

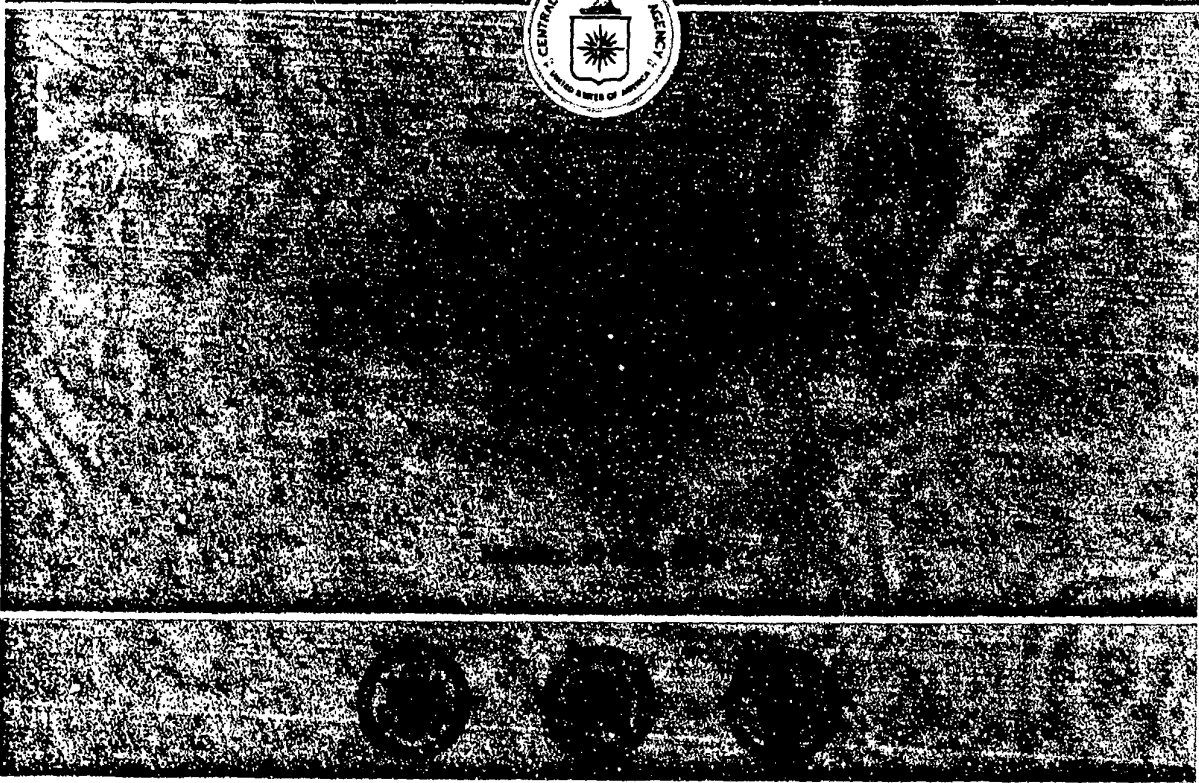
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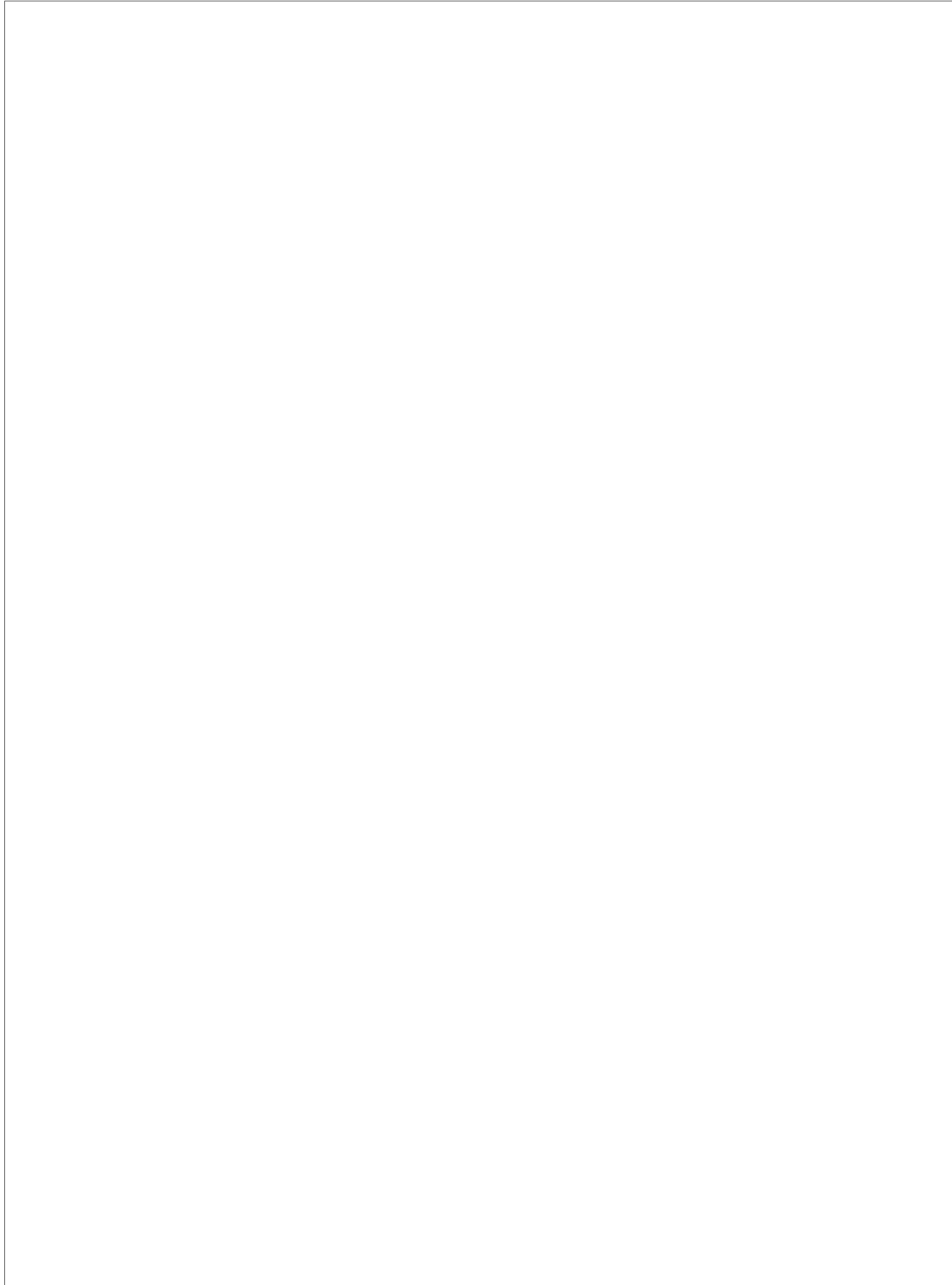
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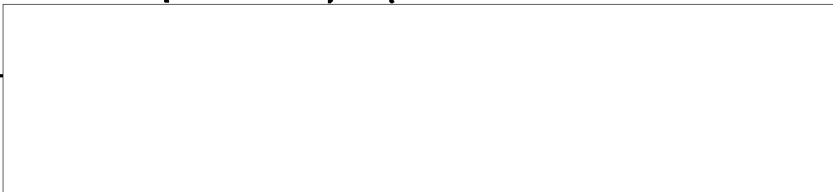


