



Director of
Central
Intelligence

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~~November 1986~~

Approved for Release
Date JUN 1999

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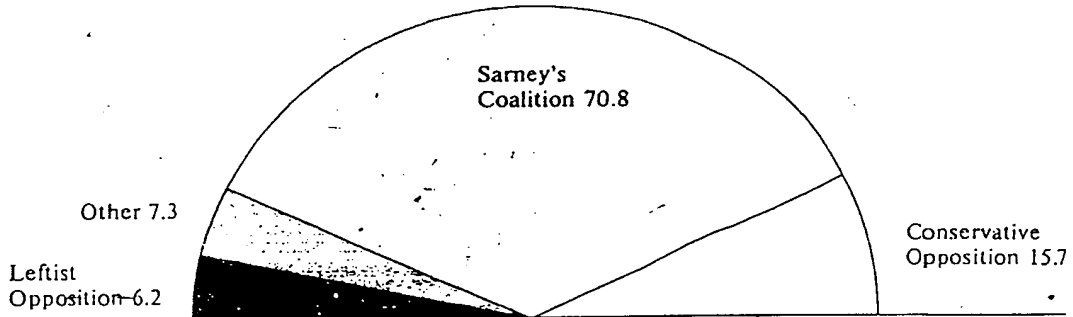
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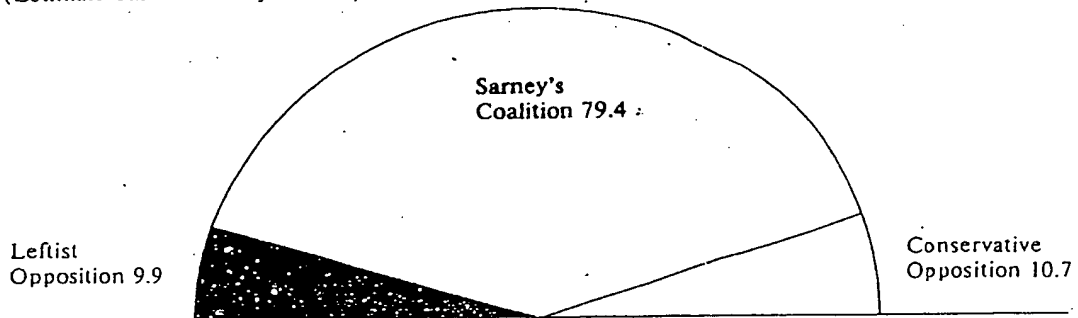
**Composition of the Brazilian Congress
(Both Houses)**

Percent

Preelection Composition



**Postelection Composition
(Estimate based on early returns)**



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BRAZIL:

Election Results

The gubernatorial and congressional elections held on Saturday provided a strong vote of confidence in President Sarney's policies, but the landslide victory by the center-left Democratic Movement Party, the senior partner in Sarney's coalition, will encourage it to challenge his control.

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In a large, orderly turnout, the majority Democratic Movement Party won 21 of 23 governorships.

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It also scored impressive victories in the key states of Sao Paulo and Rio de Janeiro, while prominent members of the Movement's left wing captured two statehouses in the populous northeast.

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Although the results of the congressional election will not be final for several weeks, tallies by Brazilian political observers indicate that the Movement probably will control both houses in the new Constituent Assembly, which will rewrite Brazil's Constitution next year. Nevertheless, the leftist opposition also appears to have made modest gains—mainly against conservative opponents—in Congress.

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The Movement's landslide win in large part resulted from Sarney's popularity, which stems from his efforts to fight inflation and promote social justice. Leaders of the Movement Party—some ideologically to the left of Sarney—are likely to demand a greater share of cabinet posts and influence in policymaking to promote liberal policies. Sarney will resist these efforts by exploiting infighting within the broad-based party and by invoking his strong influence with the voters.

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Initially, Sarney will be strengthened by the Movement's gubernatorial victories in Sao Paulo and Rio de Janeiro, which set back the presidential ambitions of Sarney's principal adversaries. Sarney, however, will increasingly have to contend with strengthened party leaders who want to shorten his term when the new constitution is drafted. Moreover, the election of well-known leftists in the Movement to several important governorships will sharpen the party's internal leadership struggle as the presidential succession nears.

