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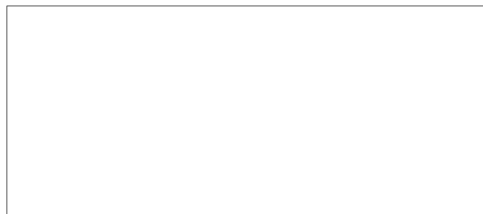


Director of Central Intelligence

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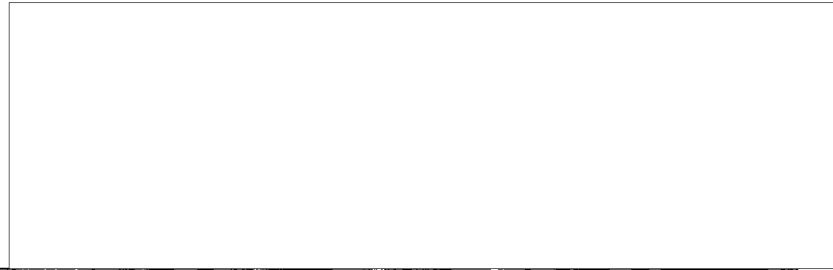

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Lithuanian Territory Claimed by Moscow



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USSR:

Baltic Presidents Seek Joint Talks With Moscow

The call by the three Baltic presidents for talks with Moscow, following the resumption of oil deliveries to Lithuania on Saturday, suggests that Latvia and Estonia may place moratoriums on their independence declarations as well.

Estonian officials yesterday told the press the three presidents want "three plus one" talks with Moscow. Baltic officials expect negotiations will not begin until the Soviet Communist Party's congress that opens today has ended, probably the middle of next week.

Lithuanian Prime Minister Prunskiene, who supported the moratorium decision taken in Vilnius, is nevertheless taking a wary stance toward future talks. She told reporters yesterday that Moscow may not accept three-plus-one and warned that Moscow is likely to take a hardnosed position in negotiations. Prunskiene also said Soviet Premier Ryzhkov has reiterated Moscow's claim to some current Lithuanian territory, including the port of Klaipeda and some military facilities.

Comment:

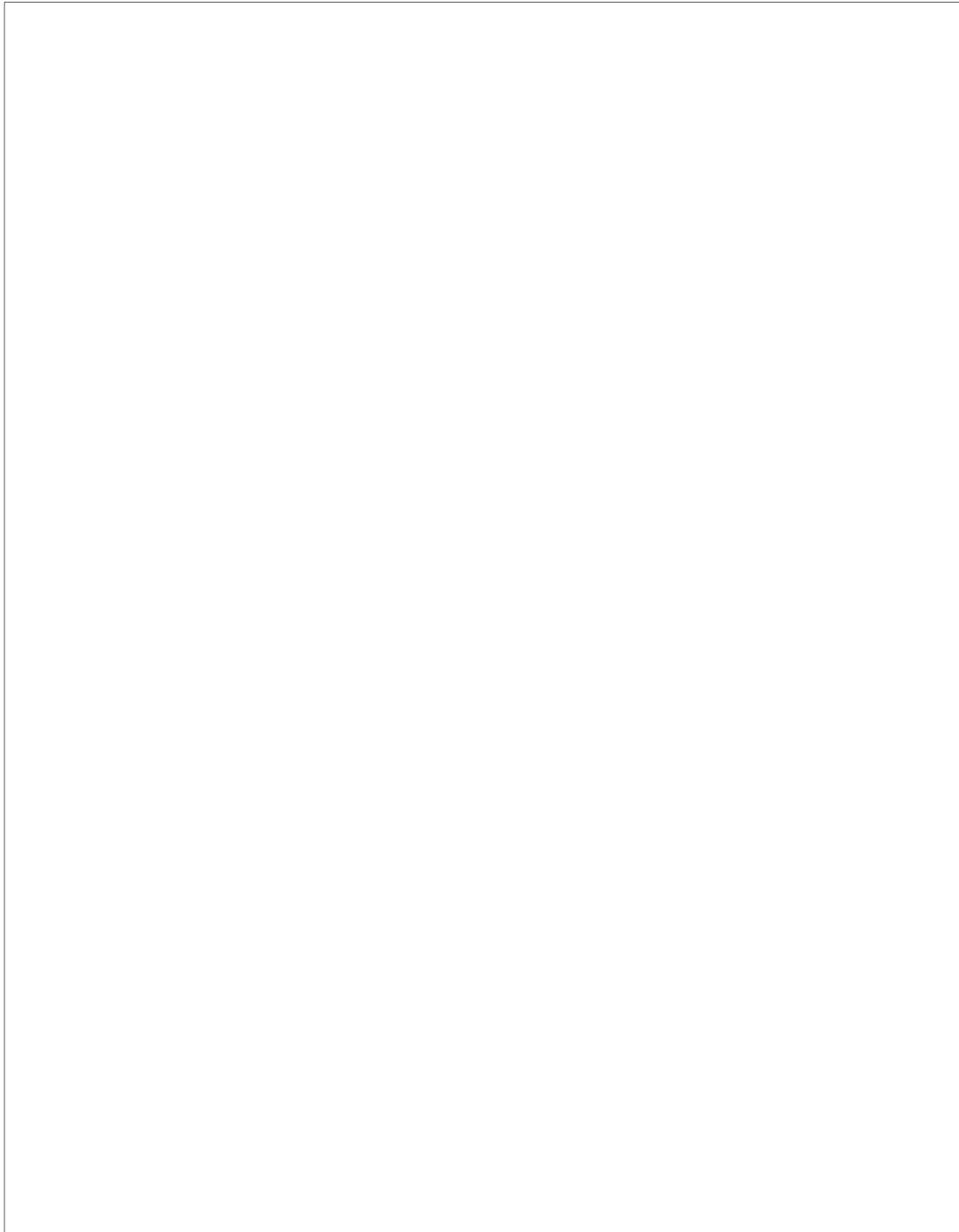
Moscow is unlikely to consider a three-plus-one formula unless Latvia and Estonia declare moratoriums on their independence declarations. The Estonians, who feel their declaration to be the least abrasive of the three, are likely to be the slowest to declare a moratorium.