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POLAND:

Split in Solidarity Deepens

Accusing Lech Walesa of undermining the government and behaving like a despot, 63 of the union leader's senior advisers and longtime allies resigned yesterday from the Solidarity-linked Citizen's Committee.

The resignations of Bronislaw Geremek—leader of the Solidarity faction in parliament—Labor Minister Jacek Kuron, and such other Solidarity luminaries as Adam Michnik, Wladyslaw Frasyniuk, and Henryk Wujec end a decadelong alliance between workers and intellectuals and split the movement into two camps—those who support Walesa and those who back Prime Minister Mazowiecki. The resignations came after Walesa refused to replace the Committee with a new movement supporting Mazowiecki and his ambitious economic reform program.

Walesa wants to use the 200-member Citizen's Committee and the Center Accord, a group recently formed by his principal advisers, to promote his presidential bid. The Center on Saturday endorsed not only Walesa's early accession to the presidency but also his proposed radical personnel changes in the Mazowiecki government and an accelerated date for parliamentary elections. The group has demanded an easing of the government's austerity program. Walesa persuaded the Committee to postpone a decision on its dissolution for one month, leaving the door open for compromise. Some Solidarity regional groups issued statements over the weekend supporting Walesa, but others sought to avoid any appearance of taking sides.

Comment: The split between Walesa and his former close associates adds new divisiveness to an already contentious political scene, with Walesa and his supporters moving solidly into an opposition role. The government's ability to maintain support for its harsh economic reform program will be seriously weakened—particularly if strikes develop and Walesa supports the strikers instead of the government, as he has done until now.

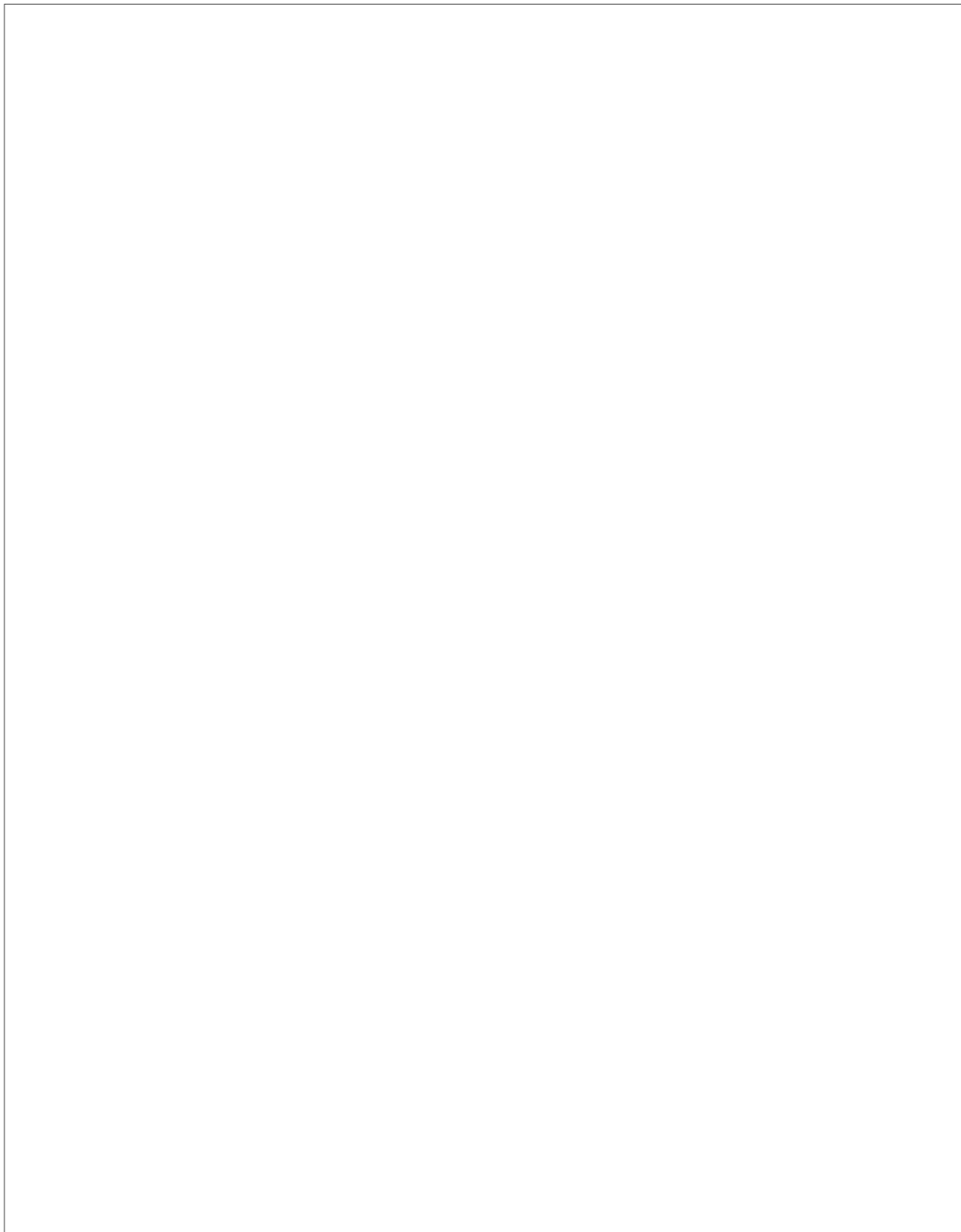
The situation remains fluid, however, and the split may not be entirely irrevocable. The resignations of Wujec—a longtime secretary of the Citizen's Committee—and the other leading intellectuals who have criticized Walesa's ambitions will enable Walesa to consolidate his hold over the Committee; however, the defections and Walesa's strident antigovernment rhetoric could also increase sympathy for Mazowiecki. Walesa may have considered this possibility when he urged the Committee to postpone a formal decision on dissolution.

