controls on the Slovene youth press. The chance of federal police or military units intervening in Slovenia will grow further if Belgrade concludes that regional leaders have lost control.

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Belgrade probably will also try to head off greater unrest that threatens Yugoslav stability by backing down on its more stringent austerity measures in the face of growing strikes and protests. The military may defuse Slovene protests—though still showing toughness—by giving the journalists light sentences. Any ethnic violence in Kosovo and Macedonia probably can be contained quickly by security forces.

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IRAN:

Tehran's Diplomatic Offensive

Tehran has taken a number of steps to improve its standing in the West and has even made some positive statements about US policies, apparently hoping to gain political flexibility to offset its military setbacks. b3

Iran has restored diplomatic relations with France and [redacted]

[redacted] expects to establish an embassy in New Zealand. b1 b3

Iranian leaders and media continue to assert that US statements about Iraq's role in starting the Iran-Iraq war indicate the US wants to ease tensions with Tehran; [redacted] b1, b3

[redacted] Iran is attempting to reduce foreign pressures at a time when its military and economic options are declining. Its immediate goal is to gain Western support at the UN for its proposals for implementing Resolution 598. At a minimum, Iran hopes improved bilateral relations with Western countries will make them more reluctant to support an arms embargo against Iran. b3

Tehran probably also hopes to widen differences between the US and Iraq on the UN resolution. Iran, like the US, supports the Secretary General's call for proximity talks between Iran and Iraq on the resolution; Baghdad is opposed. [redacted] b1 b3

[redacted] Nonetheless, Iran probably would observe a cease-fire, despite radical opposition, if the Security Council accepts Iran's conditions. The radicals, however, would try to derail further negotiations after an initial cease-fire by demanding harsh punishment for the Iraqi regime in any peace settlement. [redacted] b3

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LEBANON:

Hizballah Locks Southward

Hizballah is taking steps to reestablish military and political influence in southern Lebanon with Syrian backing.

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Since its clashes with Amal and Israel in the south this spring, Hizballah has relocated many of its vulnerable facilities and is trying to strengthen its military arm.

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Since the Syrians moved into southern Beirut, Damascus has tried to coordinate more closely with Shia radicals. Syria's desire to have Barri accept Hizballah military activities in the south clarifies Syria's intention to have Hizballah resume attacks against pro-Israeli forces in Lebanon.

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Hizballah probably believes it can capitalize on Barri's growing political vulnerability and Amal's recent military setbacks by reviving militia activities in south Lebanon. Daud Daud, a prominent southern Amal militia leader, has been reluctant to accept Barri's directives, however, and his loyalists could slow Hizballah's return to the south.

