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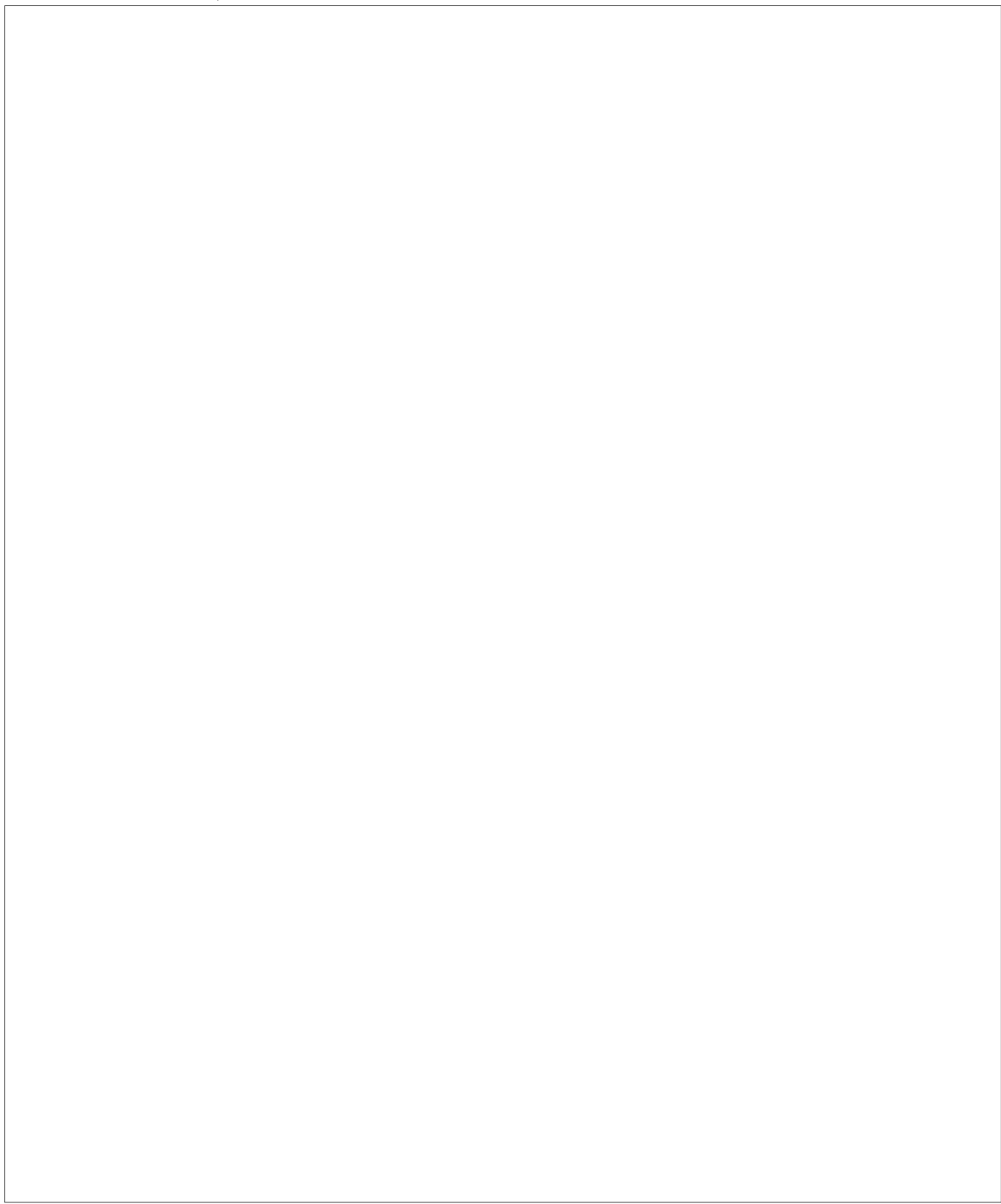


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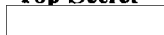


Contents

	USSR: New Party Leadership Structure	1
	Nicaragua: Chamorro Calls Out Army	2
	France: Faux Pas on Troop Withdrawal From Germany	3
	East Germany: Looking for New Soviet Troop Agreement	4
<hr/>		
Notes		
	OAU: Uganda's Museveni Elected Chairman	5
	Albania: Still Rocking	6
	USSR: Relaxing Enforcement of Air Sovereignty	8
	: Discussing Western Assistance	8
	Taiwan: Lackluster Prospects for Reform	10
	Vietnam: New Trade, Aid Accords Undermining Embargo	11
<hr/>		
In Brief		12
<hr/>		
Special Analysis	Poland: Midcourse Corrections on Economic Reform	14



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USSR:

