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BRIEF
TO: PRIORITY EUROPEAN BRIEF.

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FROM: CPAS/ISS

SLUGS: ~~SECRET~~

SUBJECT: HERewith SUPPORT CABLE FOR EUROPEAN BRIEF ~~SECRET~~ b3
FOR 24 AUGUST 1991

REF: NONE

TEXT: ~~SECRET~~ b3

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FROM: DD1/07/CPAS

SUBJECT: EAST EUROPEAN BRIEF ~~SECRET~~ FOR 24 AUGUST 1991. b3

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Approved for Release
Date JUN 1999

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8. CHINA: US EXPORTS LOSING SHARE

9. IN BRIEF

1. USSR: SITUATION REPORT

YEL'TSIN SHOWED HIS DOMINANCE YESTERDAY BY CONTROLLING APPOINTMENTS TO THE SECURITY MINISTRIES AND BY PUSHING GORBACHEV TOWARD A THOROUGH HOUSECLEANING.

YEL'TSIN ON TOP

GORBACHEV YESTERDAY APPEARED TO BE ACCEDING TO YEL'TSIN'S PREDOMINANT ROLE. WHEN GORBACHEV ADDRESSED THE RUSSIAN LEGISLATURE, AFTER MEETINGS WITH YEL'TSIN AND THEN WITH THE RUSSIAN PRESIDENT AND EIGHT OTHER REPUBLIC LEADERS, YEL'TSIN CLEARLY RAN THE SHOW. HE CONTROLLED THE AGENDA AND GAVE GORBACHEV STAGE DIRECTIONS. RUSSIAN DEPUTIES ALTERNATELY APPLAUDED AND BADGERED THE SOVIET PRESIDENT FROM THE FLOOR. GORBACHEV PLEDGED TO ISSUE A DECREE APPROVING ALL THE DECREES YEL'TSIN ISSUED DURING THE CRISIS. IN ADDITION, HE ANNOUNCED AN AGREEMENT WITH YEL'TSIN THAT IN CASE EITHER WAS INCAPACITATED, HE WOULD BE REPLACED BY THE OTHER. GORBACHEV EXPRESSED RESERVATIONS, HOWEVER, ABOUT YEL'TSIN'S STEPS TO ROOT THE COMMUNIST PARTY OUT OF RUSSIAN INSTITUTIONS AND SAID THAT THERE SHOULD NOT BE A WITCH HUNT.

YEL'TSIN IS THE MAIN POLITICAL FORCE SHAPING POLICY IN THE USSR. GORBACHEV HAS ACCEPTED BOTH A COALITION GOVERNMENT THAT EVENTUALLY MAY INVOLVE A JOINT CENTER-REPUBLIC EXECUTIVE BODY AND PERSONNEL CHANGES THAT PUT REFORMERS IN CHARGE OF THE CENTER'S KEY INSTITUTIONS, CONCESSIONS THAT SUGGEST HE REALIZES HE CAN RETAIN A ROLE ONLY BY COOPERATING WITH YEL'TSIN IN TRANSFERRING POWER TO THE REPUBLICS AND BY IMPLEMENTING MAJOR REFORMS. IN COMING DAYS, HOWEVER, THERE WILL BE PRESSURE FOR MUCH GREATER TRANSFORMATIONS, INCLUDING REPUBLIC DEMANDS FOR GREATER POWERS UNDER THE UNION TREATY AND FOR THE REMOVAL OF THE COMMUNIST PARTY FROM STATE, SECURITY, AND ECONOMIC STRUCTURES NATIONWIDE. GORBACHEV'S RELUCTANCE TO HELP HASTEN THE PARTY'S DECLINE SHOWS THAT HE DOES NOT YET FULLY UNDERSTAND THE PUBLIC'S DEMANDS OR THE INEVITABILITY OF DRAMATIC CHANGES.