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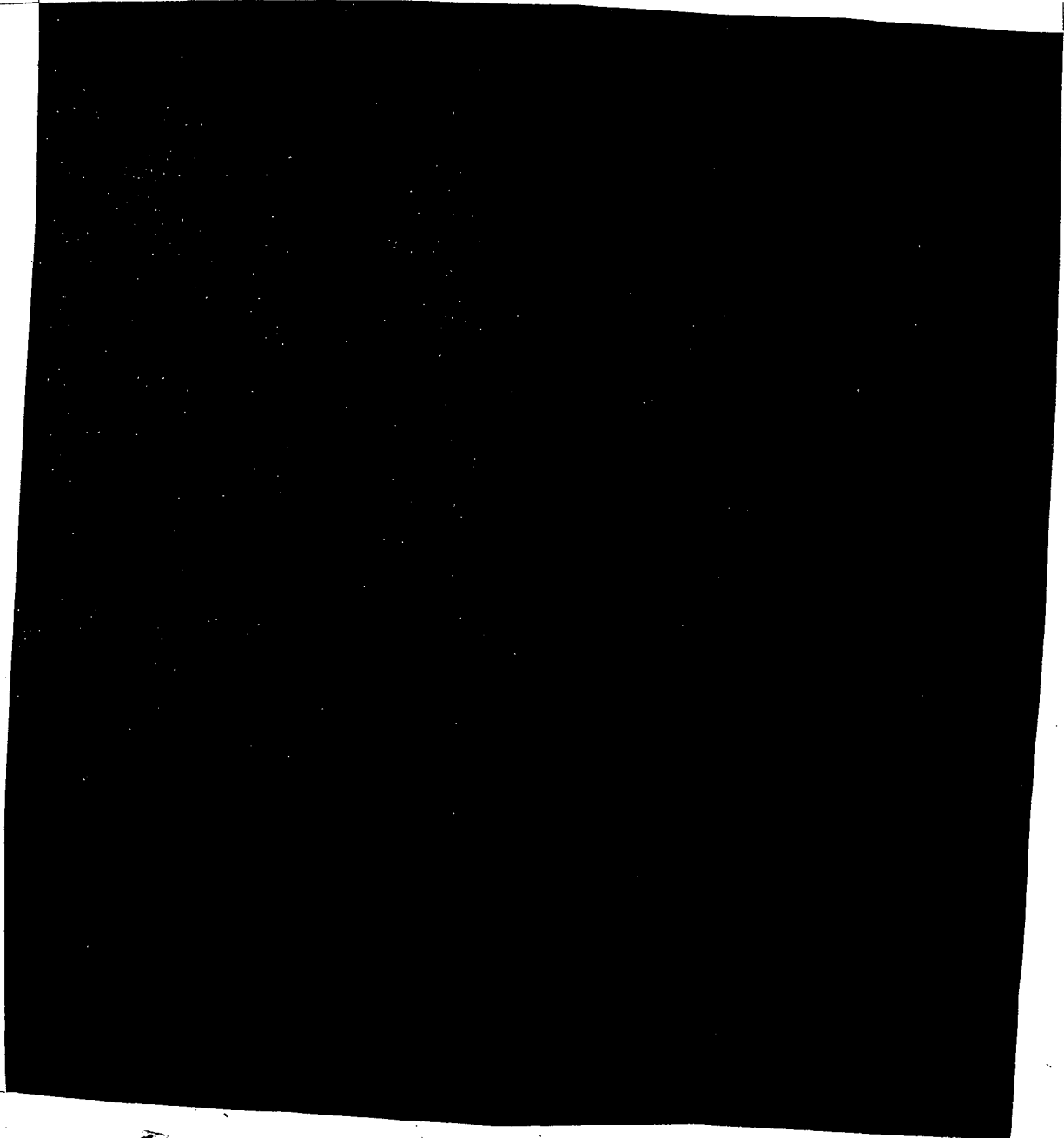
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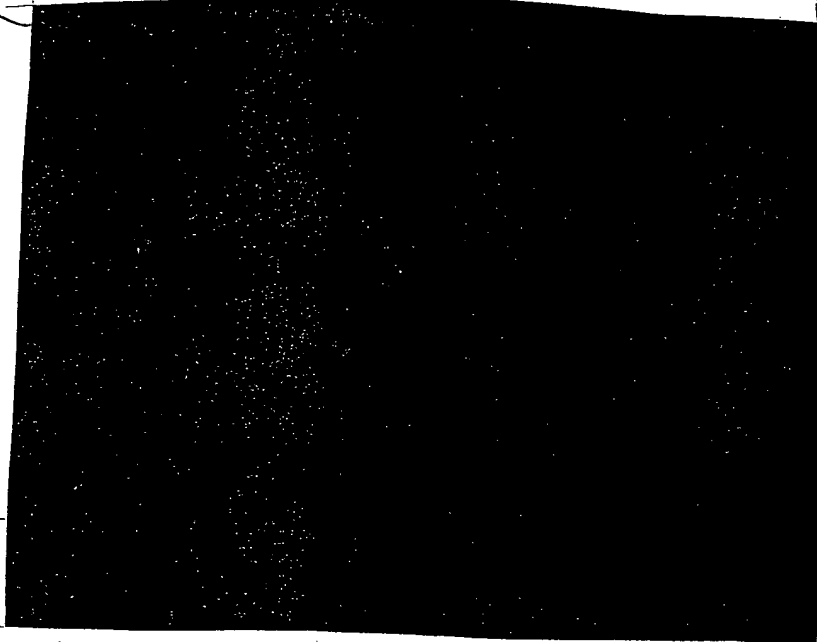
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SOUTH AFRICA-
CUBA-ANGOLA:

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~~_____~~ indicating a readiness to fight
if the four-party talks in Cairo on Angola and Namibia fail. ~~_____~~

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Although South African patrols continue to harass Cuban and Angolan forces in the southwest, they are now encountering more aggressive and competent Cuban units. ~~_____~~

~~_____~~ Pretoria may soon have to consider restricting its ground patrolling or patrolling in greater force but will probably continue to conduct harassing airstrikes ~~_____~~

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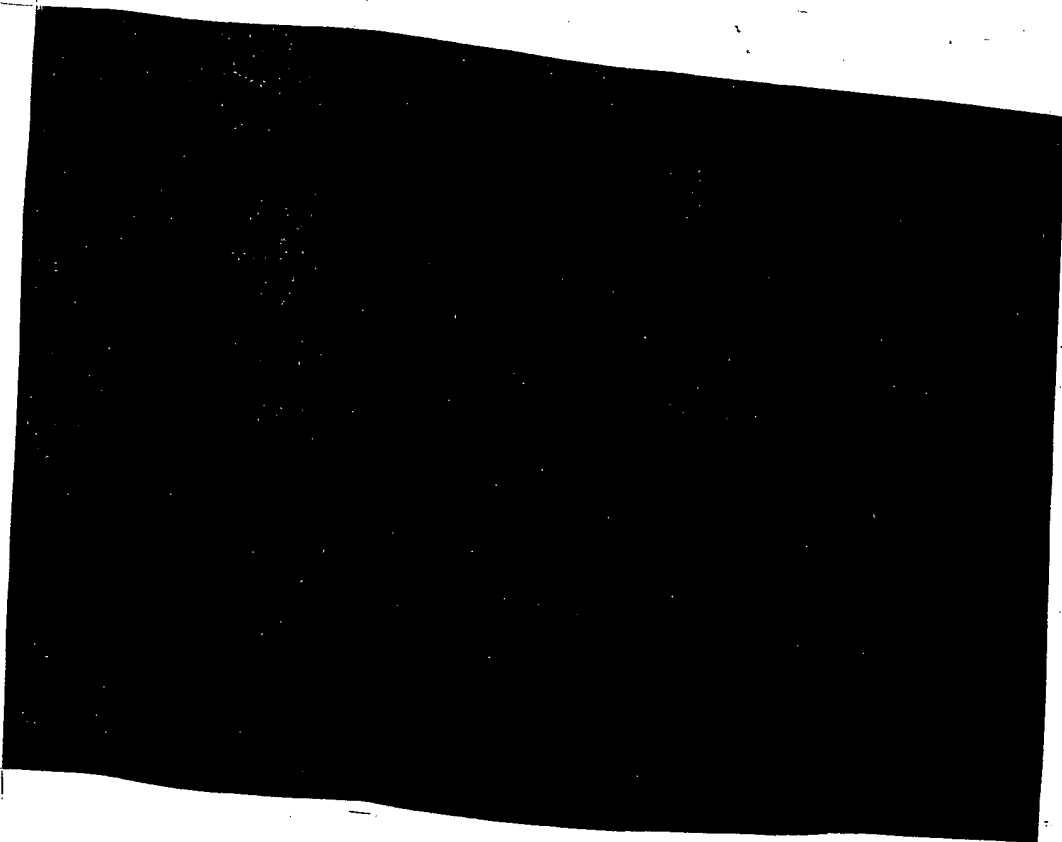
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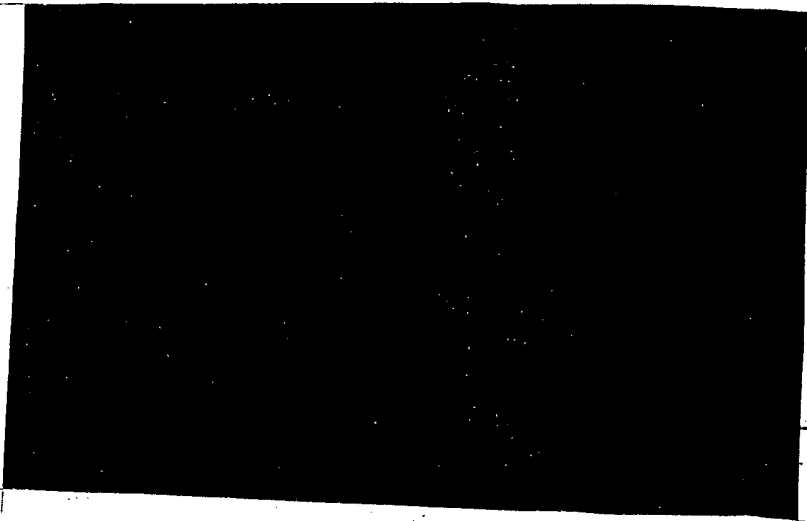
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USSR: Estonians To Press Home Rule