New Party Leadership Structure

The 28th CPSU Congress yesterday endorsed a restructuring of the leading party bodies that includes the creation of a powerful new deputy general secretary position. [redacted]

The Politburo will be enlarged to include the first secretaries of the 15 republics and other key regional party officials in addition to the general secretary and the deputy. The congress will select the general secretary—almost certainly Gorbachev—and the deputy, possibly today. The deputy will preside over meetings of the Secretariat and run the day-to-day activities of the party. The revamped Secretariat will contain intellectuals and representatives of industrial and agricultural workers, as well as the CPSU secretaries. [redacted]

Comment: The dilution of power likely to occur with the expansion of the Politburo probably will work to Gorbachev's advantage, but the new deputy position and the apparent revival of the Secretariat could be used to challenge his control of the party. Gorbachev will want an ally in the slot to safeguard his authority; traditionalists are likely to back one of their own, possibly forcing Gorbachev to accept a compromise candidate. [redacted]

Because the deputy—unlike other Politburo members—will be elected by the congress, Gorbachev cannot replace him at a Central Committee plenum. This job security and control of the Secretariat will give the deputy a strong independent power base. [redacted]

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10 July 1990

~~Top Secret~~

NICARAGUA: Chamorro Calls Out Army

President Chamorro last night called on the Sandinista-dominated Army to help police restore order in strike-torn Managua.

Chamorro instructed the Army and police to clear barricades from the roads and to retake installations held by demonstrators. As of 0200 EDT today, there was no indication the Army intends to comply. Strike leaders vowed to continue their efforts to paralyze the country.

The President's action followed a sharp escalation of strike-related violence in the capital. The Sandinista police made only halfhearted efforts to dismantle barricades and separate progovernment and pro-Sandinista demonstrators, who engaged in rock-throwing melees in which dozens were injured.

Gunfire was heard in several neighborhoods, and the press reports that at least three people may have been killed. Last night Sandinista supporters occupied Radio Nicaragua and both television stations, but police forced them out after several hours.

Press reports indicate striking workers have shut down Sando International Airport, and electricity and other services have been cut in some areas.

The strike has already proven costly. The government claims losses are running \$2 million a day, and private-sector leaders say only half the cotton crop has been planted because of peasant land invasions. Even so, business groups and political parties aligned with the ruling coalition have called on Chamorro to hold firm.

Comment: Chamorro's resort to the military represents a victory for the Sandinistas. They may either continue the strike to undermine Chamorro further or—having made the point that the government is helpless without Sandinista cooperation—call it off. If the Army refuses to restore order, Chamorro will have little choice but to offer more concessions to the strikers.

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FRANCE:

Faux Pas on Troop Withdrawal From Germany

President Mitterrand's hint in an interview last week that France might withdraw its troops from Germany may undercut NATO efforts to maintain a long-term military presence after German unification.

Mitterrand said "logic dictates" the French Army should come home as soon as the Four Powers cease to play a role in Germany. Defense Minister Chevenement has tried to limit the damage by saying French troops would not leave before the Soviets withdraw from eastern Germany and France consults with its NATO Allies.

Comment: The reason for Mitterrand's blunder is unclear.

He may also be showing pique at his secondary role in NATO's strategy review last week.

Mitterrand's statement may encourage German voters to overlook the primary basis for French troops in West Germany, which is bilateral agreements rather than Four Power rights. His comment, and Chevenement's statement, could also encourage the German public to seek simultaneous withdrawals of Soviet and Allied forces, a course the Kohl government rejects. Other Allies, especially the UK, are likely to express concern over the statements. Mitterrand's remark could also add to pressure to trim France's defense budget in the long term. The Rocard government is already debating defense spending, which is scheduled to grow by about 1 percent in real terms next year.

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~~Top Secret~~**EAST GERMANY: Looking for New Soviet Troop Agreement**

East German Disarmament and Defense Minister Eppelmann is calling for a new agreement on Soviet forces in East Germany amid reports of growing local opposition to them. [redacted]

Eppelmann last Thursday said for the first time that a new stationing agreement should include a timetable for the withdrawal of Soviet troops and give German authorities significantly greater control over their activities. He noted that the Soviet troop presence was causing tension in East Germany. Eppelmann urged the East German public to be patient, however, and warned that Soviet withdrawal would take several years for technical reasons. [redacted]

Reports of incidents involving Soviet forces and civil-military tensions are becoming more frequent. East German police recently killed a Soviet soldier after he took a family hostage. [redacted]