PERSONNEL CHANGES

GORBACHEV SAID YESTERDAY THE ENTIRE CABINET OF MINISTERS WOULD HAVE TO RESIGN. HE SAID HE HAD DISCUSSED NEW APPOINTMENTS WITH YEL'TSIN, AND THE TWO ALREADY HAD AGREED ON NEW LEADERS FOR THE MINISTRY OF DEFENSE, THE KGB, AND THE MVD. OTHER ANNOUNCED CHANGES INCLUDE THE DISMISSAL OF FOREIGN MINISTER ALEKSANDR BESSMERTNYKH AND USSR SUPREME SOVIET CHAIRMAN ANATOLIY LUK'YANOV AND THE APPOINTMENT OF ARMY GEN. VLADIMIR LOBOV AS CHIEF OF THE GENERAL STAFF.

THE ANNOUNCEMENTS YESTERDAY ARE ONLY THE TIP OF THE ICEBERG. SOME MINISTRIES MAY BE ELIMINATED AS THEIR FUNCTIONS TRANSFER TO THE REPUBLICS, AND THE REMAINING ONES FACE FURTHER PURGING. THE APPOINTMENT OF A NEW PRIME MINISTER WILL BE CRITICAL. IN RESPONSE TO QUESTIONING AT THE RUSSIAN PARLIAMENT YESTERDAY GORBACHEV SEEMED TO AGREE THAT THE POST SHOULD GO TO A REPRESENTATIVE OF RUSSIA, BUT THE FAILURE OF GORBACHEV AND REPUBLIC LEADERS TO AGREE ON A CANDIDATE SUGGESTS IT REMAINS CONTROVERSIAL.

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YEL'TSIN YESTERDAY TEMPORARILY SUSPENDED THE PUBLICATION OF SIX HARDLINER NEWSPAPERS, INCLUDING PRAVDA, AND FIRED THE GENERAL DIRECTOR OF TASS AND THE HEAD OF THE NOVOSTI NEWS AGENCY. TASS JOURNALISTS MET AND PROMISED TO REFORM THE AGENCY AND BECOME A TRULY INDEPENDENT PRESS. THE ACTING CENTRAL MEDIA CHIEF YESTERDAY HALTED THE ACTIVITIES OF ALL POLITICAL PARTIES IN THE OFFICIAL SOVIET BROADCASTING COMPANY.

THE PUBLIC HAS BECOME SO DISGUSTED WITH THESE HARDLINE NEWSPAPERS THAT THEY PROBABLY FACE IMMINENT BANKRUPTCY IN ANY CASE.

YEL'TSIN GRABS FOR CONTROL OF RUSSIAN ECONOMY

YEL'TSIN HAS MOVED QUICKLY TO FURTHER WEAKEN CENTRAL CONTROL OVER RUSSIA'S ECONOMY, ISSUING DECREES THAT CALL FOR THE TRANSFER OF MOST UNION PROPERTY AND ENTERPRISES TO REPUBLIC JURISDICTION BY YEAREND. THE DECREES ALSO CALL FOR RUSSIAN JURISDICTION OVER THE ALL-UNION SUPPLY ORGANIZATION, WHICH STILL CONTROLS MOST WHOLESALE DISTRIBUTION, THE CREATION OF A RUSSIAN GOLD RESERVE AND DIAMOND AND HARD CURRENCY FUNDS, AND SETS UP A CUSTOMS SERVICE. YEL'TSIN ALSO HAS ISSUED A DECREE THAT EMPOWERS HIM TO APPOINT AND DISMISS MINISTERS AND ADMINISTRATIVE HEADS THROUGHOUT THE REPUBLIC AND THAT SPECIFICALLY DISMISSES EIGHT EXECUTIVE COMMITTEE CHAIRMEN FOR THE REGIONS OF NIZHNI NOVGOROD, RYAZAN, TAMBOV, TULA, ULYANOVSK, LIPETSK, AMUR, AND VLADIMIR.