Moscow probably will bargain hard once the talks are under way, including raising territorial claims. Vilnius is likely to step up its efforts to build ties to the Russian and Belorussian Republics in the hope of getting them to disavow claims to current Lithuanian territory.

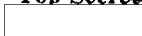
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PANAMA:

Government Unveils Economic Plan

The market-oriented reform strategy President Endara's administration recently unveiled calls for economic sacrifice across the board and is likely to pave the way for an agreement with the IMF.

The plan has been distributed to business, labor, and agricultural organizations to stimulate discussion the government says it hopes will lead to a national consensus on the need for economic reform. The strategy seeks to promote export-led growth and increased employment, and it outlines plans to reduce labor benefits and protective industrial and agricultural tariffs. It calls for austere government spending and the elimination of price controls, export concessions, and the \$540 million owed international financial institutions. The government wants to shrink the public payroll by eliminating jobs, reducing salaries, and selling state-owned enterprises; the cost-cutting reforms would be balanced by greater spending on social services and public works.

Comment: The administration's ambitious plan is a major step away from the inward-looking economic policies of the past 20 years. Public reaction has been subdued, but criticism of the program is certain to increase as agricultural, industrial, and labor groups come to understand how the reforms will affect them. Most of the reforms have been recommended by multilateral institutions in the past but never fully implemented. The plan in any event is likely to expedite talks with the IMF about tough reforms.

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EC Economic Issues Facing Rome

The growing consensus among member states on the shape of an EC monetary union will shift the focus of the Italian presidency to other economic issues:

- Rome will look for ways to break the stalemate over farm subsidies at the GATT Uruguay Round by the December deadline [redacted] but will encounter resistance from Bonn and other members. Hard bargaining is likely to continue to the last moment.
- Italy will look for ways to reach a consensus among the members on aid for the USSR. A special EC summit in October will use recently mandated EC Commission studies on Soviet aid requirements as a partial basis for a decision.
- The Italians are likely to make important progress in pending EC negotiations with East European states—particularly Poland, Hungary, and Czechoslovakia—on economic association agreements that would establish virtually free trade, greater aid, and stronger bilateral political dialogue.
- Community talks this fall with the European Free Trade Association countries to make EFTA part of the 1992 single market are likely to be much tougher because of the reluctance of member states to give EFTA a role in EC decisionmaking.

Rome will continue the push to complete the EC single market by the end-of-1992 deadline—the members have already approved two-thirds of the needed legislation—but may also try to focus on the more controversial “social dimension” of 1992, a harmonization of member-state labor laws that is adamantly opposed by the UK.

[redacted]

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EC:

Outlook for the Italian Presidency

Italy sees its six-month presidency of the EC Council of Ministers, which began yesterday, as an opportunity to lay foundations for a long period of Pan-European growth and stability based on deeper EC integration and a wider Community role in European security and foreign affairs.

Agreement last week at the EC summit in Dublin that a constitutional conference on EC institutional reform will begin in December clears the EC's agenda for increased attention to foreign policy issues.

Comment: In preparation for the CSCE summit this fall, Rome will give high priority to forging a member-state consensus on the future role of the CSCE in European security arrangements; it is leaning toward creating a formal CSCE structure.

Italian officials favor a formal US-EC treaty but are likely to press only for enhanced bilateral consultations on foreign policy because most other members view a treaty to be premature while the Community is in institutional flux.

Third World issues are likely to receive a higher profile under Italian leadership. Rome undoubtedly will press for closer EC political ties and increased assistance to Algeria, Morocco, and Tunisia. Italy and other members fear the victory of Islamic fundamentalists in recent Algerian local elections might threaten EC economic ties to North Africa and prompt a wave of emigration across the Mediterranean.

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USSR:

Republics Seize Economic Initiative

The increasing assertiveness of republic and local leaders on economic matters threatens Moscow's ability to manage the economy and control the pace and direction of reform.