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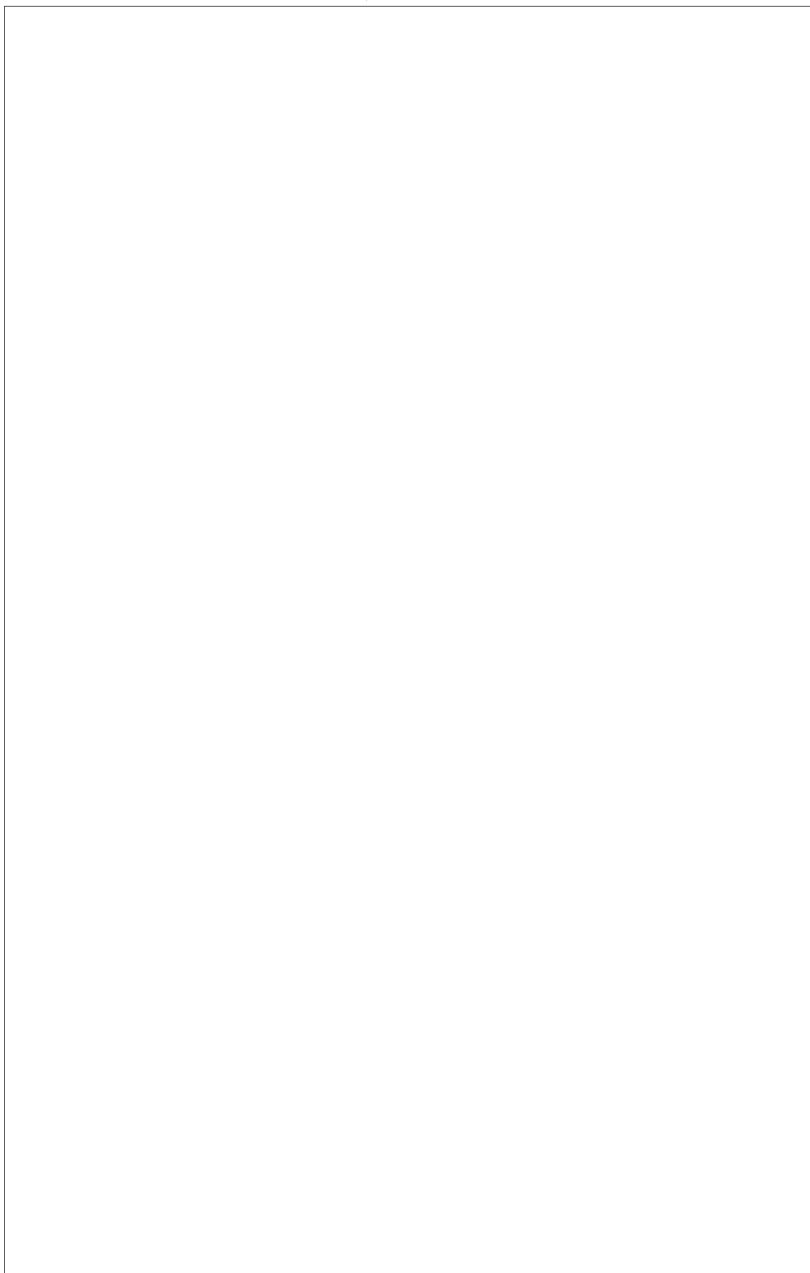


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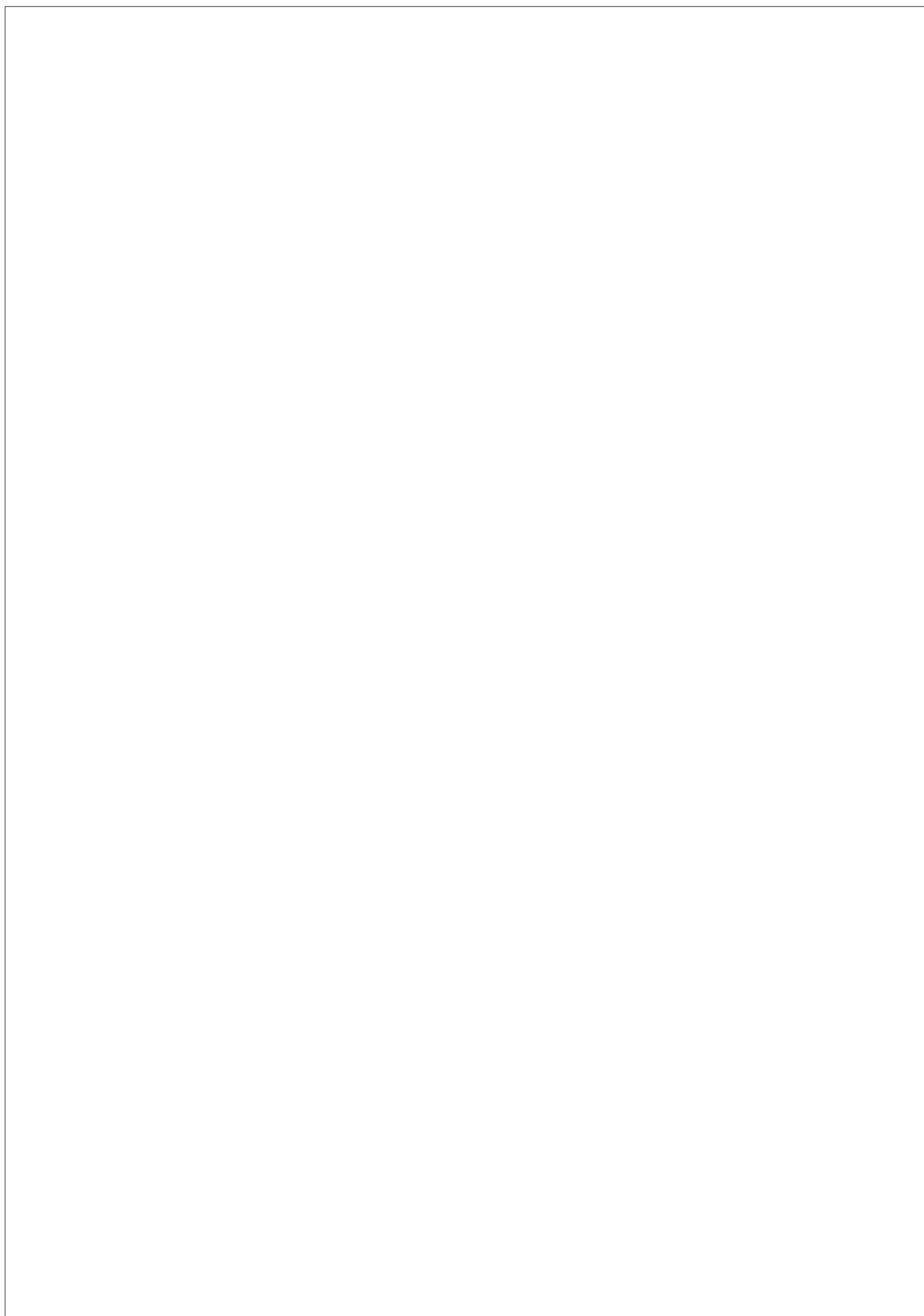