YEL'TSIN IS TAKING ADVANTAGE OF THE POSTCOUP POWER VACUUM TO GRAB AUTHORITY HE HAS BEEN SEEKING IN UNION TREATY NEGOTIATIONS. IN STRENGTHENING EXECUTIVE POWER, YEL'TSIN HOPES TO SPEED IMPLEMENTATION OF POLITICAL AND ECONOMIC REFORMS THAT HAVE BEEN BLOCKED BY LOCALLY ELECTED COUNCILS DOMINATED BY HARDLINERS. ALTHOUGH YEL'TSIN PROBABLY BELIEVES THAT IMMEDIATE STRUCTURAL CHANGES ARE NEEDED TO ENSURE COMPLIANCE WITH ECONOMIC DIRECTIVES, THIS NEW STRUCTURE COULD CRUSH FRAGILE, EMERGING MARKETS AND STIFLE ECONOMIC REFORMS.

AZERBAIJAN POWDER KEG

AT LEAST 50 DEMONSTRATORS PROTESTING THE AZERBAIJAN LEADERSHIP'S PROCOUP POSITION WERE ARRESTED BY REPUBLIC INTERIOR MINISTRY (MVD) TROOPS IN BAKU YESTERDAY. AND SEVERAL WERE INJURED. THE HEADQUARTERS BUILDING OF THE PROINDEPENDENCE AZERI PEOPLE'S FRONT WAS OCCUPIED BY FORCES LOYAL TO THE REPUBLIC'S COMMUNIST REGIME.

AZERI NATIONALISTS PROBABLY WILL UNSEAT MUTALIBOV AND THE CENTRALLY INSTALLED COMMUNIST LEADERSHIP. EVEN IF MEMBERS OF THE REGIME REMOVE HIM AND TRY TO PORTRAY THEMSELVES AS REFORM COMMUNISTS, THEY PROBABLY WILL BE FORCED TO GIVE WAY TO NATIONALISTS WHO ARE COMMITTED TO GREATER SOVEREIGNTY. IF MUTALIBOV TRIES TO HANG ON THROUGH REPRESSIVE MEASURES, THE CENTER WILL NO LONGER ASSIST HIM; HIS OWN SECURITY SERVICES, SO EFFECTIVE AGAINST ARMENIANS, MAY BE LESS WILLING TO ATTACK FELLOW AZERIS.

SHAKEUP IN FOREIGN RELATIONS

PRESIDENT GORBACHEV SAID YESTERDAY HE HAD FIRED FOREIGN MINISTER BESSMERTNYKH FOR HIS FAILURE TO OPPOSE THE COUP. BESSMERTNYKH CLAIMED HE HAD DECLINED THE EMERGENCY COMMITTEE'S

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INVITATION TO JOIN, ADDING THAT FORMER KGB CHIEF KRYUCHKOV HAD
WANTED A "LIBERAL" ON THE COMMITTEE.

GROWING CRITICISM OF THE EXTENT TO WHICH SENIOR
FOREIGN MINISTRY OFFICIALS SUPPORTED THE EMERGENCY COMMITTEE OR
REMAINED PASSIVE SUGGESTS THEY FACE AN EXTENSIVE PURGE. A SHAKEUP OF
THE MINISTRY COULD RID IT OF A NUMBER OF OFFICIALS, INCLUDING
ROGACHEV AND POSSIBLY FIRST DEPUTY FOREIGN MINISTER KVITSINSKIY, WHO
HAVE WIELDED SIGNIFICANT INFLUENCE OVER SOVIET POLICY IN KEY
REGIONS. THE FOREIGN ECONOMICS MINISTRY FACES A SIMILAR SHAKEUP.

BOX

USSR: RISING TIDE OF ANTI-COMMUNISM OUTSIDE RUSSIA

LATVIA: PARTY BANNED, HEADQUARTERS SEIZED, BANK ACCOUNTS FROZEN
LEADER ALFRED RUBIKS ARRESTED . . . PARTY MEMBERS
SUPPORTING COUP BEING FIRED.