Local authorities are trying to claim control over their resources and dictate more favorable terms of trade, a trend that is gathering momentum from the bold assertions of sovereignty the Russian Republic's Yel'tsin-led legislature is making. Yel'tsin recently announced his republic's intention to reduce its funding of all-union programs; keep more of its earnings from the foreign sale of oil, gas, and gold; and bypass Moscow to establish direct economic ties to other republics. In addition, a growing number of republics reportedly are refusing to honor existing state contracts for the delivery of goods, further jeopardizing Moscow's attempts to control the current economic plan.

Moscow's plans for reforming the national economy also are being outpaced by some of the more radical regional leaders. As the government reworks a new reform program, local officials have ceased waiting for Moscow's approval to expand private ownership or put in place other rudimentary instruments of a market economy, such as commodity exchanges and investment banks.

Comment: Local efforts to seize the economic initiative stem in part from nationalist aspirations for greater independence but also from Moscow's failure to allocate enough resources to local infrastructures or to develop an effective program for reform. The trend has been accelerated by the emergence of dynamic regional leaders—all of them eager to take matters into their own hands and many convinced that market reform is both necessary and achievable on a local scale.

Some Soviet economists believe this devolution of authority will hasten the development of markets, but all are concerned about the short-term consequences. These include increased economic disruption and greater constraints on the center's ability to cut the budget deficit and fund essential national programs.

Over the longer term, Gorbachev appears to be banking on an all-union common market to hold the country together. It is not clear if he can get approval for the reforms necessary to create such a market or carry them through quickly enough to contain the centrifugal forces.

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Yugoslavia: Prospects for Economic Reform

The increasingly unsettled political situation impairs Prime Minister Markovic's efforts to restore the country's economic health. Markovic on Friday introduced the next stage of his economic reform program, emphasizing the privatization of public-sector firms and a reduction of commercial bank interest rates. This round of reforms is to follow up the highly successful effort to stop hyperinflation: prices in May rose at a rate of 0.5 percent, as compared with 60 percent last December.

Markovic's program, however, is coming under increasing attack from labor over the six-month wage freeze. The federation is experiencing a growing number of large strikes, culminating last week in a one-day warning strike by 250,000 Serbian textile workers—the largest labor action in Yugoslav history. Key legislation needed to implement the next phase of the reform program is being blocked by Slovenia and Croatia, the federation's most prosperous republics. They want to restrict federal power over the economy in favor of local authority.

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YUGOSLAVIA: Federalists' Last Stand?

Belgrade is urgently searching for a formula that will satisfy Slovene and Croatian desires for autonomy and avoid a violent breakup of the country. [redacted]

Slovenia's representative to the federal presidency, Janez Drnovsek, is trying to broker a plan—with alleged Serbian support—that will allow Slovenia and Croatia to become independent states while the rest of the federation remains together, according to press reports. A summit between the federal presidency and republic leaders is expected to draw up specific options soon. Meanwhile, Slovenia's government this week will present a program to the Slovene assembly that provides for local control of the Army and the judicial and public finance systems as well as an independent foreign policy. These steps would be interim measures until a new Slovene constitution is adopted. [redacted]

The Serbian assembly last week enhanced Serbian control over Kosovo by passing a law allowing the takeover of any noncompliant institution in that Albanian-majority province. The first target was the electric power industry, the province's most important economic sector. Ethnic Albanian reaction has been restrained, but a confrontation is possible today when Albanian assemblymen attempt to convene the dissolved Kosovo parliament. [redacted]

Comment: Drnovsek's plan is the first public sign that the federal government may be willing to accept some rearrangement of the federation. The price for Serbian support of splitting off the northern republics probably will be an agreement by Croatia to leave Bosnia and Hercegovina in what would be a Serbian-dominated rump federation. Croatian nationalist leader Tudjman may resist such a deal, however, having gone on record as claiming that both Bosnia and Hercegovina and Croatia constitute a single geopolitical unit. [redacted]

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Poland: Presidential Succession Procedures

Under the current Constitution, the president is elected by a majority vote in the National Assembly—the combined members of the Sejm and the Senate. For Lech Walesa to be voted in, President Jaruzelski—whose full term would run to 1996—would have to resign or be impeached.

- Jaruzelski almost certainly would resign if so advised by Prime Minister Mazowiecki.
- With Mazowiecki's support, Walesa almost certainly would easily win the endorsement of the National Assembly.



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~~Top Secret~~**POLAND: Mazowiecki Calls for Compromise With Walesa**

Prime Minister Mazowiecki offered yesterday to meet with Solidarity union chief Lech Walesa this week, a move that suggests he may abandon efforts to forestall a Walesa presidency. A government minister also hinted that legislative elections, expected in the spring, may be moved up to later this year. Warsaw continues to press ahead with painful economic reforms in the face of rising opposition; prices for energy went up 80 to 100 percent yesterday and dairy subsidies were cut. Wage restrictions, however, were loosened.

