



**Director of
Central
Intelligence**

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National Intelligence Daily

*Friday
2 March 1979*

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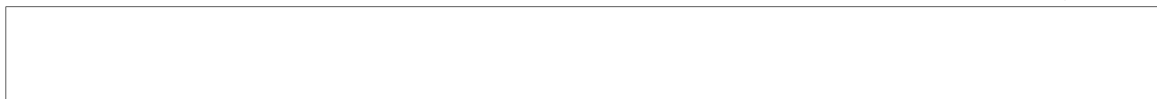
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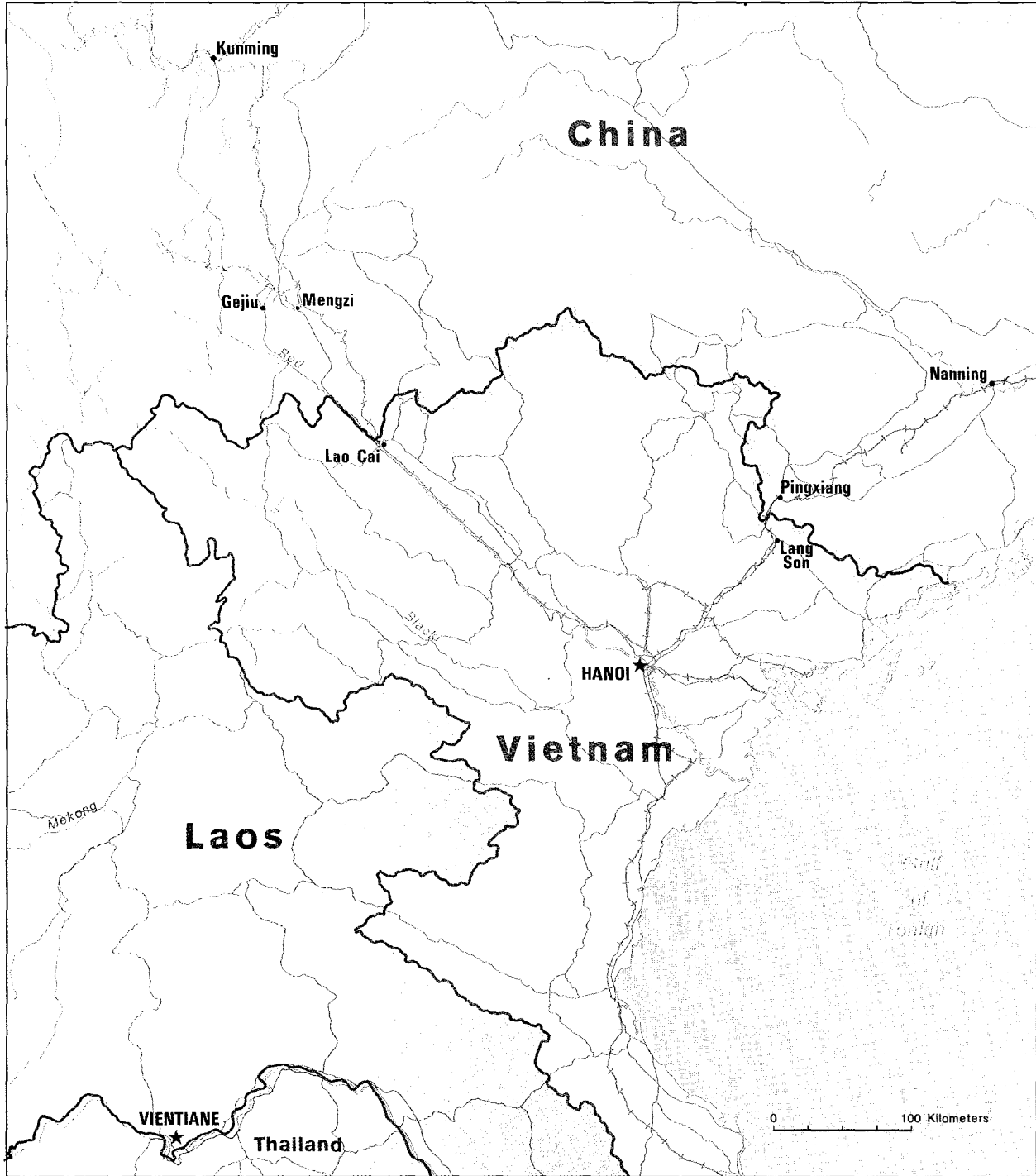
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SITUATION REPORTS