LITHUANIA: PREVIOUS BAN ON PARTY MADE MORE SPECIFIC . . . VILNIUS
HEADQUARTERS SEIZED, PARTY LEADERS FLEE REPUBLIC . . . PARLIAMENT

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AUTHORIZES SEIZURE OF OTHER PARTY PROPERTY, DEMANDS PARTY HAND OVER FILES . . . LENIN STATUE IN VILNIUS DISMANTLED

ESTONIA: PARTY BANNED FROM WORKPLACES . . . LENIN STATUE TOPPLED.

UKRAINE: PARTY HEADQUARTERS IN LVOV, IN WESTERN UKRAINE, BLOCKADED BY CROWDS . . . OTHER PARTY BUILDINGS IN REGION CLOSED . . . SOME RUKH NATIONALISTS DEMAND BAN OF PARTY AND NATIONALIZATION OF ASSETS, APPEAL FOR ANTI-COMMUNIST RALLY TO REINFORCE DEMANDS BEFORE EMERGENCY SESSION OF PARLIAMENT TODAY.

MOLDOVA: PRESIDENT BANS PARTY FROM FACTORIES, STATE AGENCIES . . . PARTY'S FIRST SECRETARY RESIGNS FROM USSR POLITBURO . . . LARGE RALLY IN KISHINEV EARLY THIS WEEK PASSED RESOLUTION CALLING FOR PARTY TO BE OUTLAWED.

GEORGIA: PRESIDENT GAMSAKHURDIYA ECHOES CALLS BY OTHERS IN REPUBLIC TO PROSECUTE PARTY MEMBERS WHO SUPPORTED COUP, NATIONALIZE PARTY PROPERTY.

KAZAKHSTAN: POLITICAL PARTIES BANNED FROM LAW-ENFORCEMENT, SECURITY AGENCIES . . . PAID PARTY MEMBERS PROHIBITED FROM GOVERNMENT JOBS . . . KAZAKH PARTY TO LEAVE CPSU.

KYRGYZSTAN: CENTRAL COMMITTEE BUILDINGS, LENIN MUSEUM NATIONALIZED . . . LEADER OF KYRGYZ PARTY PROHIBITED FROM PRESIDENTIAL CABINET . . . GROUP OF KYRGYZ PARTY MEMBERS DEMANDING RESIGNATION OF PARTY'S TOP LEADERS.

TAJIKISTAN: BANS PARTIES AT MVD, JUSTICE MINISTRY . . . ALLOWS GOVERNMENT WORKERS TO CONTINUE POLITICAL WORK AFTER HOURS, OUTSIDE OF WORK.

ARMENIA: PARTY PROPERTY NATIONALIZED LAST APRIL

BELORUSSIA, AZERBAIJAN, TURKMENISTAN, UZBEKISTAN: NO ACTION REPORTED AGAINST PARTY.

BOX

COMMUNIST PARTY TOTTERING ACROSS USSR

AFTER SEALING COMMUNIST PARTY CENTRAL COMMITTEE HEADQUARTERS, POLICE SEIZED THE HEADQUARTERS OF THE MOSCOW PARTY ORGANIZATION AND IMPOUNDED DOCUMENTS, WHICH WILL BE SCRUTINIZED FOR EVIDENCE OF PARTY COMPLICITY IN THE COUP ATTEMPT. THE LEADERS OF THE KAZAKH, UZBEK, AND MOLDOVAN COMMUNIST PARTIES QUIT THE UNION PARTY POLITBURO YESTERDAY, AND POLITBURO MEMBERS ALFRED RUBIKS, YURIY PROKOFYEV, AND OLEG SHENIN WERE ARRESTED. THE MILITARY, THE KGB, AND OTHER KEY NATIONAL ORGANIZATIONS OFFICIALLY DISBANDED THEIR PARTY CELLS, WHILE PRAVDA SEVERED TIES WITH THE PARTY LEADERSHIP. NEW DEFENSE MINISTER SHAPOSHNIKOV HAS ANNOUNCED HIS IMMEDIATE RESIGNATION FROM THE PARTY AND HAS ORDERED THE GENERAL STAFF TO ABOLISH ALL POLITICAL ORGANS IN THE MILITARY. WITH GORBACHEV LOOKING ON, YEL'TSIN SIGNED A DECREE SUSPENDING ALL COMMUNIST PARTY ACTIVITY THROUGHOUT RUSSIA PENDING AN INVESTIGATION OF THE COUP. IN AN EFFORT TO SHORE UP THE SITUATION, PARTY LEADERS ISSUED DISCLAIMERS OF UNION PARTY INVOLVEMENT IN THE COUP, AND GORBACHEV WARNED THE RUSSIAN LEGISLATURE AGAINST FOMENTING ANTI-COMMUNIST HYSTERIA.