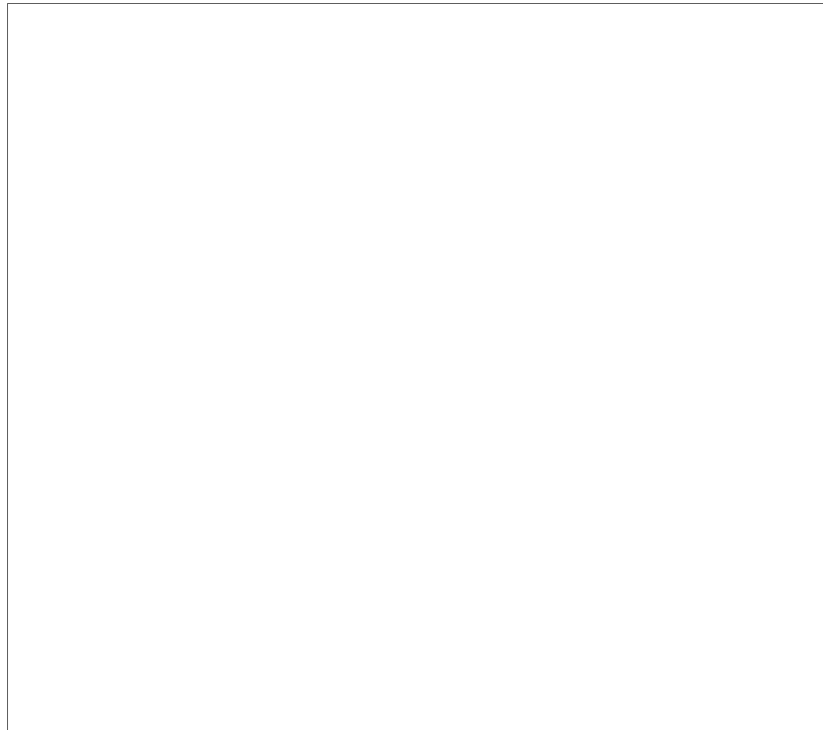
[redacted] Over the past several months, the East German press has reported demonstrations and petition drives against the presence and activities of Soviet forces throughout the country. [redacted]

The Soviets have taken steps in recent years to reduce the visibility and annoyance level of their presence. They are garrisoned and train in areas closed to civilians, at some distance from major population centers. Moreover, Soviet forces no longer conduct low-level or weekend training flights and make efforts to avoid damaging or monopolizing East Germany's transportation network. [redacted]

Comment: The risk of more serious confrontations between Soviets and Germans will increase if Moscow delays agreement on troop withdrawal or refuses to give up its occupation rights when German political unification is substantially complete. Incidents between Germans and Soviet forces will continue in any case, but the governments want to avoid confrontations and will try to keep problems manageable. [redacted]

The recent Soviet proposal for a 21-month transition period after unification before the stationing agreement is reexamined indicates Moscow may not be prepared to set a withdrawal timetable until the issue of German membership in NATO is resolved. [redacted]

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~~Top Secret~~**OAU: Uganda's Museveni Elected Chairman**

President Yoweri Museveni, the 45-year-old guerrilla leader turned politician, will fill the position until the Organization of African Unity summit next year. In his inaugural speech, Museveni called for African-based economic solutions and negotiated settlements for domestic and regional problems. He stressed the need to move toward democracy without foreign pressure and urged the West to grant African nations a 15-year grace period to revive their ailing economies.

Comment: Museveni lacks a thorough grounding in regional affairs, but he is a Pan-Africanist and is likely to breathe new life into the OAU. He is a dynamic leader with an extraordinary sense of purpose. He has already sought US cooperation in involving the OAU in Angolan national reconciliation. Citing Africa's propensity for tribal conflict, he insists that each country take a path toward democracy that avoids aggravating ethnic divisions.

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1357

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Albanian Unrest Disturbs Neighbors

Greece appears to be preparing for a possible flood of refugees and is signaling Tirane its interest in ensuring the safety of the ethnic Greek minority in Albania; Belgrade worries the turmoil may aggravate the instability in Yugoslavia.

Greece is deploying commando and naval forces to the Albanian border, according to press reports. An elite Greek unit from Naous near the Yugoslav border, probably the 350- to 500-man "B" Raiding Forces Battalion, reportedly has been transferred to Ioannina near southern Albania. A naval task force that includes at least one frigate reportedly is off Albania's southwestern coast north of the Greek island of Corfu.

Belgrade has limited its involvement to letting its Ambassador mediate. No unusual movement by Yugoslav military units has been noted near the Albanian border.

Athens probably wants both to secure its border to avert a possible influx of refugees and to demonstrate its resolve to protect the large ethnic Greek minority in Albania. The nationalist conservative government almost certainly would prefer to work with EC members to resolve the conflict through diplomatic channels, but any violence against Greeks in Albania would put more pressure on the government to send additional forces to the border and, in the last resort, even to consider limited military options to protect the Greek minority.

Belgrade undoubtedly fears that continued unrest will add to tensions in Serbia's predominantly Albanian province of Kosovo and bring in large numbers of refugees.