The Estonian delegation to the party conference in Moscow next week plans to present far-reaching proposals to expand the autonomy of Estonia and other Soviet republics. The group's platform has been published in the Estonian press and endorsed by the new Estonian party boss, Vayno Vyalyas. It calls for a return to Lenin's principle of "socialist federalism" and outlines various measures for extensive economic and cultural autonomy for the republic. Members of the Latvian and Lithuanian delegations reportedly may follow Estonia's lead and press similar demands.

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General Secretary Gorbachev handpicked Vyalyas for the Estonian post, and is apparently prepared to allow the Estonians to air their proposals at the party conference. While it is not to Gorbachev's advantage for the Estonians to push the most controversial parts of their program, the regime is committed to the principle of more rights for the regional republics. Gorbachev runs a risk in permitting open discussion of the Estonian platform but may hope that the platform—which is as yet limited to broad concepts—can serve as a framework for working out over time a more modest change in the status of the non-Russian republics.

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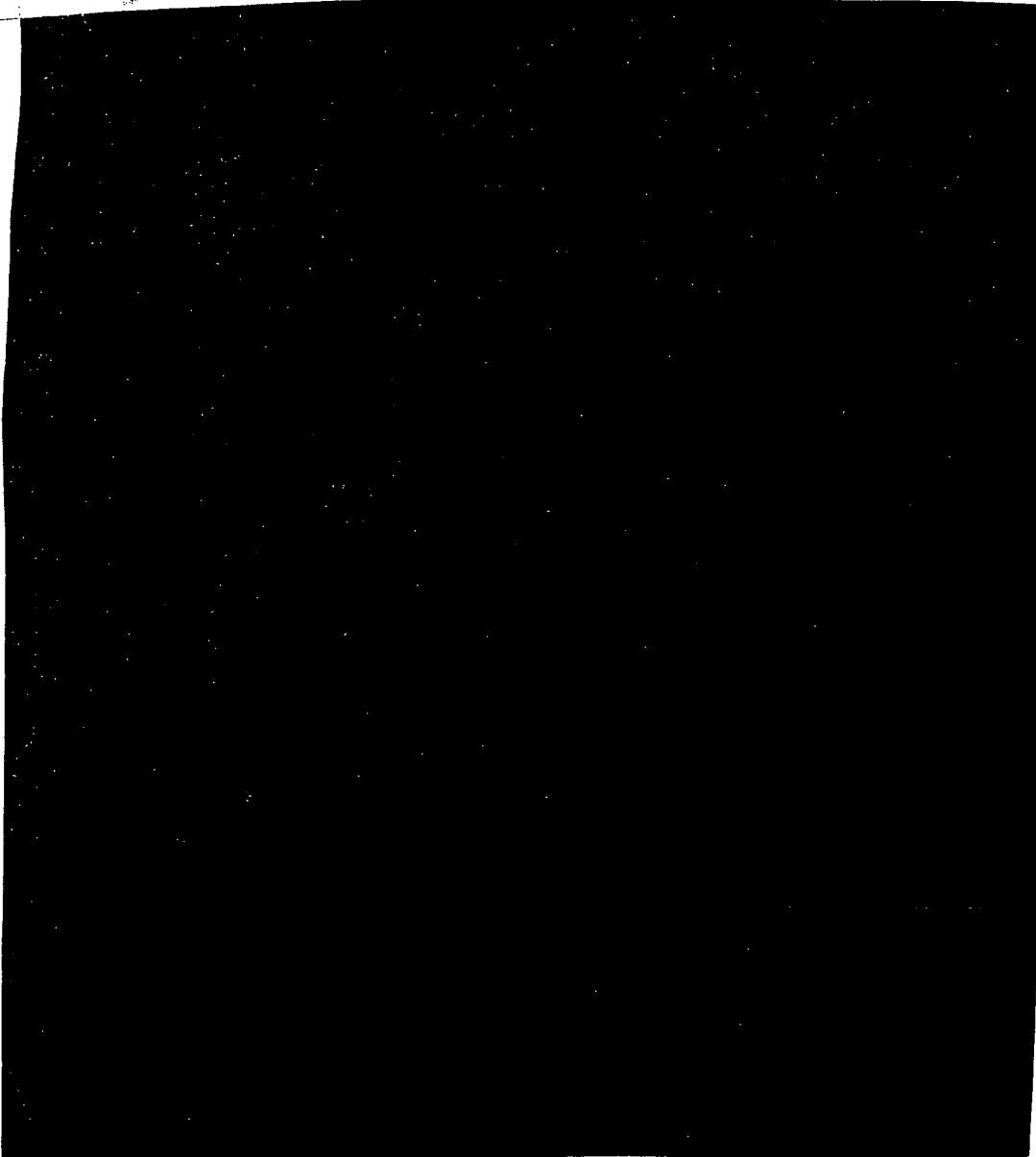
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SOMALIA: Rebel Attacks Continuing