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The election to Congress of more liberal members of the Movement and of other leftists is likely to complicate Sarney's efforts to influence the Constituent Assembly. Prospective alliances among leftists increase the potential for contentious legislative issues on economic policy and the role of the military.

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PHILIPPINES:

Pressure From the Left

The Communists are using labor leader Olalia's murder to regain the propaganda initiative and further divide President Aquino and Defense Minister Enrile.

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Communist cease-fire negotiators who appeared at Olalia's wake accused Enrile and the military of having Olalia murdered and implied that Aquino was morally responsible for the killing. A press statement by Olalia's radical labor federation, the KMU, said that the murder resulted from Aquino's indecisive and compromising attitude toward the military and the right. Demonstrators during the funeral tomorrow are likely to demand Enrile's dismissal.

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The general strike called on Monday by the KMU and supported by other leading Communist front groups failed to gain widespread popular support. Leaders from the government, the business community, and the Catholic Church publicly warned the left that a strike might inhibit economic recovery and that sustained mass actions might provoke violence. The local press is cautioning the left against violence but urging Aquino to act decisively to defuse tensions.

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The Communists' primary objective is to keep civil-military tensions in the government near the boiling point to provoke government instability and further delay Manila's counterinsurgency efforts. The Communists probably hope that, by organizing protests against the murder, they can improve their credibility and popular appeal and regain the tactical advantage in the cease-fire talks, which they suspended to protest Olalia's murder. The Communists almost certainly believe they can convince the public that the government is responsible if the talks fail now.

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The funeral tomorrow is likely to attract more public attention than Monday's strike. However, the Communists are unlikely to discredit themselves by encouraging violence, and the military will be on alert to counter any unrest.

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Although Aquino presumably realizes the Communists are trying to keep her off balance, she probably also suspects the military was involved in Olalia's murder. She is trying to avoid pressure from both groups by focusing on an impartial investigation of the killing and avoiding public statements that can be interpreted as leaning toward either side.

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USSR-SOUTH KOREA: Soviet Overtures

Moscow is testing South Korea's attitude toward reviving bilateral contacts.

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[Redacted] Seoul has generally taken the lead in reviving contacts since the KAL downing in 1983, but its recent ideas about expanding economic cooperation have focused on major projects with long leadtimes.

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NORWAY-SWEDEN-USSR: Proposed Nuclear-Free Zone

Nordic leaders are giving a sympathetic but cautious response to recent Soviet efforts to encourage the creation of a Nordic nuclear-weapons-free zone. Politburo member Ligachev, who visited Finland last week, pointed to Moscow's removal of some medium-range missile launchers from northwest USSR and indicated the Soviets may take additional steps. Norwegian Prime Minister Brundtland, during a state visit to Sweden, said she is skeptical that the Soviet moves have changed the regional security situation; Swedish Premier Carlsson noted that Stockholm's military experts need more time to evaluate the measures.

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 The recent reactions of Oslo and Stockholm show that Nordic enthusiasm for creating a local nuclear-weapons-free zone is still dampened by skepticism that the USSR would significantly reduce nuclear deployment in the Kola Peninsula area. Nordics believe that discussing the possibility of such a zone helps build confidence and reinforces the "Nordic balance" but that actually creating a nuclear-free zone might be risky. Momentum toward establishing such a zone, which has grown in recent years, appeared to waver in August when Nordic Foreign Ministers failed to form a regional working group to study the concept. (C NF) -CIA, DIA, NSA-

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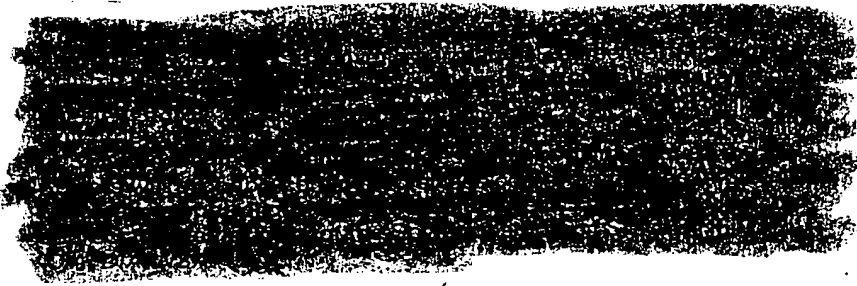
NETHERLANDS-USSR: Lubbers's Visit to Moscow

Dutch Prime Minister Lubbers and Foreign Minister van den Broek will arrive in Moscow tomorrow for two days of talks. East-West arms control after Reykjavik and bilateral trade are likely to top the agenda.