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THE PARTY IS NOW WITHOUT A NEWSPAPER, ITS HEADQUARTERS HAS BEEN SEIZED, IT IS WITHOUT FUNDS, AND THE GENERAL POPULACE HATES IT. AN INVESTIGATION IS CERTAIN TO REVEAL SIGNIFICANT PARTY COMPLICITY IN THE COUP ATTEMPT, WHICH WILL LEAD TO THE ARRESTS OF MORE PARTY FIGURES AND ACCELERATE ITS DECLINE. FURTHER PARTY DEFECTIONS AND PROTESTS ARE LIKELY THROUGHOUT THE COUNTRY. DEFECTIONS WILL HIT THE HARDEST IN THE PROVINCES, THE LAST REMAINING BASTION OF PARTY INFLUENCE. THESE DEVELOPMENTS WILL FORCE GORBACHEV TO RENOUNCE THE PARTY OR RISK CEDING MUCH OF HIS REMAINING LEGITIMACY TO YEL'TSIN AND OTHERS. [REDACTED]

2. USSR: REPUBLICS' INDEPENDENCE DRIVES ACCELERATE [REDACTED]

ESTONIA, LATVIA, LITHUANIA, AND GEORGIA, EMBOLDENED BY THE COLLAPSE OF CENTRAL AUTHORITY, ARE LIKELY TO PUSH FOR IMMEDIATE INDEPENDENCE; ARMENIA AND MOLDOVA WILL PROCEED MORE SLOWLY. [REDACTED]

THE BALTIC REPUBLICS HAVE MOVED WITH PARTICULAR SPEED AGAINST THE REMAINING VESTIGES OF CENTRAL CONTROL; THE LATVIANS AND LITHUANIANS HAVE TAKEN CONTROL OF THEIR REPUBLICS' COMMUNIST PARTY HEADQUARTERS. THE ESTONIANS ARE ASSERTING THEIR AUTHORITY OVER MAJOR CENTER-CONTROLLED ENTERPRISES AND HAVE DEMANDED THAT ALL KGB PERSONNEL BE WITHDRAWN FROM THE REPUBLIC, ACCORDING TO PRESS REPORTS. MEANWHILE, MOLDOVAN PRESIDENT SNEGUR TOLD A RALLY EARLIER THIS WEEK THAT HE WAS CONSIDERING DISCUSSION OF MOLDOVAN INDEPENDENCE AT THE NEXT LEGISLATIVE SESSION. ARMENIA IS PLANNING TO GO AHEAD WITH ITS 21 SEPTEMBER INDEPENDENCE REFERENDUM, BUT PRESIDENT TER-PETROSYAN SAID THIS WEEK THAT REPUBLIC OFFICIALS MAY RETHINK CERTAIN ASPECTS OF THEIR INDEPENDENCE STRATEGY, PERHAPS WITH AN EYE TO SHORTENING THE SECESSION PROCESS. [REDACTED]