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10 July 1990

~~Top Secret~~**ALBANIA: Still Rocking**

Tirane yesterday announced more government changes as reports of widespread unrest trickled out. The shakeup was restricted to ministers dealing with the economy and appeared intended to ease discontent over food and other shortages. Press reports say demonstrations are under way in Kavaje and workers in Elbasan are on strike at Albania's largest metal-processing combine. Security and military police have blocked all roads to Tirane, and trains bound there are being turned back. [redacted]

The government is beginning to make good on promises to let some 6,000 asylum seekers in foreign embassies leave Albania. [redacted]

[redacted] Refugees in the French, West German, Italian, Hungarian, and other embassies have begun filling out visa applications. [redacted]

the estimated 3,000 refugees in the West German Embassy will be allowed to depart by tomorrow or Thursday, although no specific arrangements have been made to evacuate them. The Italian Government is considering evacuating as many as 3,000 asylum seekers by sea. [redacted]

The large number of asylum seekers and the illiteracy of many are slowing the application process. Meanwhile, Albania has tightened the issuance of visas for foreign correspondents. A Greek reporter confirmed that Albanian officials are detaining at the airport foreign reporters without visas and forcing them to leave. [redacted]

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10 July 1990

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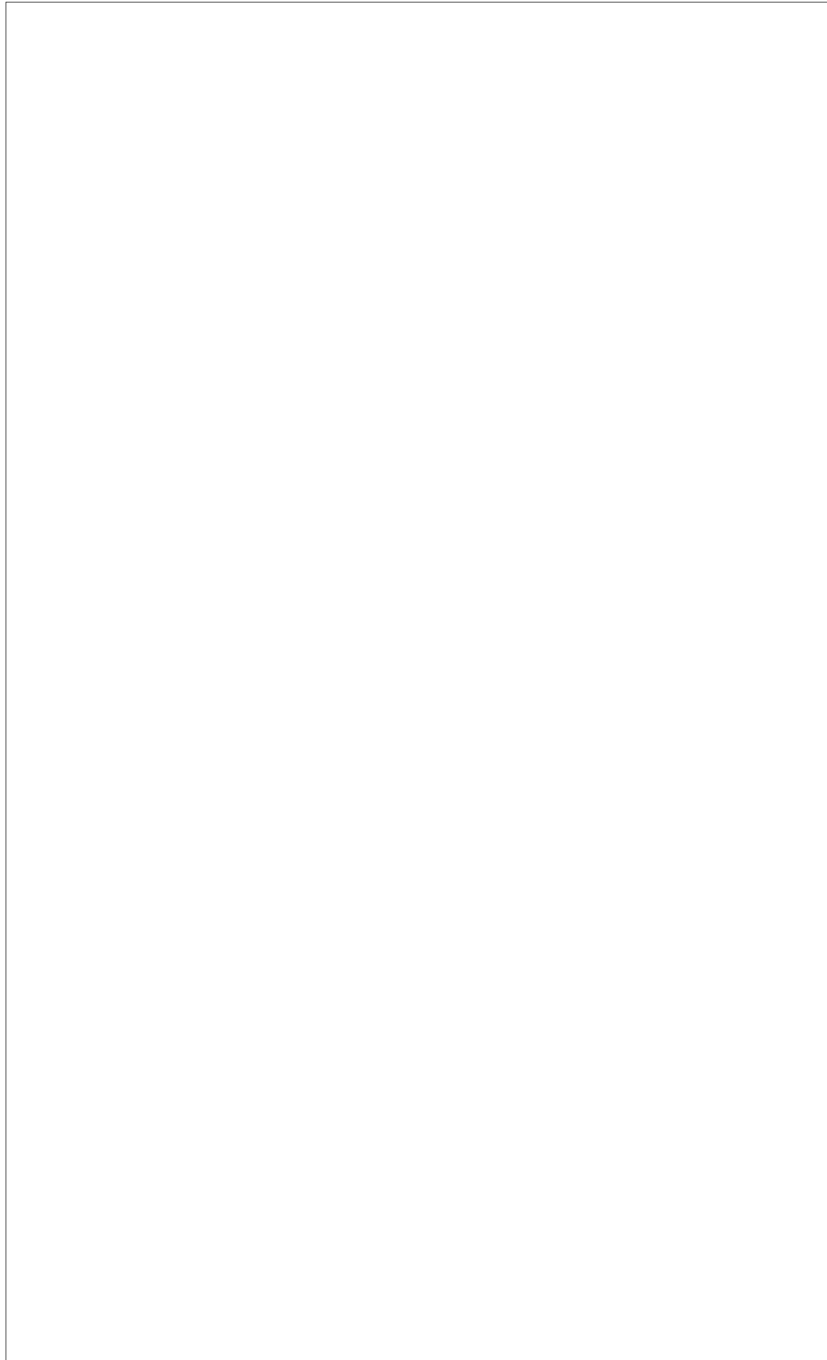


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10 July 1990

1360

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10 July 1990

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Changing Tone of Soviet Air Defense Officials on Civil Air Violators

“Every member of the Air Defense Forces going on duty receives orders to stop any violation of the country’s airspace by a foreign aircraft. [Any intruding aircraft is to be] located, identified, and shot down. I personally guarantee that. I do not recommend anyone to try it again.”