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Somali Government forces remain on the defensive in the face of insurgent attacks that continued in the north this week. Hargeysa and Berbera were calm yesterday.

The government is continuing to purge its northern military command along ethnic lines. Officers belonging to tribes suspected of disloyalty to the régime are being replaced.

[REDACTED]

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President Siad presumably hopes the tribal shakeup will improve the Army's performance and loyalty. Morale problems, aggravated by ethnic divisions, continue to impair its performance.

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The rebels, meanwhile, continue to capitalize on the Army's disarray, although they probably lack the momentum for a major military breakthrough this weekend.

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THAILAND: Labor Unrest Spreading

An illegal railway union strike that broke out in Bangkok this week is spreading as other labor groups protest government plans to sell off portions of state enterprises. [redacted] tobacco workers began to strike illegally on Wednesday, and port and electricity authority workers are deciding whether to make a move.

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[redacted]

[redacted]

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Prem. [redacted] will be under increasing pressure to play a direct role to resolve the walkouts quickly or run the risk of violence. [redacted] The Prime Minister certainly wants rail service to resume before 2 July when celebrations begin marking King Phumiphon's reign as the longest in Thai history. [redacted]

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ISRAEL-US: Rabin's Visit

On the eve of his US visit, Israeli Defense Minister Rabin has announced the release of a small number of Palestinians detained for protest activity—evidently trying to head off criticism of his tough security measures. He also has met with prominent Palestinians and reopened some high schools in the West Bank. In addition to discussions on Israeli measures to quell the Palestinian unrest, Rabin expects his visit to focus on defense issues—including the prospects for Israeli participation in SDI projects and technology transfer. He is likely to explore US thinking on the proliferation of missiles, nuclear weapons technology, and chemical munitions in the Arab world.

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Comment: Rabin made the conciliatory gestures to counteract the unflattering portrayal of him in foreign media for his "Ironfist" policy. Rabin probably timed the announcement of the releases to forestall US criticism of continuing Palestinian casualties and violence in the West Bank and Gaza Strip. By keeping contentious discussion of Israeli security measures to a minimum, Rabin probably hopes to extend consultations on Israeli acquisitions of military hardware and on Arab weapons programs. He is likely to focus on the prospects for further Syrian missile acquisitions—especially the Chinese M-9—and the status of Saudi Arabia's CSS-2 sites. [redacted]