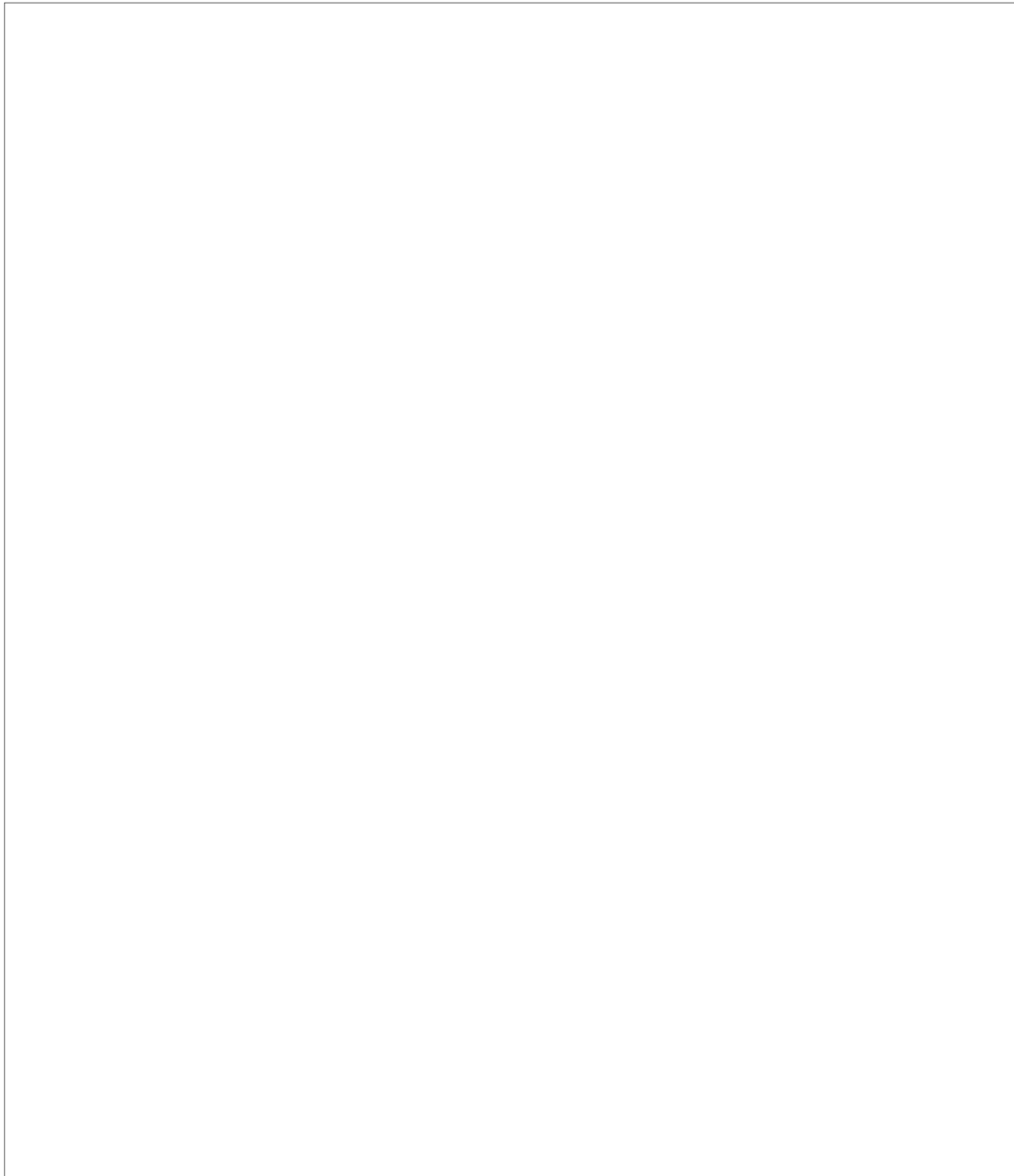
Comment: Mazowiecki's appeal came at a meeting of Solidarity's regional Citizens' Committees. The meeting was called by the Prime Minister's supporters, who hope to create a federation to support his government—a move Walesa opposes. The government may have concluded that the cost of attempting to fight Walesa at a time of economic hardship outweighs the risk that, as president, he will try to impose his own policies. Mazowiecki stressed that the two must talk as equal partners, but whether Walesa is interested in a compromise now is unclear. Moreover, any arrangement between the two camps is likely to be temporary, particularly if politicians must position themselves for legislative elections this year.