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The Soviet Ambassador to the Netherlands suggested in a highly publicized interview that the talks should focus on common positions on security issues, and he hinted at the possibility of a joint communique. Dutch media attacked the interview as a crude effort to divide the Netherlands from its allies and argued the talks should concentrate on trade issues instead.

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USSR-NICARAGUA: Official Soviet Statement

The USSR issued a statement on Monday demanding an end to US preparations for direct military action against Nicaragua. Claiming the US justifies its anti-Sandinista policy by citing an increased Soviet military presence in Nicaragua, the statement asserted that "the USSR did not and does not set up any military bases whatsoever in Nicaragua." Moscow reaffirmed its support for the Contadora peace process but also stated its readiness to assist and support Managua. Also, TASS warned that the US election results presaged increasing resistance to President Reagan's Nicaraguan policy and quoted Nicaraguan President Ortega's claim that the President plans armed intervention against Nicaragua before Congress reconvenes. Last week, *Pravda* accused the US of readying materiel deliveries, including Stinger surface-to-air missiles, for the rebels.

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Moscow has issued a statement in support of Nicaragua only once before—on the day of the US invasion of Grenada. It hopes to score propaganda points in Latin America with this statement, but the authoritative tone indicates it also is attempting to remove any pretext for US intervention in Nicaragua and to warn against increasing US military and political activities there. Current Soviet attention apparently is motivated by the increase in offensive capability that renewed Congressional funding will provide the insurgents and by the dim prospects for a Contadora peace treaty.