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~~Top Secret~~**CHINA: Unemployment Rising**

Although China's economy is recovering somewhat from its worst slump in a decade—industrial output rose at about a 4-percent annual rate last month—Chinese press reports indicate urban unemployment could increase almost two-thirds to 11 million by yearend. [redacted] these figures exclude 4 million urban workers idled by production slowdowns who receive only about half their basic wages. And employees of some small firms reportedly have not been paid for months. To head off worker unrest, Beijing is increasing subsidies and loans to enterprises to help them pay government-stipulated minimum wages. [redacted]

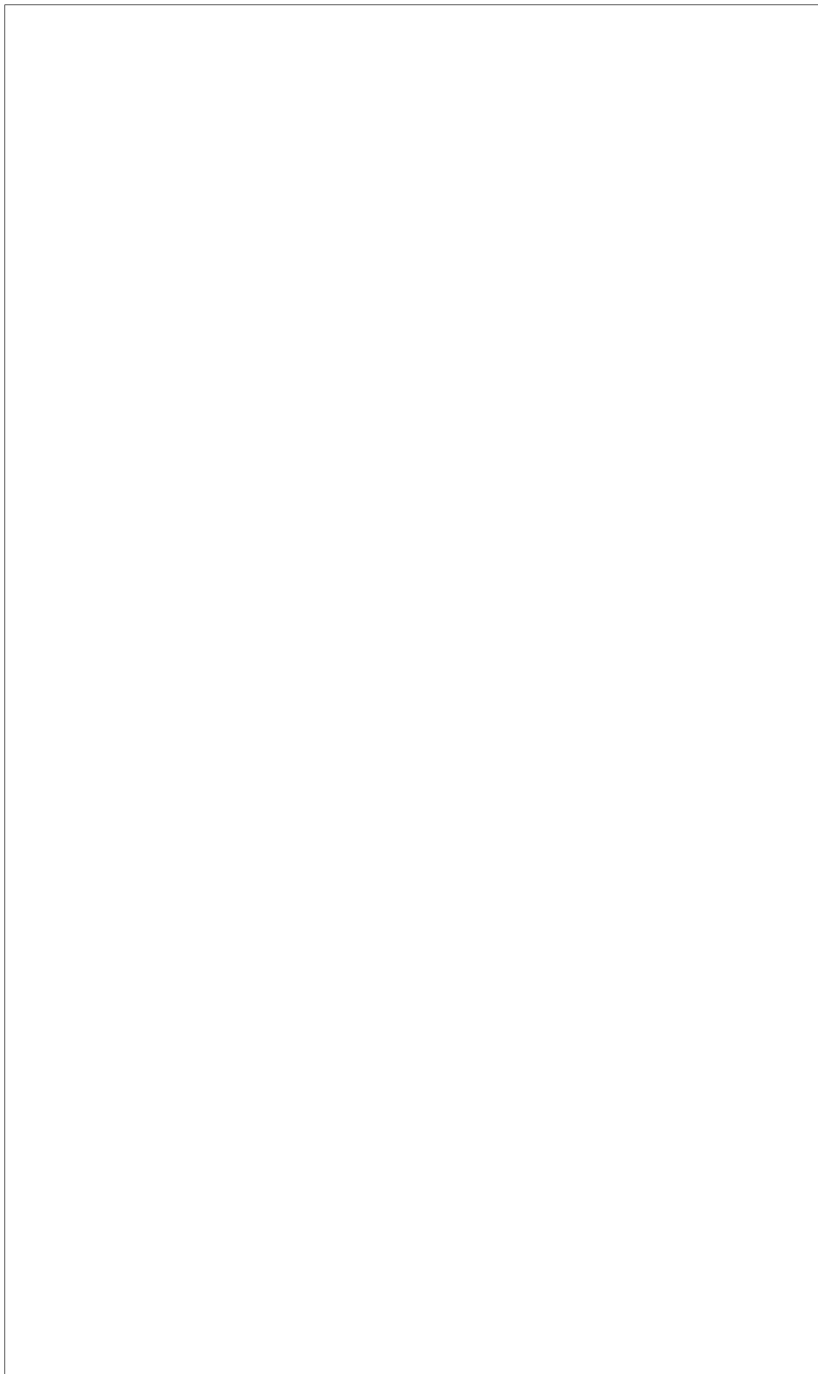
Comment: Because the number of new entrants in the job market is growing and state enterprises are already overstuffed, unemployment is not likely to decline significantly in the near term even if the economy continues to improve. Higher worker subsidies probably will lead to another record budget deficit, exceeding last year's record of \$7.8 billion. [redacted]