[REDACTED] THE DRAMATIC SHIFT IN POWER AT THE CENTER AND THE ASCENDANCY OF YEL'TSIN, WHO HAS PROVED SYMPATHETIC TO REPUBLIC INDEPENDENCE MOVEMENTS, OFFER THE BREAKAWAY REPUBLICS THE OPPORTUNITY TO LEAVE THE UNION MORE QUICKLY ON MORE FAVORABLE TERMS THAN WOULD HAVE BEEN POSSIBLE. RUSSIA WILL BE THE CRITICAL PLAYER, EITHER BY ACTING AS AN INTERMEDIARY IN INDEPENDENCE NEGOTIATIONS WITH THE CENTER OR BY PUSHING FOR A UNION TREATY THAT GREATLY EASES THE TERMS OF SECESSION. WITH CHANGEOVERS AT THE INTERIOR AND DEFENSE MINISTRIES AND THE KGB, THE CENTER WILL BE MUCH LESS ABLE TO SUPPRESS REPUBLIC INDEPENDENCE MOVEMENTS, AND HARASSMENT OF THE BALTIC REPUBLICS IS LIKELY TO END. [REDACTED]

IF GRANTED INDEPENDENCE, THE BALTIC REPUBLICS COULD FUNCTION AS INDEPENDENT STATES WITHIN A FEW MONTHS, ALTHOUGH FINALIZING ARRANGEMENTS ON SUCH ISSUES AS SOVIET TROOP STATIONING WILL TAKE LONGER. GEORGIA PROBABLY WILL ALSO CLAIM INDEPENDENCE AS SOON AS THE CENTER ALLOWS IT. TERRITORIAL DISPUTES AND DETERIORATING ECONOMIES, HOWEVER, MAY LEAD ARMENIA AND MOLDOVA TO HESITATE, HOPING THAT YEL'TSIN WILL USE HIS INCREASED POWER TO ACHIEVE A UNION TREATY THAT CREATES THE MUCH LOOSER CONFEDERATION THEY MIGHT PREFER. [REDACTED]

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4. YUGOSLAVIA: SITUATION REPORT

CROATIA IS THREATENING TO BROADEN ITS CONFLICT WITH SERBIA, AND
SERBIAN LEADER MILOSEVIC IS TIGHTENING HIS POLITICAL GRIP AT HOME.

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TUDJMAN ISSUES ULTIMATUM

CROATIAN PRESIDENT TUDJMAN ON THURSDAY ISSUED AN ULTIMATUM TO THE COLLECTIVE PRESIDENCY THREATENING TO TAKE "ALL NECESSARY STEPS" TO DEFEND HIS REPUBLIC UNLESS MILITARY OPERATIONS AGAINST IT END BY 31 AUGUST. FIGHTING BETWEEN CROAT AND SERB FORCES CONTINUED YESTERDAY IN THE SLAVONIAN REGION OF CROATIA AND SOUTH OF ZAGREB.

TUDJMAN DOES NOT COMMAND THE MILITARY STRENGTH TO ENFORCE ANY ULTIMATUM AGAINST THE SERBS OR THE ARMY, BUT HIS DESPERATION MAY LEAD HIM TO APPROVE ATTACKS THAT WOULD BROADEN THE CONFLICT. ARMY AND SERB FORCES ALMOST CERTAINLY WOULD RETALIATE FORCEFULLY AND MAY MOVE TO CONSOLIDATE THEIR GAINS IN CROATIA BEFORE TUDJMAN'S DEADLINE.

MLOSEVIC TIGHTENS HOLD

BATTLEFIELD SUCCESS PROBABLY HAS EMBOLDENED MLOSEVIC TO RETRACT CONCESSIONS HE WAS COMPELLED TO GRANT TO THE SERB MEDIA AFTER DEMONSTRATIONS LAST MARCH IN BELGRADE.

AUSTRIAN EXPORT GUARANTEES TO SLOVENIA

VIENNA NEXT MONTH WILL EXTEND EXPORT GUARANTEES TO SLOVENIA, AS GERMANY DID TWO WEEKS AGO.

VIENNA AND BONN ALSO MAY RENEW EFFORTS TO GAIN EUROPEAN CONSENSUS FOR RECOGNIZING SLOVENIA AND POSSIBLY CROATIA, PARTICULARLY IF THE BALTIC REPUBLICS NOW MOVE QUICKLY TOWARD INDEPENDENCE AND WIN INTERNATIONAL RECOGNITION.