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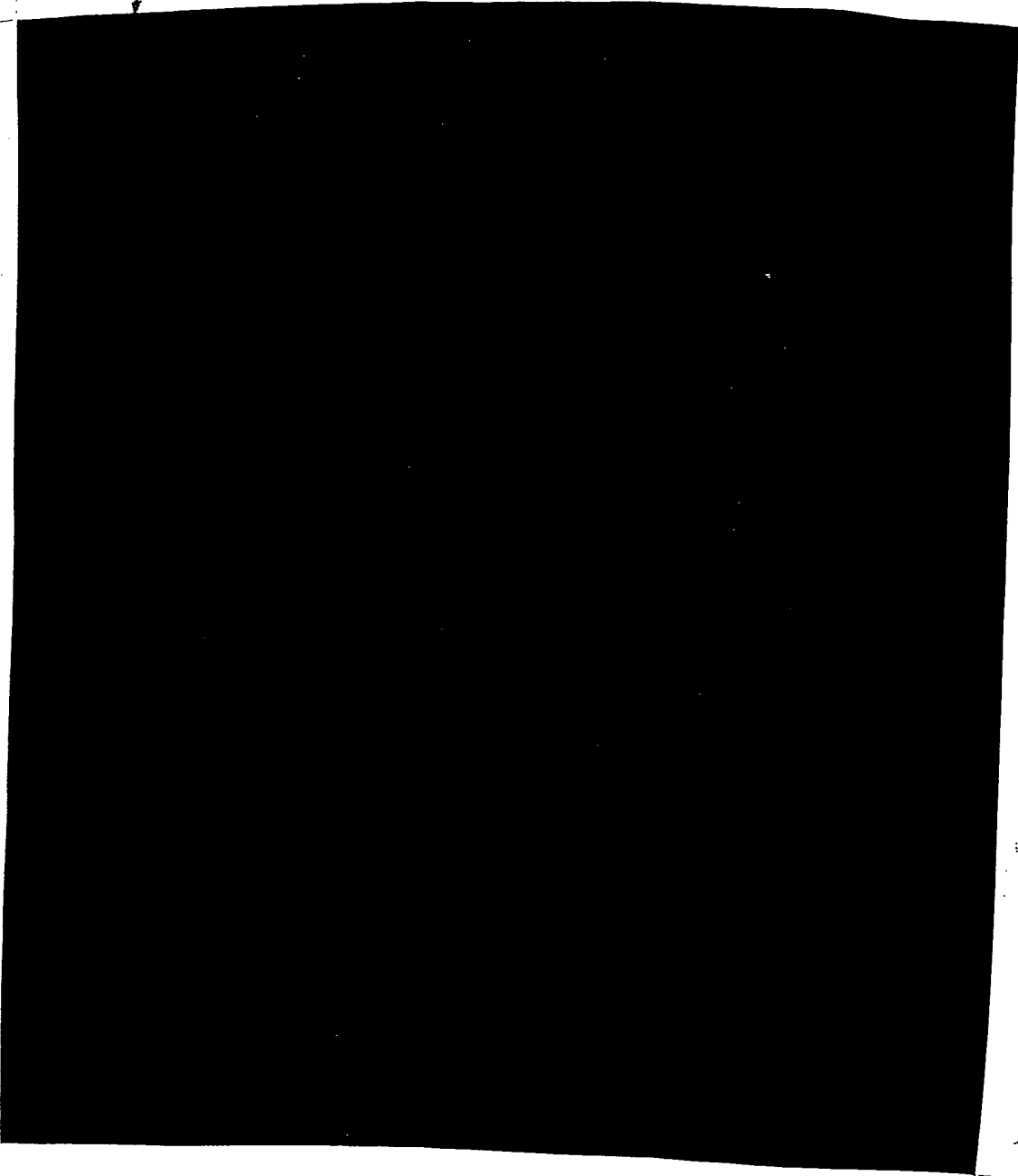
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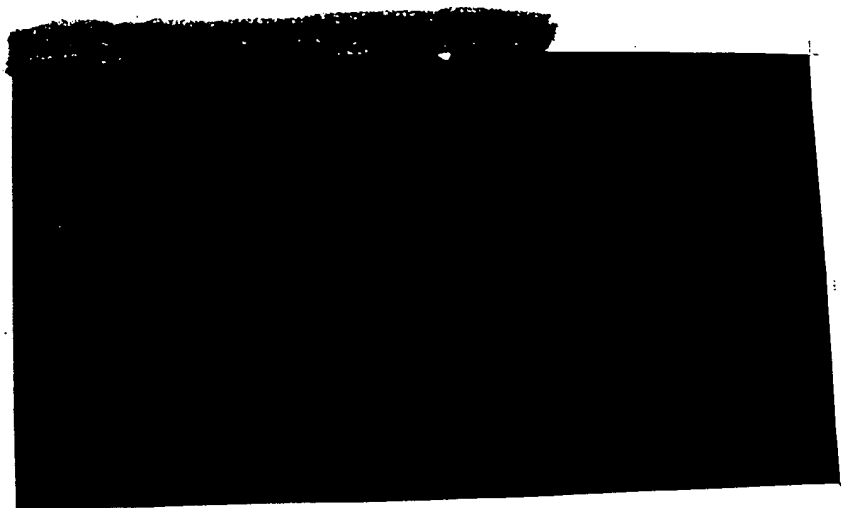
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FRANCE-IRAN: Normalizing Relations

France and Iran have signed a protocol under which Paris will pay \$330 million as the first step toward settling their longstanding financial dispute and restoring diplomatic relations, according to an announcement by the French Foreign Ministry.

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[REDACTED]

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[REDACTED] France has probably made the first payment on the financial settlement, and Foreign Minister Raimond may travel to Tehran soon to initial a comprehensive accord and restore full diplomatic relations. Paris hopes to get a few more hostages back after the first payment, and Raimond probably expects the remaining hostages to be freed as a result of full normalization.

[REDACTED]

PERSIAN GULF-IRAN: Shipping Attacks Renewed

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[REDACTED] two ships trading with Kuwait were recently set afire in attacks in the lower Persian Gulf. A small UAE-flag bulk carrier was hit on Saturday and a Liberian-flag tanker was struck on Monday. The tanker, which was hit in the engine room at night by a ship-launched missile, was surveyed by a small patrol craft with a searchlight before the attack.