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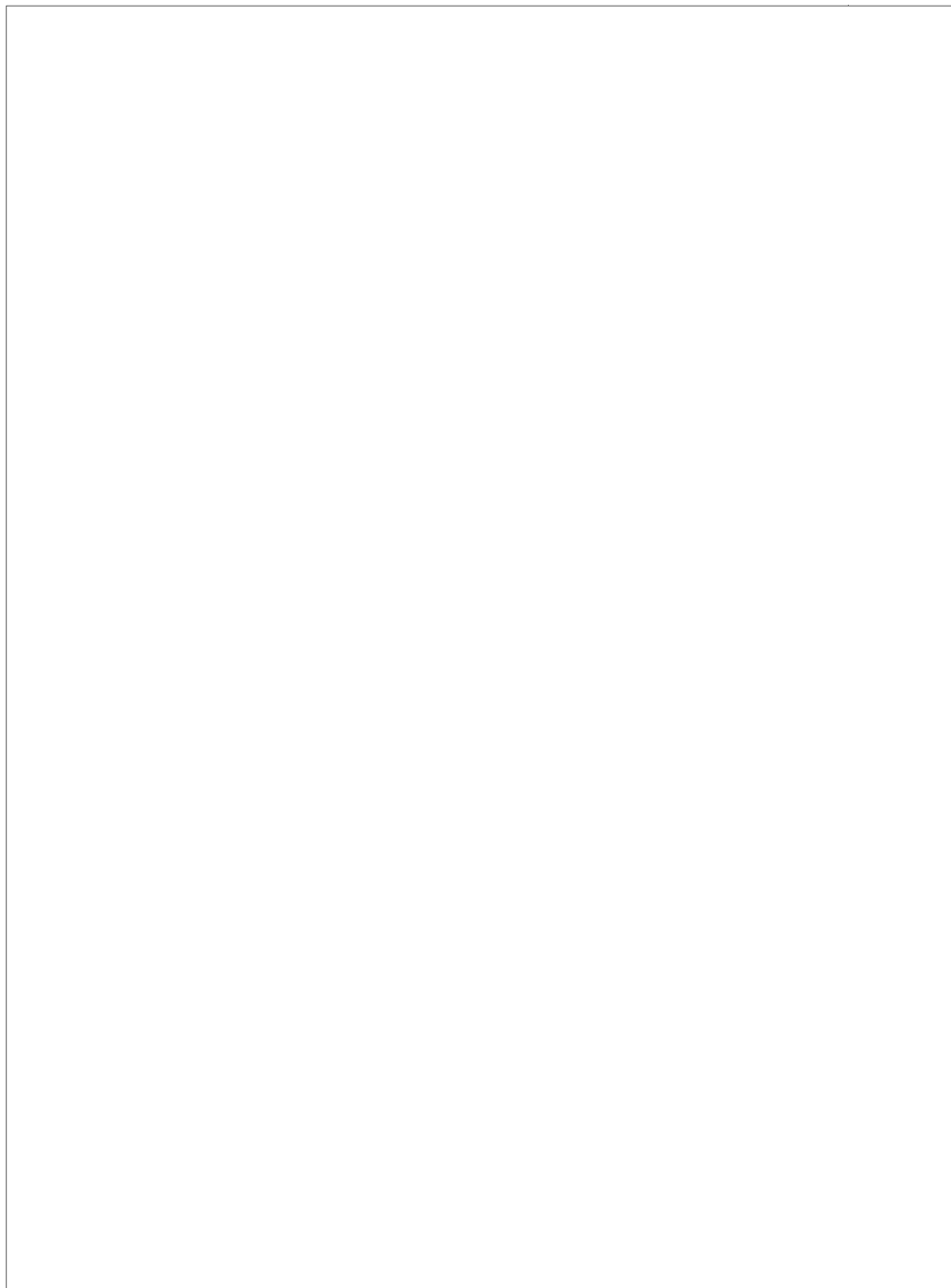


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~~Top Secret~~**EC: Inching Toward Ending Internal Border Controls**

The EC's Trevi Group—comprising interior and justice ministers of the member states—has taken several steps to reduce border controls on the movement of people within the Community. The ministers last week signed an asylum convention to streamline the handling of entering refugees. They also established a central drug intelligence unit and secure communications among law enforcement ministries. The drug unit is part of an EC plan that includes a monitoring center, legislation on money laundering and precursor chemicals, and closer cooperation with other industrialized states. [redacted]

Comment: EC leaders probably will endorse both the drug plan and the border control measures at the Dublin summit, which opens today. A separate agreement signed last week—which will end border controls among West Germany, France, Belgium, the Netherlands, and Luxembourg, the Schengen Group—probably pushed the EC to accelerate its own program in order to avoid a “two speed” Europe on easing the movement of people. Nevertheless, because of continuing disarray on such issues as visa policies and cross-border hot pursuit, the EC is not likely to complete a pact before the Schengen program takes effect late next year or early 1992. [redacted]

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In Brief

USSR

- *Izvestiya* today reports Soviet Politburo member Zaykov, 67, will not seek reelection at CPSU congress opening next Monday . . . says leadership should be younger . . . puts pressure on contemporaries, like Ligachev, to follow suit.
- New Russian Communist Party chief Polozkov yesterday refuted traditionalist sobriquet . . . extended olive branch to democratic reform group, republic chief Yel'tsin . . . suggests bid to lessen sense of showdown with Gorbachev at party congress.
- Moldavia's legislature issued declaration Saturday proclaiming its laws supersede Soviet laws . . . ninth republic to jump on sovereignty bandwagon . . . increases pressure for treaty redefining relations between center, republics.

Africa

- Peace talks between Liberian Government and rebel delegations to resume today in Sierra Leone . . . some skirmishing near Monrovia reported over weekend . . . government still rejects rebels' demand that President Doe resign.
- Two bombs exploded Friday night at South African ruling National Party's Johannesburg headquarters and local Transvaal office . . . extensive damage, no injuries . . . rightwing extremists probably responsible.