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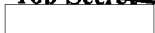
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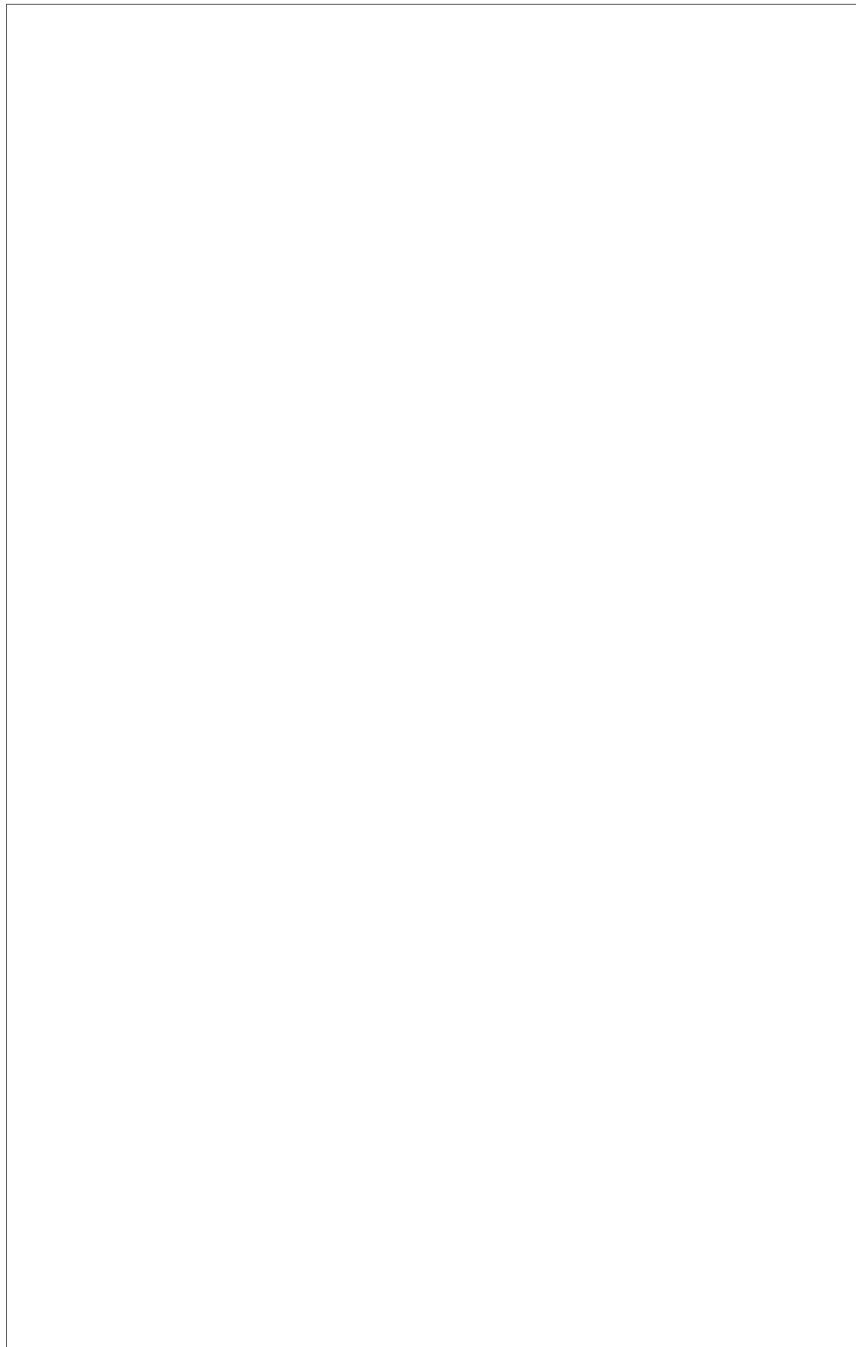
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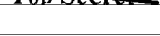