5. CAMBODIA: PEACE TALKS RESUME NEXT WEEK

THE MEETING OF CAMBODIA'S SUPREME NATIONAL COUNCIL NEXT WEEK IN THAILAND APPEARS LIKELY TO TACKLE THE TWO TOUGHEST OF THE ISSUES THAT BLOCK A SETTLEMENT.

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PRINCE SIHANOUK ON WEDNESDAY ASKED THE UN TO
DEPLOY 200 OBSERVERS PROVISIONALLY UNTIL A DECISION ON A LARGER UN
PRESENCE IS MADE. [REDACTED] b3

6. LEBANON: NEW FRICTION IN SOUTH [REDACTED]

THE ISRAELI-BACKED ARMY OF SOUTH LEBANON YESTERDAY DEMANDED
THAT RESIDENTS EVACUATE THREE SHIA VILLAGES IN AREAS CONTROLLED BY
THE LEBANESE ARMY NORTH OF THE ISRAELI SECURITY ZONE. [REDACTED]
[REDACTED] THE ASL AND LEBANESE ARMY TROOPS DEPLOYED NEARBY EXCHANGED
FIRE; BOTH FORCES ALSO CLASHED WITH ISLAMIC RESISTANCE GUERRILLAS IN
SEPARATE INCIDENTS THIS WEEK. [REDACTED]

[REDACTED] ALTHOUGH THE LEBANESE GOVERNMENT DOES NOT WANT TO RISK
ISRAELI INVOLVEMENT, IT CANNOT IGNORE THE ASL'S PROVOCATION FOR FEAR
THAT ITS OWN EFFORTS TO REGAIN CREDIBILITY WILL SUFFER. INACTION
AGAINST THE ASL WOULD INCREASE MUSLIM COMPLAINTS, ESPECIALLY SINCE
THE ARMY BEGAN DOOR-TO-DOOR SEARCHES FOR WEAPONS LAST THURSDAY IN
AREAS INCLUDING THE PALESTINIAN CAMPS. BEIRUT ALMOST CERTAINLY WILL
TRY TO USE DIPLOMATIC CONTACTS TO CALM THE SITUATION BUT WILL NOT
HESITATE TO RESPOND MILITARILY TO FURTHER ASL AFFRONT. THE LEBANESE
GOVERNMENT HOPES TO BEGIN SHUTTING DOWN HIZBALLAH FACILITIES THIS
FALL BUT PROBABLY WILL NEED A FORMAL GO-AHEAD FROM SYRIA. [REDACTED]

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7. FRANCE: MITTERRAND UNDER FIRE

PRESIDENT MITTERRAND IS BEING HEAVILY CRITICIZED FOR HIS HESITANT REACTION TO THE SOVIET COUP, AND HIS RULING SOCIALISTS COULD SUFFER IN REGIONAL ELECTIONS NEXT YEAR AS A RESULT. HE APPEARED WILLING TO ACCEPT THE COUP MONDAY BUT THEN TOUGHED HIS STANCE WEDNESDAY WHEN THE COUP UNRAVELED. THE RIGHT IS ALSO ARGUING THAT UNCERTAINTIES IN THE USSR REQUIRE THAT CUTS IN THE DEFENSE BUDGET BE RESTORED. ALTHOUGH DEFENSE MINISTER JOXE HAD TAKEN A SIMILAR POSITION BEFORE THE COUP, LEFTWING SOCIALISTS WANT MORE SOCIAL SPENDING INSTEAD.

MITTERRAND NOW APPEARS VULNERABLE ON FOREIGN POLICY, AN AREA IN WHICH HE HAS EXCELLED. DESPITE A FLURRY OF DIPLOMATIC ACTIVITY MEANT TO REGAIN THE INITIATIVE, HIS SAGGING POPULARITY COULD FURTHER DIM THE SOCIALISTS' ELECTORAL PROSPECTS IN THE COMING REGIONAL ELECTIONS AND THE LEGISLATIVE ELECTION IN 1993.