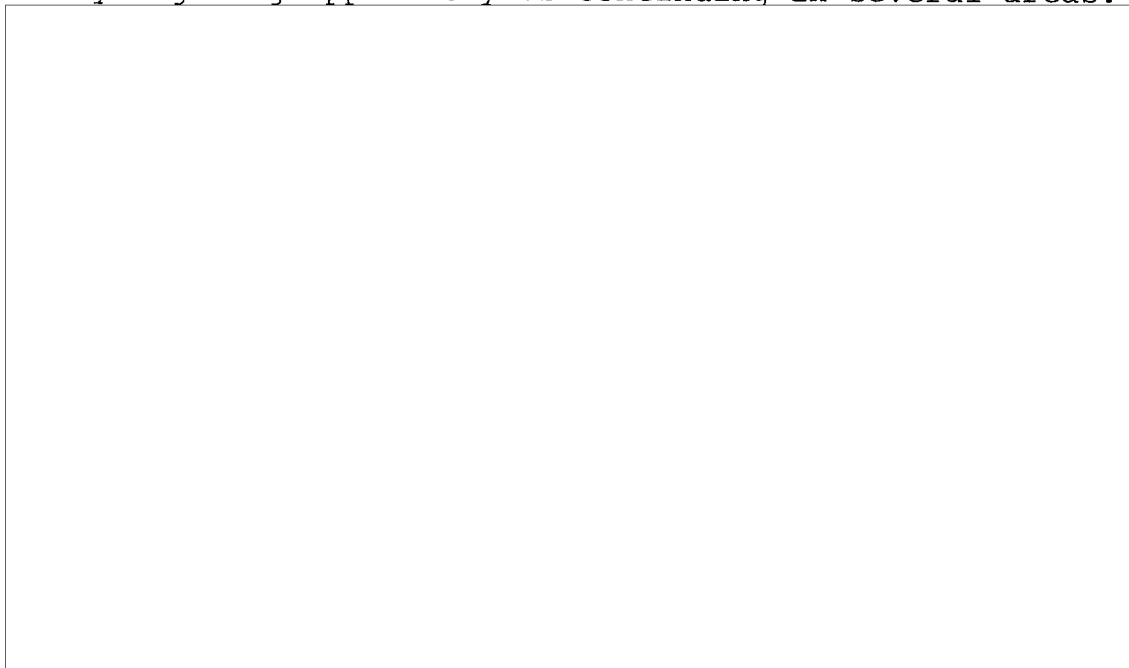
CHINA-VIETNAM-USSR

China has formalized its offer, made earlier through the media, to negotiate its differences with Vietnam. In a note from the Chinese Foreign Ministry to the Vietnamese Embassy in Beijing, China reiterated its call for "peace talks" and suggested the two sides dispatch representatives at the deputy foreign minister level to hold talks "as soon as possible" at a mutually agreed upon location. The Chinese note implies the negotiations would be restricted to border problems. Vietnam has not yet responded to the proposal but almost certainly will reject it; Hanoi has consistently refused to negotiate so long as Chinese soldiers remain on Vietnamese soil. In the event of a rejection, China will undoubtedly portray Vietnam as the intransigent party.

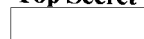
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We continue to receive little reporting on the military situation along the Sino-Vietnamese border, but heavy fighting apparently is continuing in several areas.