— Army General Ivan Tret’yak
Commander in Chief of the Air Defense Forces,
in *Nedelya*, November 1987

“Air defense cannot do everything. Nor does it have the right to do everything. . . . Orders forbid us shooting down sporting and civil aircraft. . . . It is infeasible and ruinous for our country to set itself the task of combating every hang glider and sporting aircraft. Especially since we are now cutting back our defense spending and reducing the numerical strength of our troops.”

— Col. Gen. Igor Maltsev
Chief of the Air Defense Forces Main Staff,
in *Krasnaya zvezda*, June 1990

~~Top Secret~~

10 July 1990

~~Top Secret~~**USSR: Relaxing Enforcement of Air Sovereignty**

Published remarks by a senior official of the Soviet Air Defense Forces strongly suggest that the leadership has deemphasized the Forces' peacetime mission of defending against aircraft border incursions. The chief of the Air Defense Forces Main Staff was quoted in last month's *Red Star* as saying that prevention of border violations by nonmilitary aircraft—one of the Forces' traditional missions—was not feasible because of equipment and manpower limitations and was not worth the cost in today's political and economic climate. He was responding to public criticism of the Forces' repeated failures to prevent intrusions by light aircraft in recent years.

Comment: The officials' comments imply that Soviet air defenses are to concentrate their increasingly limited resources on preparedness for their wartime missions of warning and defense against air attack. The change diminishes the possibility of their downing a civilian aircraft.

USSR: Discussing Western Assistance

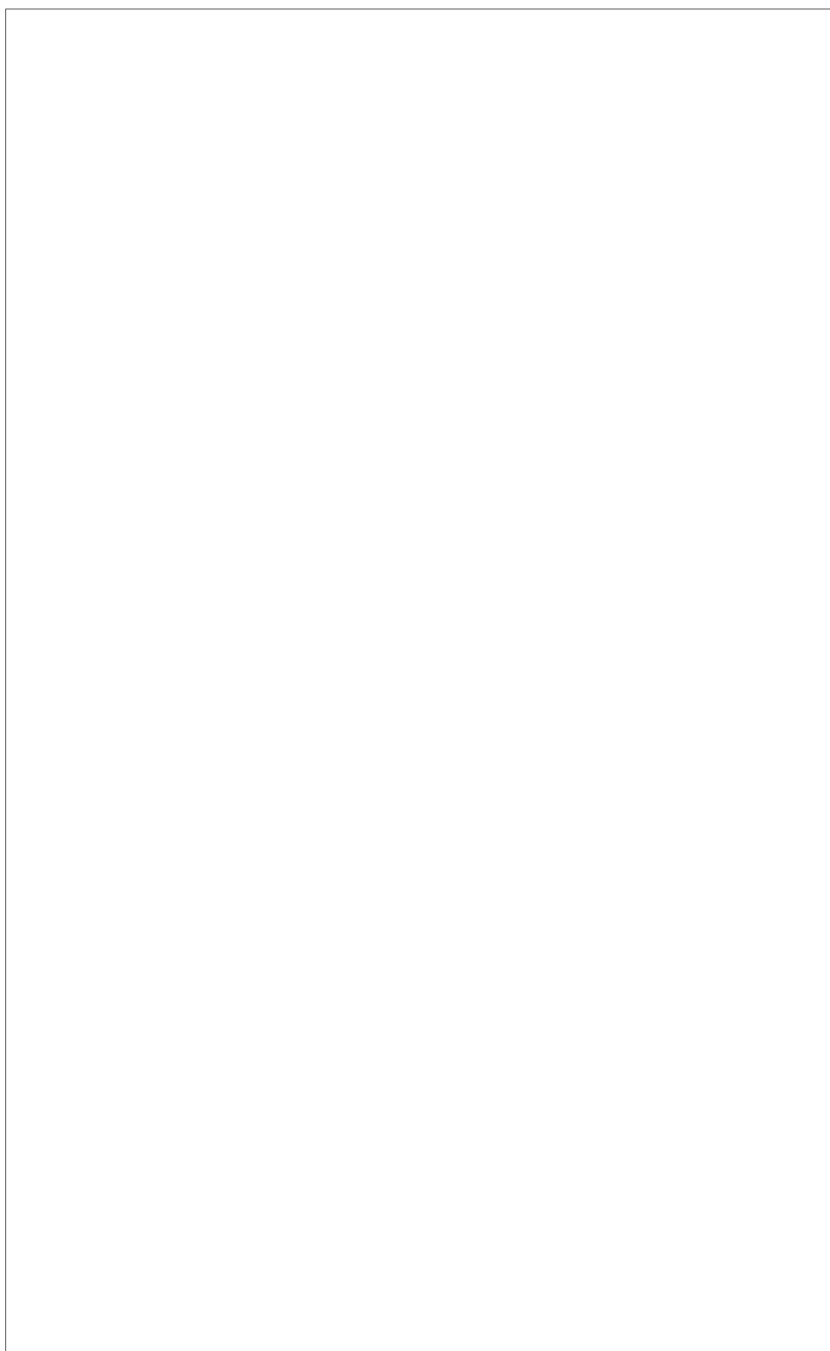
The Soviets have begun to discuss openly the issue of Western economic assistance, focusing on political conditions that may be attached. In a speech to the party congress, Foreign Minister Shevardnadze denied that the USSR is changing to a market economy to get aid or that there is a connection between credit agreements and other matters such as the German question or arms reductions. Several Soviet press items have also picked up the theme that aid must not come with political conditions. Prominent reform economist Nikolay Shmelov, writing in *Moscow News*, joined in rejecting political strings but said he is willing to accept economic terms like those required by the IMF.