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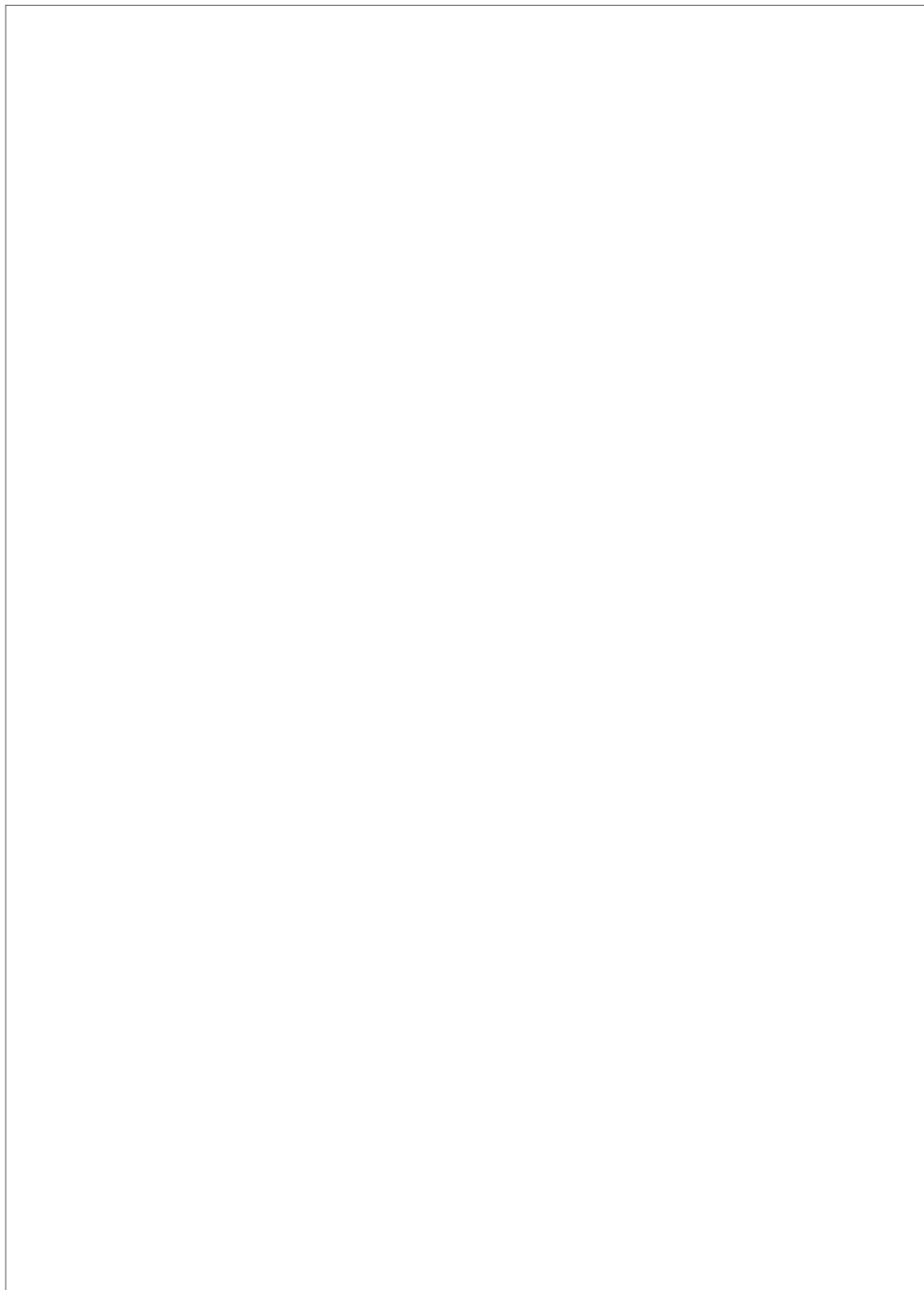
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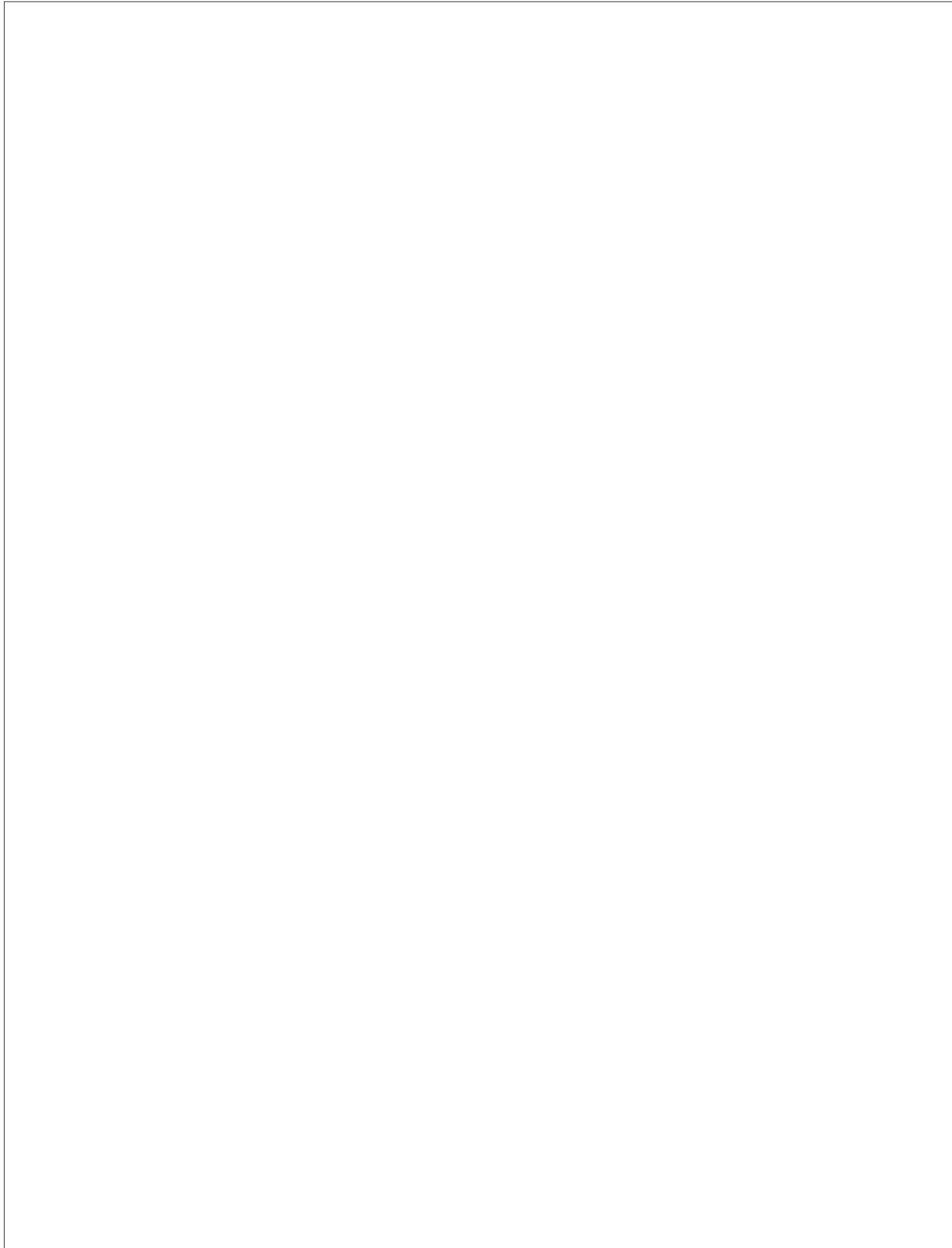
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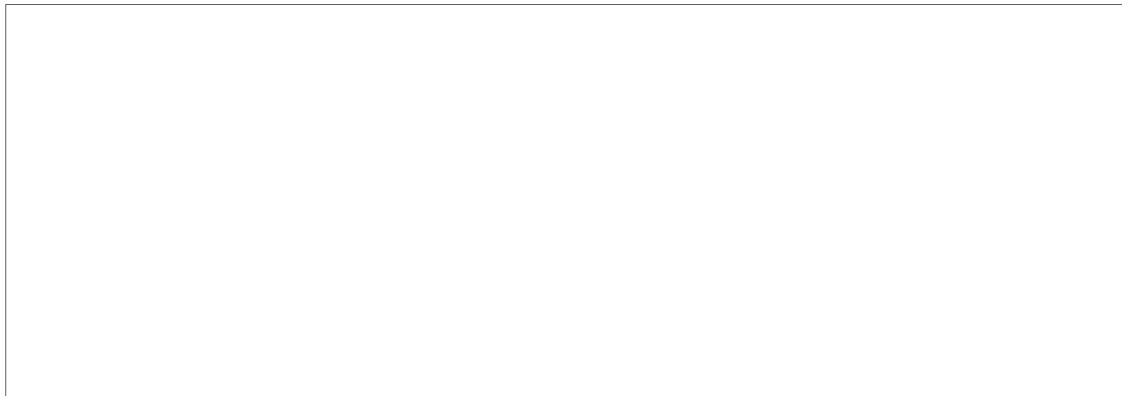
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In Brief