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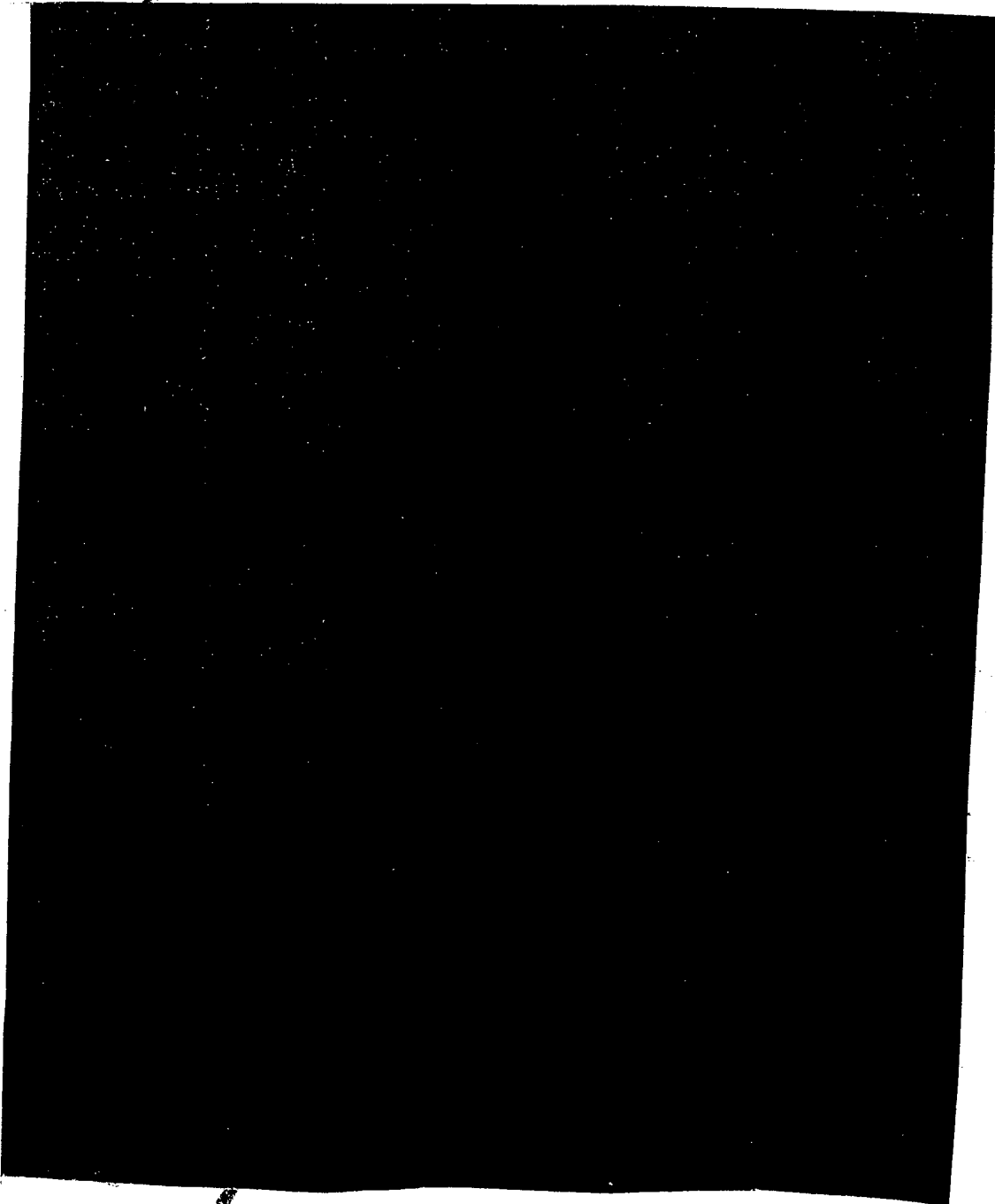
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In Brief

Middle East

— Baghdad announced this morning it has begun offensive to retake Majnoon Islands . . . [REDACTED]

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USSR

— [REDACTED] Nagorno-Karabakh soviet decided this week region would leave Azerbaijan Republic even if Moscow disapproves, called move unconstitutional . . . [REDACTED]

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East Asia

— Philippine Communist insurgents attacking Army unit in northern Luzon this week used mortars for first time . . . guerrillas probably have captured several 60-mm mortars in recent years . . . capability limited by shortage of ammunition. [REDACTED]

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— Tserenpilyn Gombosuren new Mongolian Foreign Minister . . . educated in Moscow but apparently interested in contacts with West . . . [REDACTED]