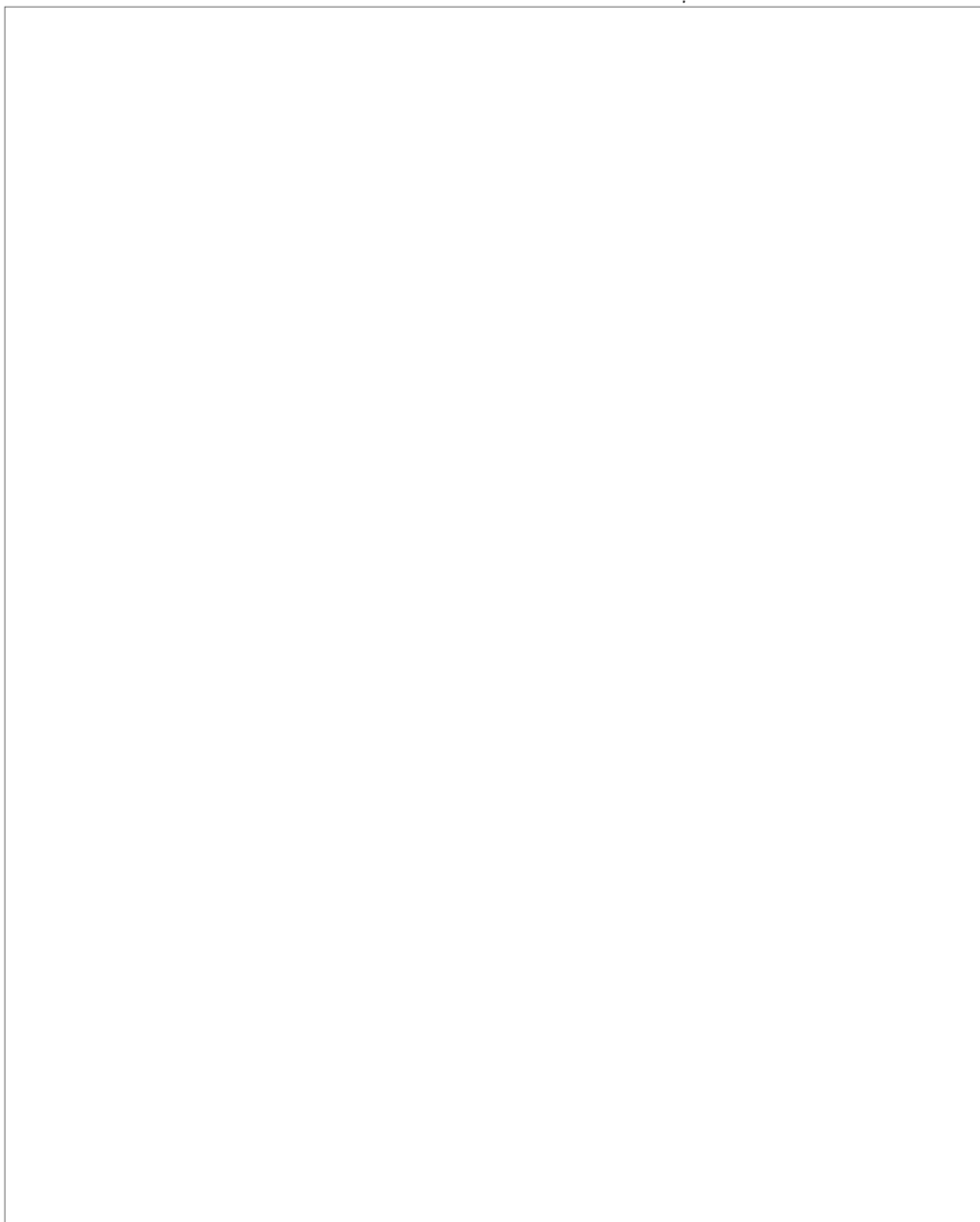
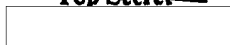
Europe

- Poland has welcomed declarations of East and West German parliaments affirming Oder-Neisse border . . . Warsaw dropping demand treaty be signed before unification but still insists treaty language be nailed down first.

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~~Top Secret~~**Special Analysis****PANAMA: Six Months After Noriega**

President Endara's team continues to enjoy widespread public support six months after Manuel Noriega's ouster, although some of the euphoria is beginning to wear off as unemployment persists. The three coalition leaders have worked together smoothly, although differences over the Public Force may cause serious rifts in coming months. Despite growing business confidence and progress in reconstruction, the public's main concern will remain the economy.

The government has benefited from disarray in the opposition. The Democratic Revolutionary Party (PRD) is still clinging to the populist ideology of former strongman Omar Torrijos but has failed to exploit antigovernment sentiment among fired government workers, the homeless, or the unemployed. The reported plans of radical leftist groups to use violence, including guerrilla warfare, against the government apparently have fizzled.

The three coalition leaders, Endara and Vice Presidents Ford and Arias Calderon, have kept party rivalries under control. Controversial government appointments and Endara's revival of the populist, antimilitary Arnulfista Party have fueled competition with Arias Calderon's Christian Democrats (PDC), but the three leaders have moved quickly to repair interparty strains in the legislature and between rank-and-file members.

Economy on the Mend

The private sector has taken the lead in rebuilding the economy. Firms have made repairs, increased production, and restocked inventory. Panamanian entrepreneurs reportedly are repatriating capital and using credits from wholesalers to revitalize their

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Panama: Refugee Frustrations Mounting

Demonstrations that drew several thousand protesters to the Presidential Palace Wednesday indicate growing frustration over unresolved economic and social issues. Refugees from Chorillo, the area of Panama City razed during fighting on 20 December, protested against living conditions in US-sponsored relocation facilities managed by the Panamanian Government. The refugees also demanded that President Endara request US compensation for property losses and deaths. Many refugee families believe US relocation assistance of \$6,500 per family for a new home and \$800 for personal property losses is inadequate.

Press reports indicate students and labor organizations that joined the refugees plan to protest government layoffs intended to purge ministries of Noriega supporters and to trim expenditures. Rising dissatisfaction with living conditions in refugee facilities and unemployment troubles are likely to continue to spur periodic rallies in urban areas.

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businesses. Some 80 percent of businesses looted during the invasion have reopened, and 70 percent of workers who subsequently lost their jobs have found employment. Government revenue from sales taxes is up 17 percent this year, and manufacturers are increasing production as domestic demand rebounds. The banking system has increased its liquid assets by 30 percent since January and plans to lift remaining withdrawal restrictions next month.

The government's austere budget is constraining reconstruction programs. Nearly 80 percent of public revenue is slated for salaries, pensions, and domestic and multilateral debt service, leaving little for infrastructure repairs and social programs. Panamanians still see the 25-percent unemployment rate as the country's top problem. Protests by dismissed government workers and refugees from destroyed areas of Panama City have been commonplace. Officials are working with the IMF and the World Bank to develop a medium-term economic reform program, but slow progress soliciting contributions from countries other than the US to clear some \$540 million in arrears to international financial institutions probably will delay disbursement of standby or structural adjustment credits.