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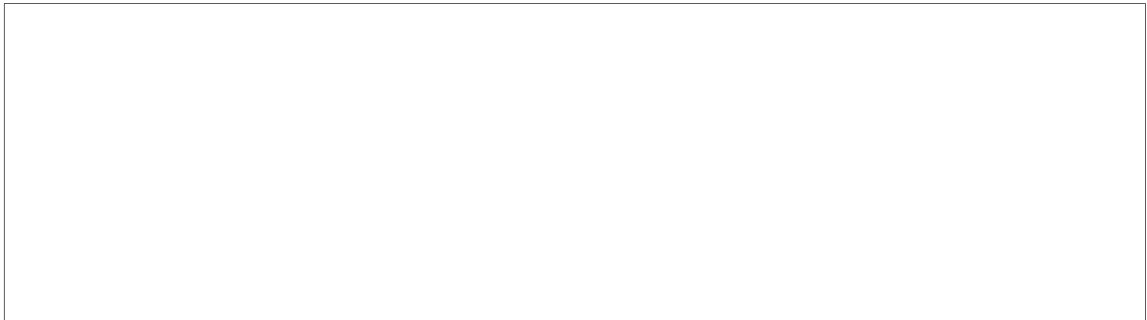
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Leadership Speeches

Like the speeches of the Soviet leaders who preceded him, Premier Kosygin's election speech yesterday provided no clues as to how Moscow will respond to the Chinese invasion of Vietnam. Kosygin's remarks were notable for:

- His statement that Vietnam would not be abandoned in its "time of trial."
- Criticism of unnamed international forces who take "an equal approach" to China's invasion of Vietnam and events in Kam-puchea.
- The attack on "imperialist forces in the West and the Far East" for encouraging "the Chinese leadership's aggressive course" and trying to make states renounce their efforts to curb the arms race.
- His reaffirmation of Soviet interest in expanded trade and economic ties with the US.
- His conclusion that despite recent developments, the trend toward relaxation of tension remains "a leading one in international life." 25X1

Kosygin said, however, that in view of escalation by the "militaristic aggressive forces" in the world, it is necessary to maintain and strengthen the Soviet defense potential. 25X1