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Europe

— Turkish Government changes pending, cabinet resigned yesterday . . . likely to reflect shifts in party executive of Motherland Party favoring conservative, religious factions . . . major policy changes unlikely. [REDACTED]

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— Maltese Government battling Labor opposition over UK warships' weekend visit . . . Labor, to embarrass government, claims ships nuclear armed . . . dockworkers' attempt to block harbor with disabled tanker foiled, further confrontations likely. [REDACTED]

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— USSR, Bulgaria establishing limited currency convertibility for joint ventures, firms with direct contacts . . . second such CEMA agreement, follows Czechoslovak-Soviet accord . . . only small part of reforms many CEMA members seeking [REDACTED]

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Special Analysis

TURKEY-US:

Visit of President Evren

Turkish President Evren's first official visit to Washington next week marks the return of a degree of stability to Turkish-US relations. Evren is less involved than Prime Minister Ozal in the day-to-day running of the government but is a source for moderation in Ankara and has played a leading role in restoring Turkey to civilian rule since 1983. b3

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Ankara Facing Bumpy Road

Evren's visit occurs amid speculation that Turkey faces a new era of right-left turmoil that might threaten its recent democratic gains. Such speculation appears premature. But had the assassination attempt against Ozal last week succeeded, it would have set off a prolonged scramble for control of his Motherland Party, possibly resulting in the same kind of factionalized parliamentary politics that plagued Turkey in the late 1970s. Evren himself brought about a round of heated discussion about the extent of the military's confidence in the Ozal government in April when he justified its intervention in 1980 and said that the military would do so again if the situation demanded. The remarks were a response to opposition party criticism of the intervention, however, rather than a warning about domestic terrorism, political instability, or dissatisfaction with Ozal's performance. [redacted] leftist domestic terrorism remains at a low level while rightwing terrorism is even rarer. [redacted] b3

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There are other sources of instability in Turkish society; economic problems are currently the most troublesome. Inflation is running at 70 percent, but Ozal has not imposed strict austerity to stabilize the overheated economy. He apparently fears that higher unemployment and cutbacks in public services would bring even more public outcry. Foreign creditors have already become more cautious in making new loans to Turkey. [REDACTED]

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US Connection

The Turks will view the Evren visit as confirmation of Ankara's importance to Washington and as further evidence that their transition to democracy makes them more acceptable to the West. The visit comes more than a year after it was postponed because of Turkish unhappiness with the level of US aid and with US Congressional resolutions on "Armenian genocide" and Cyprus. Relations improved after Ankara ratified the renewal of the bilateral Defense and Economic Cooperation Agreement in February. But Evren is almost certain to highlight Ankara's desire for more US economic assistance. [REDACTED]

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Evren, in fact, is likely to use the level of aid as a yardstick by which to measure US-Turkish relations, noting that a politically and economically viable Turkey is in Washington's interests. He is also likely to ask the US to help lobby for Turkey's entry into the EC as an economic extension of Ankara's NATO membership. [REDACTED]

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Special Analysis

NICARAGUA:

Rebel Negotiating Options Narrow

Although rebel leaders are publicly declining further cease-fire talks with Managua while they seek renewed US assistance, their military weakness and continued infighting are likely to drive at least some Directorate members back to the negotiating table.

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The insurgents this week dismissed a Sandinista invitation to resume talks this month as a ploy to undercut prospects for new US aid.

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[REDACTED]

Some rebel leaders, however, appear willing to resume negotiations. Directorate members Pedro Joaquin Chamorro, Alfredo Cesar, and Aristidez Sanchez have separately raised the possibility of reinitiating talks, [REDACTED]

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Problems Mount

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[REDACTED]

Budget cuts and charges of mismanagement are creating serious internal problems for rebel political leaders. All [REDACTED] employees engaged in political support activities in Miami, Washington, Latin America, and Europe will be dismissed at the end of the month. [REDACTED] attribute the layoff to a lack of funds, but [REDACTED] charges that the organization has become too large and complacent and is calling for a major reorganization. He predicts that most if not all of the current political leaders will be replaced at the next assembly—which might be held early next month.