THE RIGHT'S REPEATED CRITICISM OF MITTERRAND'S PERFORMANCE AND INTERNAL SOCIALIST DIVISIONS OVER BUDGET PRIORITIES WILL DASH THE PARTY'S HOPES OF PRESENTING A FACADE OF UNITY FOR THE ELECTIONS.

8. CHINA: US EXPORTS LOSING SHARE

ALTHOUGH CHINA'S IMPORTS GREW AT NEARLY A 16-PERCENT ANNUAL RATE THROUGH JUNE, US SUPPLIERS ARE LOSING GROUND BECAUSE OF BEIJING'S IMPORT BARRIERS AND GROWING FOREIGN COMPETITION. IN THE FIRST SIX MONTHS OF THIS YEAR, CHINESE IMPORTS FROM THE US WERE ONLY 6 PERCENT MORE THAN IN THE SAME PERIOD LAST YEAR, AND CHINESE STATISTICS SHOW THE US SHARE OF CHINA'S MARKET ACTUALLY DECLINED DESPITE THE INCREASED DEMAND FOR IMPORTS. JAPANESE AND ASEAN EXPORTS INCREASED 25 TO 30 PERCENT; TAIWAN AND SOUTH KOREA MADE EVEN MORE RAPID INROADS, ALBEIT FROM SMALLER BASES.

SOME KEY US EXPORTS--CHEMICALS, TIMBER, AND PLASTICS--ARE PICKING UP BECAUSE OF CHINA'S RAPID INDUSTRIAL GROWTH. BECAUSE US SALES ARE CONCENTRATED IN A FEW PRODUCT LINES, HOWEVER, IMPORT RESTRICTIONS HAVE DISPROPORTIONATELY HAMPERED OTHER IMPORTANT US EXPORTS. SALES TO CHINA OF US POWER-GENERATING EQUIPMENT THROUGH JUNE, FOR EXAMPLE, WERE NEARLY 23 PERCENT LESS THAN IN THE SAME PERIOD LAST YEAR. THE PRICE ADVANTAGE THAT HAS HELPED US PRIMARY GOODS EXPORTS GROW SO FAR THIS YEAR, HOWEVER, COULD BE ERODED IF THE US DOLLAR CONTINUES TO STRENGTHEN. IN ADDITION, THE CONCESSIONAL FINANCING BY EUROPEAN GOVERNMENTS THAT HAS INCREASED SIGNIFICANTLY OVER THE PAST YEAR WILL CONTINUE TO GIVE EUROPEAN COMPANIES AN EDGE. BEIJING ALSO WANTS TO IMPROVE TIES TO EUROPE BEFORE EC INTEGRATION IN 1992 AND IS ANXIOUS TO COUNTER TAIWAN'S ACTIVE ECONOMIC DIPLOMACY THERE. CHINA'S PREFERENCE FOR IMPORTING COMPONENTS AND SEMIFINISHED GOODS USED IN EXPORTS WILL CONTINUE TO FAVOR SUPPLIERS FROM TAIWAN, HONG KONG, AND SOUTH KOREA. JAPANESE SUPPLIERS HAVE REVERSED A FIVE-YEAR SLIDE IN MARKET SHARE, IN PART ON THE STRENGTH OF TOKYO'S HELP TO BEIJING IN OVERCOMING ECONOMIC AND FINANCIAL SANCTIONS.

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9. IN BRIEF

EUROPE

--ALBANIA'S THREE MAIN OPPOSITION PARTIES ON THURSDAY JOINTLY
DEMANDED ACCELERATED REFORM . . . SUCH COOPERATION HAS BEEN RARE.
FAILURE OF SOVIET COUP ADDING IMPETUS . . . CONTINUED UNITY COULD
HELP ELECTION PROSPECTS NEXT YEAR.

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