Comment: Reformers in the leadership probably would welcome economic demands as a means of speeding the reform agenda. Some might also be willing to accept political terms but only if they were not publicized to preclude their use by hardliners to undermine the leadership.

~~Top Secret~~

1363

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10 July 1990

1364

~~Top Secret~~



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10 July 1990

~~Top Secret~~**TAIWAN: Lackluster Prospects for Reform**

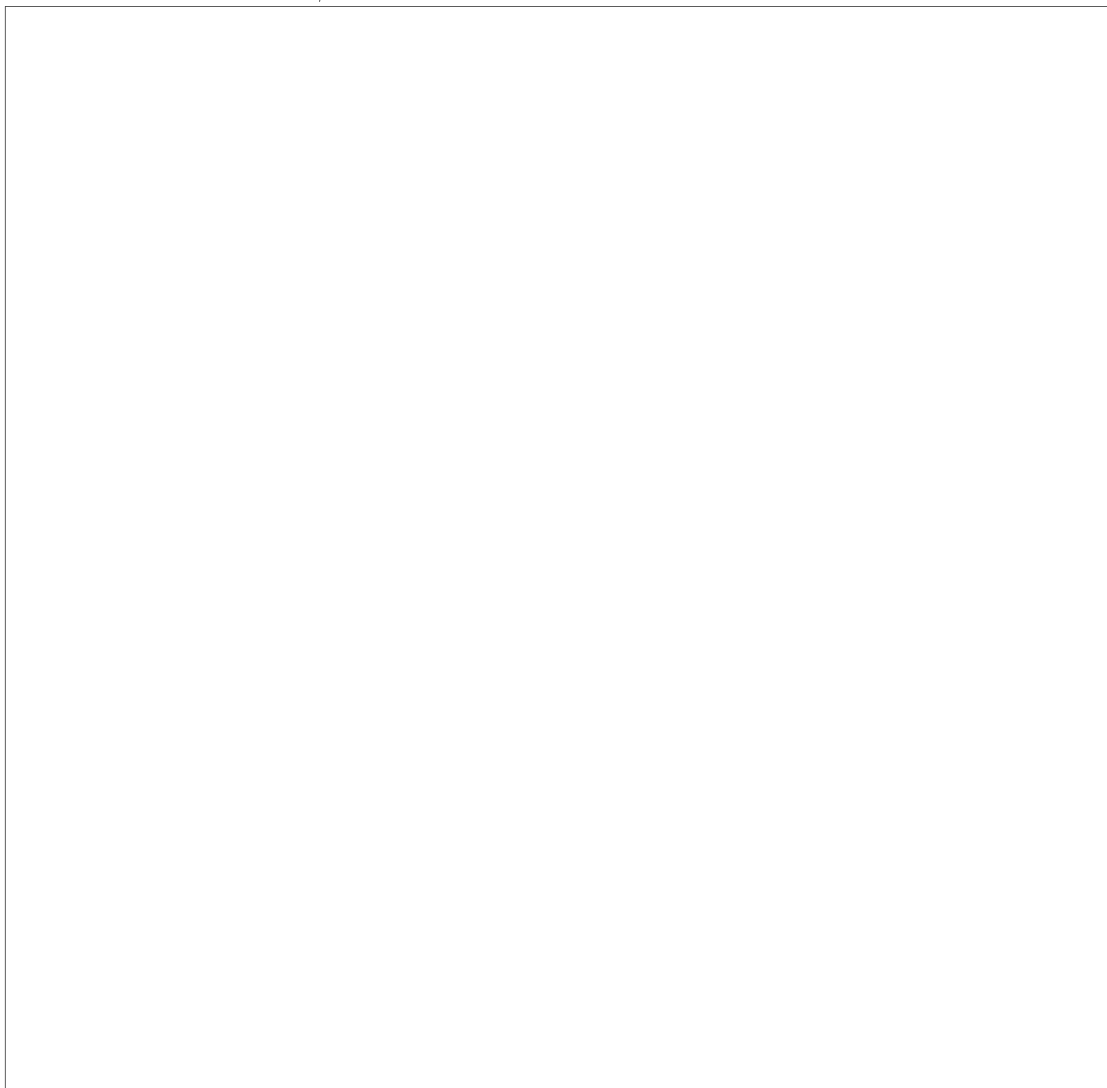
President Li Teng-hui will find it difficult to implement long-promised reforms of Taiwan's political system despite the endorsement of direct presidential elections and restructuring of the island's three legislative bodies by a just-concluded conference. Li failed to gain support for a timetable for the reforms, and senior ruling-party officials indicate some changes may be delayed up to six years.