Outlook

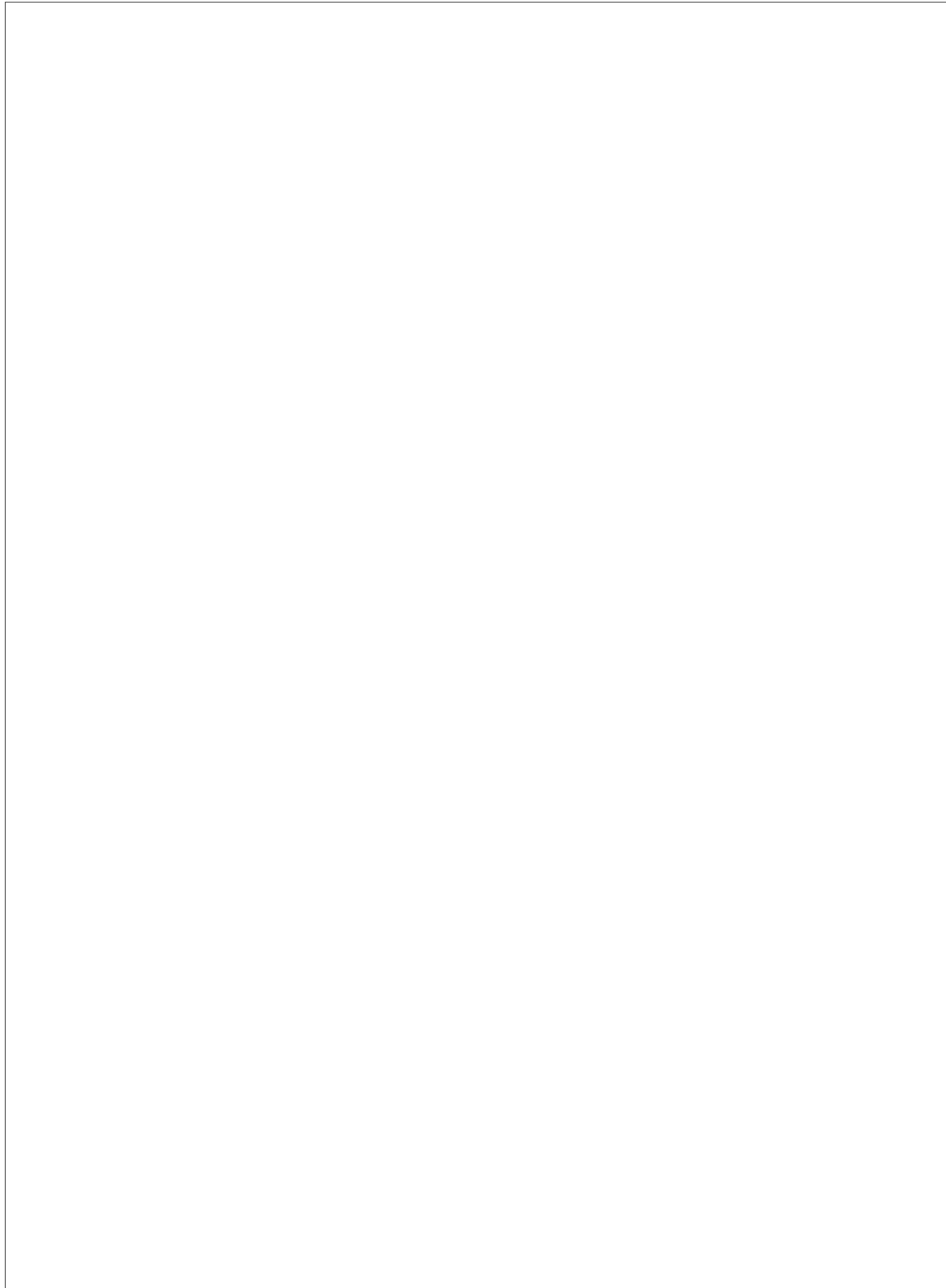
The Endara government continues to ride the wave of public good will and optimism generated by Noriega's ouster. Despite periodic jockeying for position by the coalition partners, government leaders are likely to remain in agreement on most basic political and economic issues. Nevertheless, the highly charged issue of the Public Force's future and the continued public humiliation of its officers could open serious rifts in the governing coalition and even bring about the collapse of the Force if a consensus is not reached soon on the disposition of former military officers now in the Force.

Optimism in the private sector probably will continue to stimulate investment and sustain a slow recovery for the rest of the year. US assistance will help businesses overcome bank liquidity shortages and promote rebuilding of the battered infrastructure. The IMF and the World Bank probably will encourage Panama City to adopt difficult structural reforms, including further cuts in the government payroll, privatization measures, price liberalization and tariff reforms, and changes in protective labor laws. Such austerity measures, if adopted, probably would intensify public worry over the economy, expose the government to charges of insensitivity to the poor, and increase the size and frequency of antigovernment demonstrations.