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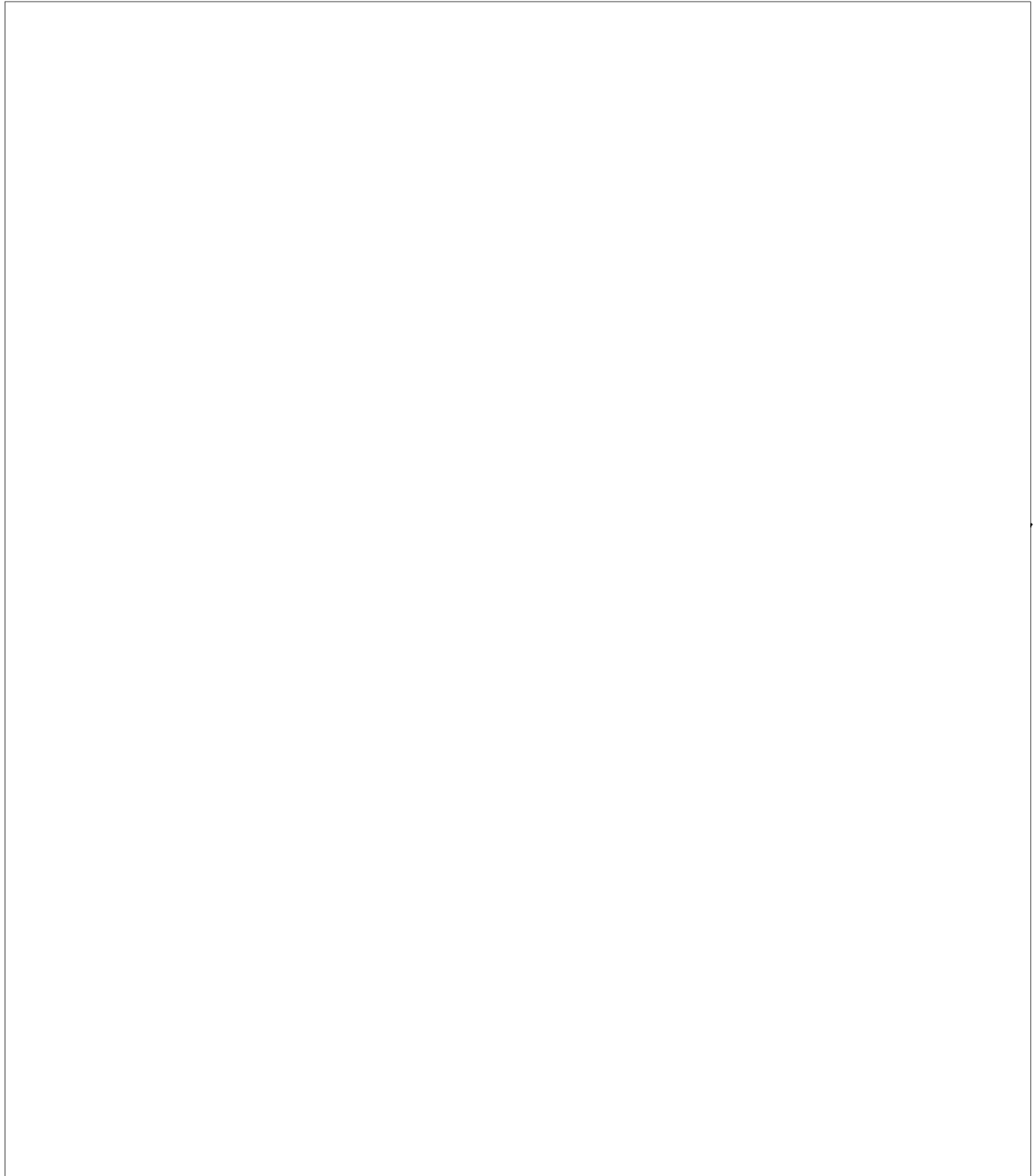
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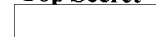
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In stating that the "changes in Kampuchea are ir-
reversible," Kosygin implied that Moscow will continue 25X1
to resist efforts for a negotiated settlement of the 25X1
conflict in Kampuchea. 