Comment: The President will try to translate the conference's vague recommendations into law during the fall legislative session. He lacks control, however, over young party reformers who are increasingly willing to vote against government policies that lack constituent support. Conservative mainlanders led by Premier Hao Po-ts'un, seeking to maintain their political dominance, almost certainly will try to force Li to modify further reform legislation to accommodate their interests. The radical opposition may try to turn voter disillusionment with the conference into street protests, raising the prospects of renewed violence and a crackdown on political dissent by orthodox party elders.

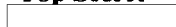
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10 July 1990

~~Top Secret~~**VIETNAM: New Trade, Aid Accords Undermining Embargo**

Hanoi continues chipping away at the international economic embargo imposed after it invaded Cambodia in 1979. It is, for example, selling Malaysia 10,000 tons of rice this year, Kuala Lumpur's first such purchase since 1975, according to a press report. Last month it signed a trade agreement with Australia establishing a framework to expand economic links, including regular government contacts on trade and investment issues. In May Vietnam and Italy signed investment and technical cooperation agreements and a \$100 million aid agreement. [REDACTED]

Comment: Vietnam is anxious to attract more Western aid and investment. Despite reform efforts, its moribund economy remains troubled by shortages of critical resources, a primitive infrastructure, and a rigid bureaucracy. Substantial Western aid and investment are unlikely before a settlement in Cambodia, but some Western businessmen and governments believe keeping Vietnam isolated does little to promote a settlement. They also do not want to fall too far behind potential competitors in establishing a presence in the Vietnamese market in anticipation of a settlement. [REDACTED]

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- Israeli press reports 160 Soviet Jewish immigrants recently settled in Golan Heights . . . Israel sees settlement in area annexed in 1981 as less controversial than in West Bank, Gaza . . . still unacceptable to Syria, other Arabs. [redacted]
- EC officials hope to meet with Israeli Foreign Minister Levi on 23 July, PLO representative to Arab League Balawi on 24 July in Rome . . . trying to rebuild EC-Israeli ties, encourage PLO steps to reopen dialogue with US. [redacted]
- Iraqi, Syrian, Turkish ministers late last month failed to agree on Euphrates River water sharing . . . Ankara unwilling to meet increased water demands of those downstream . . . Turks, Iraqis increasingly at loggerheads over issue. [redacted]

USSR

- Gorbachev yesterday named delegation to negotiate with Lithuania . . . Premier Ryzhkov, chosen head, said Saturday that to gain independence Lithuanians must follow secession law . . . suggests talks to shape negotiations will be thorny. [redacted]
- Soviet Premier Ryzhkov announced 7-million-ton cut in oil exports to ease fuel shortages slowing harvest of bumper crop . . . reductions to Eastern Europe included . . . cut. 4 percent. will further weaken trade position. [redacted]
- Soviet statistics show industrial production through June 0.7 percent lower than last year . . . production off sharply in Azerbaijan, Georgia, Armenia, Lithuania, Tajikistan . . . incomes still outpacing consumer goods, creating shortages. [redacted]
- Court in Soviet Tajikistan Saturday sentenced to prison 21 persons convicted of instigating riots in February . . . nationalism, interethnic tensions driving continued flight of skilled, educated non-Tajiks . . . exodus threatens local economy. [redacted]

[redacted]

Americas

- Senior Tupac Amaru leader, at least 40 other insurgents escaped from maximum security prison in Peru yesterday . . . will raise group's morale, pose headaches for President-elect Fujimori. [redacted]