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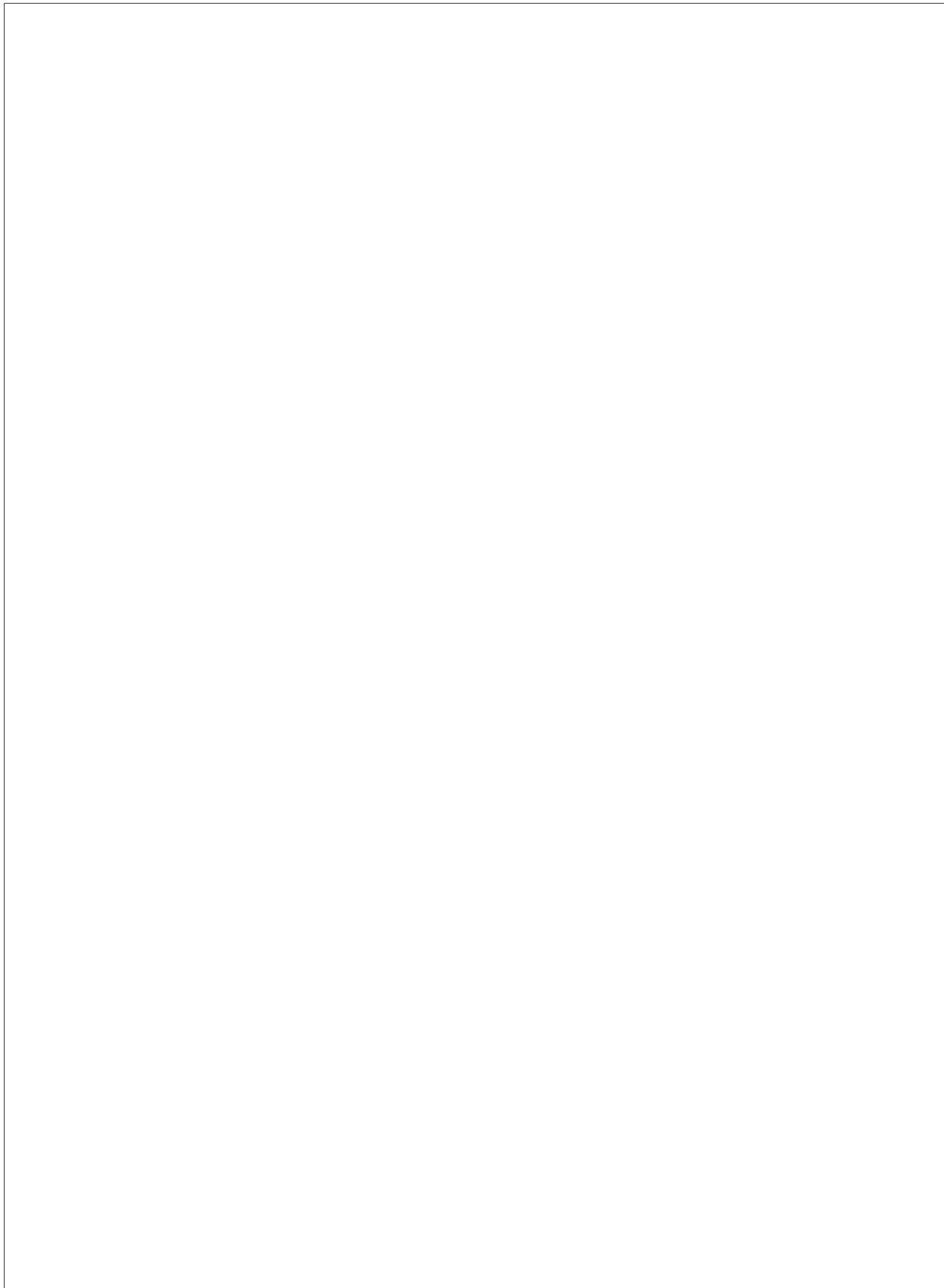
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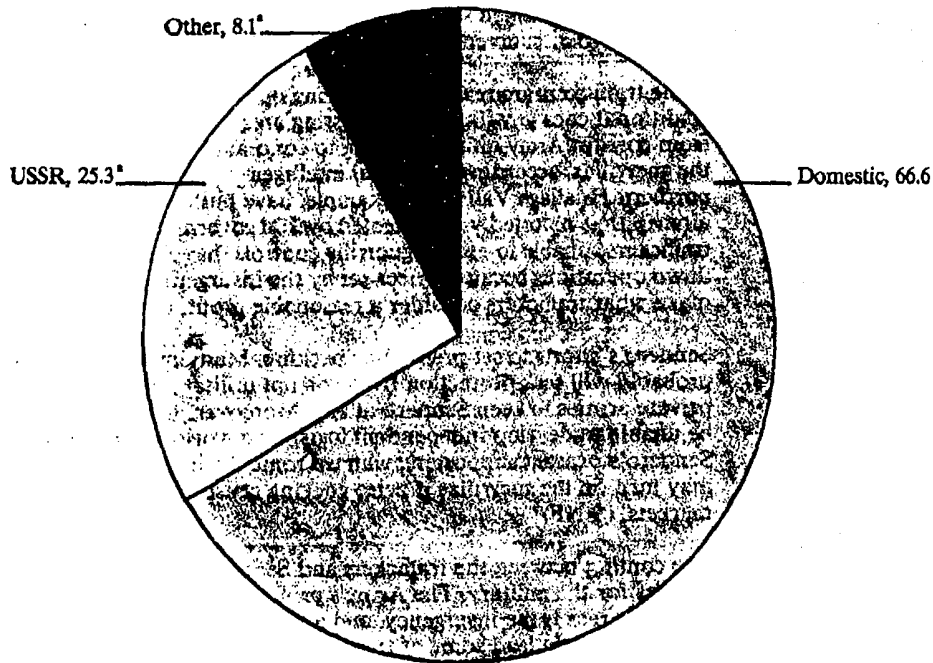
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Eastern Europe: Sources of Energy

Percent



*Estimated.

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Special Analysis

**EASTERN
EUROPE:**

Hooked on Soviet Energy

East European countries have taken a number of steps to wean themselves from Soviet-supplied energy, but cost and environmental considerations probably preclude a major break for at least several years. The East Europeans are vulnerable to a cutback in Soviet deliveries; a sustained one could severely depress their economies and scuttle modernization.

Slowdowns in the delivery of Soviet oil and gas in the first quarter of the year have fanned the strong anxieties East Europeans have about depending on Soviet energy. The USSR, the region's leading foreign source of fuels, supplies all East European countries except Albania, providing between 17 and 64 percent of national energy needs.

Few Alternatives

Despite their desire to diversify, the East Europeans have few ready alternatives to Soviet oil and gas. Buying from OPEC suppliers means using hard currency needed for critical consumer and industrial imports. Abundant domestic reserves of coal offer a cheaper alternative, but the years of uncontrolled industrial use of coal have fouled the environment and raised strong local opposition to policies that would make the problem worse. Most of the region's nuclear power stations are Soviet designs and have significant safety problems. As plants are shut down, nuclear energy production probably will shrink in the near term:

— Bulgarians are questioning the safety and cost of the nuclear power plant under construction at Belene, according to press reports.

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~~Top Secret~~**Operating and Planned East European Nuclear Plants ***

| | Units in Operation | Units Under Construction | Reactor Designer |
|----------------|-----------------------|-----------------------------|---------------------|
| Bulgaria | 5 | 3 | USSR |
| Czechoslovakia | 8 | 6 | USSR |
| East Germany | 5 | 5 | USSR |
| Hungary | 4 | 0 | USSR |
| Poland | 0 | 2 | USSR |
| Romania | 0 | 5 | Canada |
| Yugoslavia | 1 | 0 | US |

* The East European nuclear power program is dominated by Soviet-designed plants and CEMA-produced components.

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- Yugoslavia is considering shutting down its only operating nuclear plant, of US design, because of concerns about disposal of radioactive waste.
- Czechoslovakia, however, intends to construct two reactors at the Temelin nuclear power plant.

Conservation

East European countries are inefficient consumers of energy, using an average 24 percent more oil, gas, and coal per dollar of GNP than the US. The region probably could save the equivalent of as much as 1.9 million barrels of oil a day by raising energy efficiency to US levels. Western experts estimate, however, that it would take some \$250 billion over the next 15 years to reach this efficiency, and funding of such magnitude would have to come primarily from foreign sources.

Outlook

Eastern Europe will remain heavily dependent on the USSR for energy, and a sustained cutoff would cripple the region. Households and sectors that depend on natural gas, such as fertilizers and chemicals, would be hardest hit because there are almost no alternatives to Soviet gas supplies. Alternative supplies of oil probably could be found, although at great cost in hard currency and in quantities that would require strict rationing.

In the longer term, significantly reducing dependence on Moscow will require massive investment in new, safe nuclear plants and energy-efficient capital equipment. Emerging nuclear technologies in the West may lower the price and increase safety enough to attract East European interest. It is likely that the USSR will remain the primary supplier of gas because of its extensive pipeline network and the cost of developing alternatives.

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