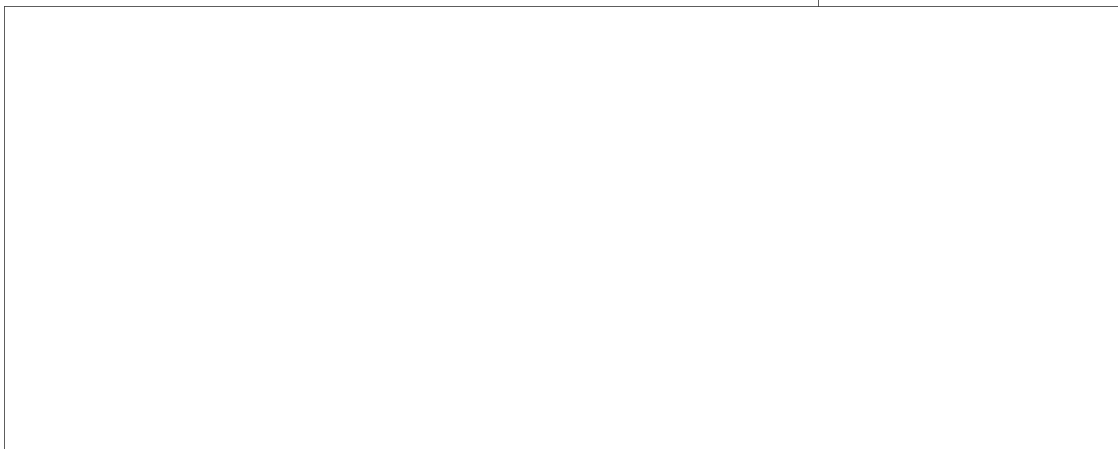
East Asia

— Large **Japanese** bank reportedly has loaned **Chinese** airline \$126 million . . . money to be used for purchase of Boeing 747 . . . first new Japanese loan to **China** since Tiananmen Square crackdown 13 months ago.

— **Japan** may set carbon dioxide emissions target for year 2000 . . . probably would allow some emissions growth . . . proponents want to gain standing with West Europeans on climate change issue at Houston summit this month, other conferences.

Europe

— **Yugoslav** Republic of Macedonia will hold elections in November . . . third republic to conduct free elections . . . Communists, nationalists main contenders . . . announcement increases pressure on Serbia, others to hold elections this year.



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Special Analysis

NICARAGUA: Political Hurdles Facing Chamorro

Having resolved Contra disarmament, the most explosive issue confronting her new administration, President Chamorro is focusing on the difficult task of consolidating her authority over Nicaragua's security services and government bureaucracy, both dominated by Sandinistas who are resisting dismissals and agitating for wage increases.

Two months into office, Chamorro's administration is still struggling to assert authority over the government's work force and day-to-day operations. Several departments, including the Foreign Ministry and the Civil Aeronautics Directorate, have been hit with wildcat work stoppages meant to block efforts to remove Sandinista-appointed middle-level managers and personnel; public-sector workers are threatening another nationwide work stoppage today. In several instances, Managua has had to reinstate dismissed officials or create new jobs for them as well as grant wage increases to striking workers.