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10 July 1990

1370

~~Top Secret~~



~~Top Secret~~



10 July 1990

~~Top Secret~~

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East Asia

- **Chinese** say coal production up 6.1 percent over first-half 1989, oil and gas output nearly static . . . cuts in energy investment foreshadow continued shortages . . . Beijing counting on foreign loans to foster long-term growth. [Redacted]
- **China's** legislature will not pass copyright law this session despite promises . . . domestic TV/radio industry lobbying successful . . . Beijing's ability to address US concerns before April bilateral trade talks in doubt. [Redacted]
- **Singapore** warned citizens last week to withdraw investments in **Cambodia** until political settlement reached . . . embarrassed by reports Singaporeans invested in Phnom Penh hotel . . . weak enforcement likely despite hard line on diplomatic front. [Redacted]

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Aspects of Polish Economic Reform—Phase II

To ease the effects of recession without re-igniting inflation, Warsaw is taking several measures that may assuage interest groups in industry, agriculture, and small business. It is:

- Cutting subsidies further and shifting the budget from surplus to deficit so it can channel more funds to strapped local governments, housing construction, and selective price supports for agriculture, including the dairy industry.
- Raising incentives by allowing bigger tax-free wage increases in industries where productivity is rising or where base rates are now judged to have been set too low.
- Reducing and stabilizing central bank interest at an annualized rate just above the inflation rate.
- Spurring competition by breaking up more monopolies, lowering or removing import tariffs, and giving more tax breaks to small businessmen to advance small-scale privatization.
- Liberalizing foreign trade and investment rules; most export quotas will be eliminated, and restrictions on profit repatriation will be eased more quickly.

~~Top Secret~~

10 July 1990

~~Top Secret~~**Special Analysis****POLAND: Midcourse Corrections on Economic Reform**

The Mazowiecki government is preparing to fine-tune ambitious economic reforms in an effort to limit a recession that has been deeper than it expected. A surge in unemployment and prices over the next few months, however, is likely to overshadow any improvements. [redacted]

Warsaw is loosening up slightly to breathe a little life into the economy after six months of Finance Minister Balcerowicz's "shock therapy." Arguing that the stabilization program is bringing down inflation—the May rate fell to 4 percent—the government has decided on selective measures to stimulate the economy. Warsaw insists that this is only a planned "second phase" of the economic reform program and that it signals no general retreat from belt-tightening fiscal and monetary policies. [redacted]

Economy Shrinking

When Warsaw launched its tough reform program in January, it built its 1990 budget around a jobless forecast of 400,000, but by mid-June unemployment had already topped 500,000. It will jump again this month and through the rest of the year as thousands of 90-day termination notices expire and as new graduates sign up for benefits. It now seems likely that more than a million people will be out of work by December. [redacted]

The picture is not much brighter elsewhere in the economy. Although the rate of decline in production is slowing, output is still off 28 percent, as compared with last year's level. Declines have been twice as steep in light industry, food processing, and chemicals. [redacted]

Trade surpluses and hard currency reserves are rising but largely as a result of falling imports of raw materials from the East and capital goods from the West, a situation that will further depress output and employment. Monthly drops in real income are slowing to the single-digit range, but the decline since December has been 42 percent. [redacted]

Remedial Action

The government is acting on two fronts to prevent the recession from deepening. It is moving to approve easier credit terms, higher wages,

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and more money for local government welfare programs; it will also push harder to restructure the economy to respond better to market signals. For example, Warsaw pledges stricter enforcement of antitrust laws to break up monopolies and plans to auction off 20 to 30 state firms by year's end if, as expected, the legislature passes the requisite privatization laws this month.

Outlook

The Mazowiecki government is walking a tightrope. It must prevent a resurgence of inflation and retain the support of Western governments, banks, and international financial organizations. But it almost certainly feels driven to ease up where possible to keep domestic political support for reform. Against the backdrop of Lech Walesa's pressure for faster political change as a tradeoff for the economic hardships, the government no doubt reads the political danger signs in recent strikes and in protests from worker, farmer, and consumer interests.

Warsaw hopes that economic recession and the risk of political turmoil will reinforce its appeals for debt reduction. It argues that permanent relief from 80 percent of its \$25 billion official debt to the West is a concession it deserves because of its track record on reform and the need to attract foreign investment.

Attempts to prime the economy and give people hope probably will have to compete with a rash of bad news in the fall. Bankruptcies are likely to proliferate in late summer because many state industries will run out of materials, money, and markets. Unemployment probably will approach 1.5 million, about 17 percent of the urban industrial work force. In addition, the anticipated initial selloff of state firms later this year probably will fall short of expectations because of a scarcity of domestic private capital. These strains are likely to coincide with a surge in inflation triggered by this month's energy price hikes, planned rent increases, and food prices driven higher by sagging farm production.

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