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[REDACTED] Tehran has apparently resumed its attacks on Arab shipping after a hiatus of more than three weeks. Monday's strike and the seven preceding attacks by Iranian forces on shipping have been against vessels trading with Kuwait. The strike on Monday would be only the third confirmed night attack since Iran began its attacks on shipping in 1984. Iran's resort to night attacks and more lethal ship-launched missiles will deny to ship owners most of their passive tactics to avoid being struck.

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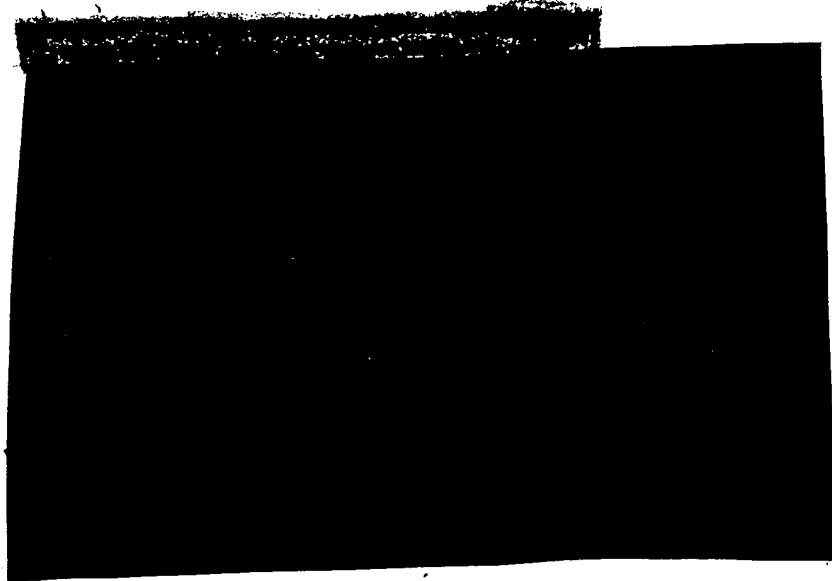
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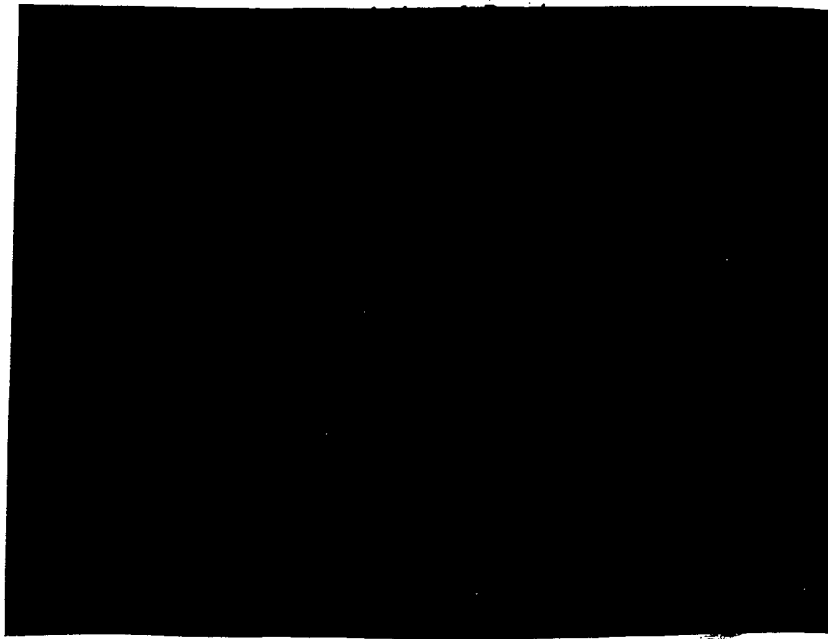
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BRAZIL: Press Leaks About Nuclear Program

A reputable newspaper in Rio de Janeiro last week revealed Army plans to build a nuclear reactor to produce plutonium. This is the latest in a series of recent press reports about the potential military use of Brazil's indigenous nuclear research program. Previous disclosures involved an alleged nuclear weapons test site and unsafeguarded uranium enrichment projects.

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Although President Sarney has avoided any public accounting of the direction, funding, and organizational control of these programs, he is probably worried that continued revelations could become a major political problem. Nuclear safety is already a contentious political issue in Rio State, the site of Brazil's only operating nuclear power plant. Moreover, leftists in the Constituent Assembly could use the nuclear issue to attack the military and curb its power under the new constitution.