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Prospects Dim

At least some members of the Directorate appear willing to resume cease-fire negotiations. Now that most fighters are back in Honduras, political leaders are likely to be less concerned about criticism from military leaders if talks begin again. There is also a greater chance that some Directorate members will seek a separate deal with Managua that would enhance their role as returning opposition leaders—particularly if Chamorro's latest attempt to oust Bermudez splits the Directorate permanently. [REDACTED] b7

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Alcohol Control Complicates Economic Policy

In his speech to the Central Committee plenum in February, General Secretary Gorbachev said that reduced state alcohol sales, which are highly taxed, had cost the treasury 37 billion rubles in the first two and a half years of the antialcohol campaign. In October, he cited the campaign as a major cause of the failure to achieve overall gains in consumer sales commensurate with people's increased income.

The fiscal impact of the alcohol program could build support among economic policy makers for a modification of alcohol policy. Fear of lost revenue reportedly deterred Gorbachev's predecessors from pressing aggressive alcohol control. These concerns were put aside in 1985, but Gorbachev's remarks indicate he realizes that alcohol policy plays an important role both in the level of state revenues and in creating consumer satisfaction.

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Special Analysis

USSR:

Rethinking Campaign Against Alcohol

The Gorbachev leadership's antialcohol campaign enters its fourth year amid increased public criticism and a number of undesired economic side effects, particularly a large loss of revenue from alcohol taxes. Reports indicate the leadership has decided to relax the more onerous features of the campaign while continuing to attack the worst alcohol abuses. General Secretary Gorbachev has much to gain politically from changes that would be perceived as improving consumer welfare. The political problems facing the regime's chief promoter of tough restrictions on alcohol, "Second Secretary" Ligachev, have probably made it easier to soften the campaign's more extreme measures.

[REDACTED]

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Resistance Widespread

Prominent reform economists have recently defied an apparent ban on criticism of the antialcohol campaign. [REDACTED] the campaign had forced substance abuse to take a "new uglier form," leading to large-scale production of illegal liquor and the increasing use of substitutes, many of which are poisonous. [REDACTED] that the policy had "greatly exacerbated problems in the state budget" without significantly reducing alcohol consumption.

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[REDACTED] has likened the campaign to the intervention in Afghanistan as an ill-advised policy. Other critics have urged the campaign be refocused to moderate alcohol abuse by opening more establishments that serve wine and beer.

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Public resentment of the campaign has been growing for some time. While the doubling of alcohol prices, limited supplies, and measures to make alcohol difficult to buy have cut legal sales by more than half, these measures have enraged many consumers and contributed to a widespread perception that the lot of the average citizen is getting worse under Gorbachev. Meanwhile, home brewers have increased production to a level that may exceed state production, [REDACTED]

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The leadership, disturbed by the massive lawbreaking by ordinary citizens, is also embarrassed by disruptions in the availability of consumer goods due to the campaign. Sales of sugar—the main raw material of home brewers—have increased sharply since the campaign started in 1985. Sugar rationing has now begun in many areas of the country—either because of supply shortages, consumer hoarding, or a policy decision to limit illegal alcohol production. Toothpaste, cosmetics, and even insect repellent have become scarce because they are being used as liquor substitutes. [REDACTED]

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Leadership's Next Steps

The apparent political decline of Ligachev has weakened the leadership's most strident advocate of the antialcohol program. Ligachev has taken a maximalist approach, seeming to want the USSR to become a country of abstinence rather than moderation in drinking. [REDACTED]

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Gorbachev probably does not intend to abandon the campaign. He has associated himself personally with it, calling it a struggle to save the Slavic people and an essential companion to reform. To reverse course would give the appearance of a policy defeat. He also credits the campaign with improvements in public order, an increase in life expectancy, and a reduction in accident rates. [REDACTED]

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The regime, however, appears to be preparing to modify the campaign slightly to make it less offensive to social drinkers and to recapture sales lost to illegal producers. [REDACTED]

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[REDACTED] Such liberalization is likely to be balanced by continued strict enforcement against illegal distillers and public drunkenness. Drinking at work—which the leadership perceives has increased recently—is reported to be a particular target. The leadership is trying to devise a formula that will avoid a loss of face for Gorbachev, preserve the benefits of tighter alcohol control, and be dramatic enough to gain credit with consumers. [REDACTED]

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