Chamorro has adopted a cautious approach to the military, Nicaragua's most powerful institution. Believing there is more risk in moving quickly against influential Sandinista officers than in allowing them to keep their positions, she has agreed to a Sandinista-inspired plan to reduce the armed forces to some 41,000 men rather than the 25,000 she had earlier intended.

There are some factors working in Chamorro's favor. For now, she appears to have the backing of most Nicaraguans, especially after resolving the divisive Contra issue. Moreover, the Sandinistas are in the throes of their own internal reorganization and may find it increasingly difficult to capitalize on her vulnerabilities.

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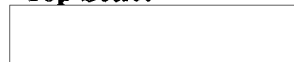
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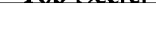
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South Africa: White Views of Mandela

Foreign Minister Botha's plea for restraint in public statements by US officials during Nelson Mandela's visit stems from deep concern in Pretoria that President de Klerk not be further undermined. Officials in Pretoria realize there is little they can do to counter the international adulation that has been heaped on Mandela. His trip to Washington has dominated the South African press: editorial opinion reflects concern that Mandela has not been taken to task for his positions on armed struggle, nationalization, and sanctions. Critics see a contradiction in his demands that sanctions be maintained while expressing concern for rebuilding the South African economy.

A poll of white South Africans last month indicates that whites' esteem for Mandela has decreased since his release from prison. Half (49 percent) said their perception of Mandela was less favorable than at the time of his release; 11 percent said their opinion of him had improved. Among supporters of the National Party, 41 percent held a more negative view, as compared with 72 percent of Conservative Party supporters. Whites who said they had a less favorable view of Mandela cited the lack of progress on talks, continuing violence, calls for nationalization and sanctions, and Mandela's outdated leftwing views.

Although whites are disappointed with Mandela's actions since his release, they increasingly accept de Klerk's decision to release him unconditionally. Some 60 percent now approve of the decision—apparently an increase since February—with 57 percent of Afrikaners approving, as compared with 47 percent in the previous survey. White, particularly Afrikaner, opinion tends to lag behind government reform announcements.

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~~Top Secret~~**Special Analysis****SOUTH AFRICA: De Klerk Pressing On**

The South African President has kept his critics off-balance by plunging headlong toward negotiations at home while aggressively putting his case against sanctions before the international community. [redacted]

De Klerk so far has skillfully juggled the demands of whites, blacks, and the international community, although white criticism that he has nothing concrete to show for his efforts is growing. Critics charge he has bent over backward to bring the ANC to the table but has obtained no sign of substantial compromise from the group. Similarly, they note that, despite a barrage of reforms, he has achieved little tangible relaxation of Western sanctions. [redacted]

Rather than slowing events to let whites and blacks adjust to new conditions, de Klerk and his Cabinet are forging ahead. They recently revealed plans to repeal key apartheid legislation segregating residential areas and restricting land ownership next year and to let US diplomats know of their strong interest in gaining a measure of acceptance and some level of participation in the UN. [redacted]

Pushing On

Getting substantive talks going tops de Klerk's agenda. He wants them to begin as soon as possible, mindful that under the current Constitution he must face the increasingly popular Conservatives at the polls before March 1995. The ANC, however, needs time to establish a national organization, build support in a diverse constituency, and secure international financial assistance. It may delay a commitment on substantive talks until its national conference in December, which probably will set positions on a range of issues related to negotiations. De Klerk probably worries that such a conference will take a hard line. [redacted]

De Klerk undoubtedly is finding it harder and harder to put a positive spin on international developments. Nelson Mandela's tour through Africa, Europe, and the US has blunted the antisandictions message de Klerk delivered on his recent European trip. Publicly, he is insisting that sanctions are no longer the main issue in South Africa's foreign policy and that he is encouraging Western countries to take a new look at South Africa. [redacted]

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Although he has little to show on sanctions yet, de Klerk appears determined to press ahead. To maintain momentum, he may announce before the Nuclear Non-Proliferation Treaty Review Conference next month that South Africa will accede to the NPT, hoping the move will improve Pretoria's access to nuclear energy technology as well as to various international forums. [redacted]

Keeping the Door Open

De Klerk's long-term prospects turn on whether he can keep his reform efforts and diplomacy in step with each other. He clearly is waging an uphill battle against international opinion on South Africa, and officials are worried that diplomatic successes will not come fast enough to offset reaction against reform efforts, in part by promising badly needed economic growth. Some are troubled that Mandela and the ANC have not explicitly renounced violence and may not be ready to enter substantive negotiations. Continuing reports that Mandela's health is fragile add a sense of urgency to the process. [redacted]

The success of de Klerk's dual strategy will be measured in the medium term by the standing and cohesion of his National Party. It was humiliated in a recent byelection, barely retaining a seat considered safe six months ago, and might lose to the far right if an election were held now. The Conservative Party cannot force an election by itself, but the Nationalists' constituency is increasingly polarized, and the party may split if the trend continues. The prospect of losing a vote of confidence in the white legislative chamber to a coalition of Conservatives and renegade Nationalists could become the test of de Klerk's attempt to get whites to accept negotiations with the black majority. [redacted]

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