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Terrorist Watch

Middle East

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Western Europe

— The French terrorist group Action Directe yesterday took credit for Monday's assassination in Paris of Renault's president, apparently in retaliation for recent layoffs the company had made. This was the group's first murder since it killed General Audran in January 1985, although it tried to kill the president of France's Employers' Association last April. Action Directe had kept a low profile since Paris tightened security following a series of Middle East-sponsored bombings in Paris in September, but early this month it returned to action, setting off five small bombs. The group is likely to continue attacking its traditional targets in order to challenge recent government claims of successes against terrorism. [REDACTED]

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Latin America

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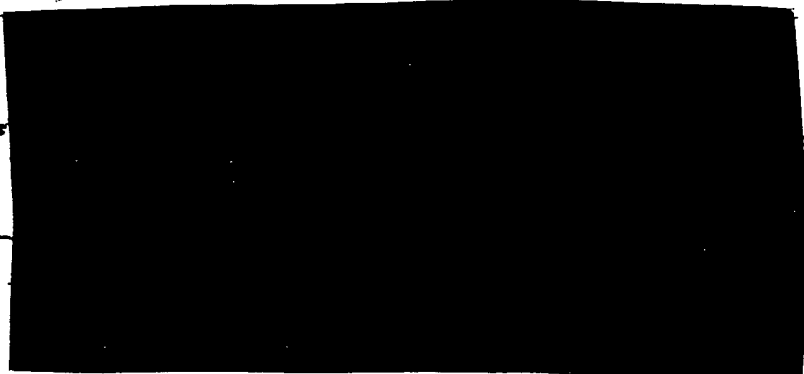
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In Brief

USSR

Middle East



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— Saudi economic delegation visiting China. . . . meeting with senior officials to discuss closer trade ties . . . will encourage movement toward normalization of relations. . . .

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East Asia



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— Hong Kong imposing limited economic sanctions against South Africa . . . exempting coal . . . Hong Kong bought 5 percent of South Africa's coal exports in 1985, worth \$90 million . . . Pretoria supplies 40 percent of territory's needs. . . .

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Europe

— Violence in New Caledonia likely to increase strains in French powersharing . . . Chirac government blaming proindependence groups . . . Mitterrand may cite violence as evidence that Chirac's anti-independence policies unfair, ineffective. . . .

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Americas

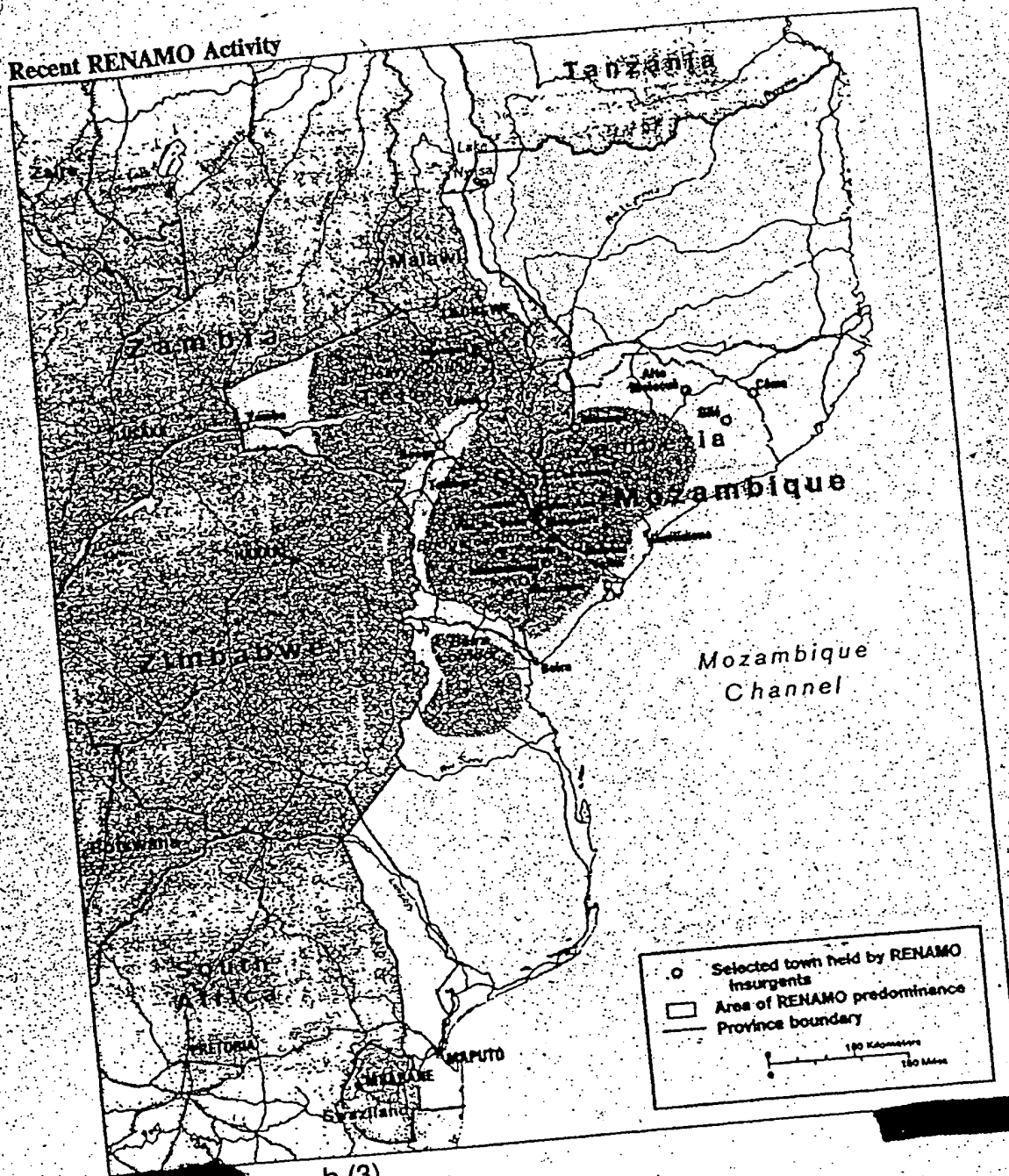


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Special Analysis

MOZAMBIQUE:

Coping With the Insurgency

In the past two months, the 15,000 insurgents of the Mozambican National Resistance, backed by South Africa, have made unprecedented gains in central Mozambique and have publicly threatened to intensify their attacks in the south and along the economically vital Beira transportation corridor. Although President Chissano's new regime probably will be able to blunt RENAMO's offensive, it cannot win a decisive military victory without massive external assistance and ultimately may have to seek a negotiated settlement with the rebels.

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RENAMO has been waging an increasingly effective fight against the Mozambican Government since shortly after independence in 1975. First with Rhodesian and later South African assistance, the rebels have launched intermittent, small-scale attacks that have tied down government forces, disrupted transport, and taken a heavy toll on the economy and the civilian population.

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Recent Rebel Gains

The insurgents initiated a successful offensive in central Mozambique in September, capturing a number of strategic towns in Tete and Zambezia Provinces along the border with Malawi. As a result, more than 70,000 Mozambican civilians and hundreds of government soldiers have crossed into Malawi seeking food and safehaven.

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Recent RENAMO gains have been particularly disturbing to Chissano and other Mozambican leaders. Rebel attacks have been larger and better coordinated than in the past, and RENAMO has maintained control over captured towns for longer periods than before. The rebel successes came at the end of the dry season when government forces traditionally have had the advantage.

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South Africa appears to have increased its logistic and intelligence support to the conservative, pro-Western insurgents, although Pretoria publicly denies that it provides such assistance. South Africa almost certainly views the aid as a means of retaliating for Maputo's allowing the ANC to maintain a presence in Mozambique. In addition, the South Africans have an interest in seeing Mozambican transportation routes disrupted because they serve as an alternative to South African routes that keep Zimbabwe, Zambia, and other black African states dependent on Pretoria.

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Prospects

In the next several months, the rebels' primary aim probably will be to consolidate their hold over newly won territory in central Mozambique. In addition, they may try to capture the coastal town of Quelimane, which would allow them to receive South African logistic support by sea and would virtually partition the country. They also may try to intensify attacks in the Beira corridor, where some 4,000 Zimbabwean troops stand guard, and in the south, which is a government stronghold defended by Maputo's best troops. [REDACTED]

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The new government will probably take a hard line at first toward the rebels and pursue a military solution. Government troops are likely to counterattack in central Mozambique and recapture several towns. Chissano presumably will continue his predecessor's policy of trying to reorganize, retrain, and reequip the demoralized and war-weary Army. He is also likely to keep international attention focused on the rebels' links to South Africa and to appeal for more military assistance from Zimbabwe and other Frontline States. [REDACTED]

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The war will remain in a stalemate for the near term. Only a major increase in South African assistance to RENAMO or massive outside assistance to government forces would significantly alter the situation. Over the next year, Chissano may follow late President Machel's precedent and quietly explore a negotiated settlement with the rebels. Until Chissano has had time to consolidate his power in Maputo and the current rebel offensive has run its course, however, both the government and RENAMO probably will be reluctant to enter into serious talks. [REDACTED]

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Special Analysis

IRAN:

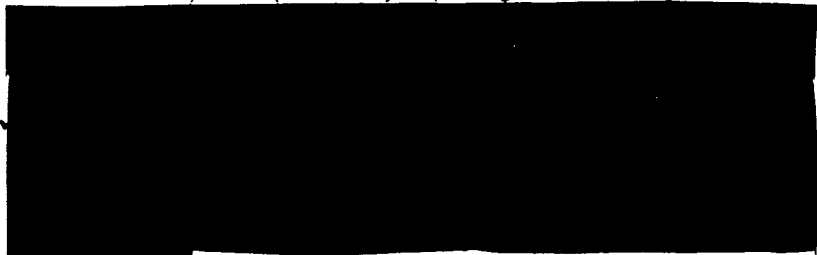
Economy Hurting Regime

Serious shortages of necessities, caused in part by Iraqi air attacks, are fomenting unrest among key lower-class supporters of the Iranian regime. The economic situation is contributing to political maneuvering among opposing clerical factions.

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Over the past several months, Iraqi attacks and lower oil prices have seriously increased inflation, unemployment, and shortages of goods in Iran. Tehran has responded by imposing strict austerity measures.

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unemployment, already a third of the labor force, will rise further: 6,000 steelworkers in Esfahan are to be laid off or retired early.

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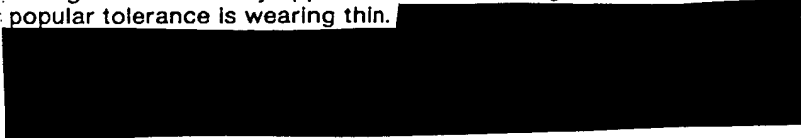
There have been demonstrations and open grumbling throughout the country in response to these deteriorating conditions.

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Disregard for authority appears to be increasing, an indication that popular tolerance is wearing thin.



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Political Maneuvering and Military Strategy

Economic problems and popular unrest are aggravating the infighting among the ruling clerics. [REDACTED] tridently criticized the management of the economy. Radicals have been using the shortages as an excuse to crack down on bazaar merchants, who generally support conservative politicians. [REDACTED]

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By jeopardizing support for the regime, economic difficulties have intensified pressure on Tehran to show progress in the war. The government has tried to justify the huge mobilization of the past several months in part by reminding the populace that sacrifices are necessary for victory. [REDACTED]

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[REDACTED] Nonetheless, Iran's limited ability to defend itself against future Iraqi air attacks or to retaliate effectively makes it harder for the regime to put off taking action on the ground. [REDACTED]

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Outlook

Shortages, inflation, and unemployment will all grow worse in the months ahead. Iraq appears determined to keep attacking oil facilities, especially refineries. Effective strikes would cause current shortages of heating fuel to become severe this winter. Even if Iranian oil exports recover, relatively low world crude prices will continue to make it difficult for Tehran to sustain the war at current levels and to keep the economy afloat. [REDACTED]

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Antiregime sentiment among the lower classes—the backbone of the government's support—might increase in response to the economic deterioration. Although a major military victory would buy Tehran time, domestic pressure to solve the country's economic problems will continue to build. If economic privations are combined with a major defeat, the regime would have to reconsider its aggressive military policy and devote more of its resources to shoring up domestic support. [REDACTED]

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