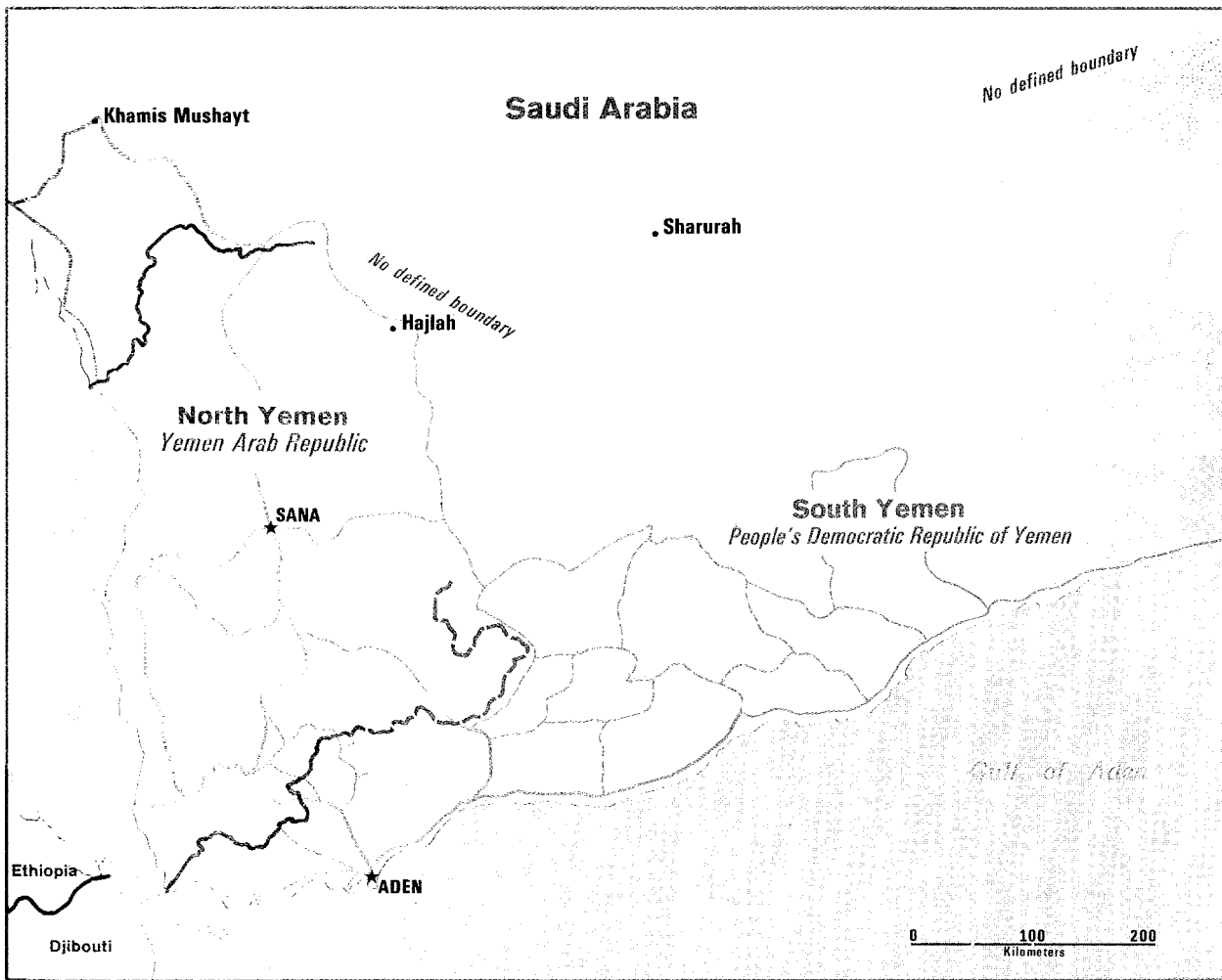


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ALERT MEMORANDUM

IRAN

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despite some progress in restoring economic activity. His government has not succeeded in restoring law and order, is beset by political divisions in its own ranks, is troubled by nascent autonomy movements in Kordestan and Azarbaijan, and is facing a severe challenge from heavily armed and committed leftists.

[Redacted]

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Bazargan's problems may be increased now that Ayatollah Khomeini has left Tehran for Qom and has removed himself from the day-to-day conduct of governmental affairs.

[Redacted]

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We believe there is a good possibility that the Bazargan government may not survive the combined pressures posed by internal friction and a sustained challenge from the left. Even if Bazargan is able to remain in office, he probably will have to continue to make far-reaching concessions to the left in order to retain power. There is also the possibility that the Prime Minister may be overthrown by more radical members in or outside of his own government, and there is potential for civil war if he decides to challenge the left militarily.

[Redacted]

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Given the likelihood of prolonged instability in Iran, there is little prospect that the Bazargan government will be able or willing to develop effective cooperation with the US. The government will be preoccupied with its own survival and maintaining the country's national cohesion; its reliability as an oil exporter will be in doubt.

[Redacted]

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While the Soviets have maintained a cautious and conciliatory line toward Bazargan in most respects thus far, clandestine radio has tacitly supported his leftist

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opponents on one key issue--their insistence that they be allowed to retain the arms that enable them to force concessions from him. Moscow is likely to increase covert efforts to broaden its contacts among the leftist factions while gradually becoming more open in support for the Tudeh (Communist) Party's claim to a role in the new power alignment. Should the situation degenerate into open civil war, the Soviets are likely to funnel covert support to those groups that then appear most favorable to their interests, while professing nonintervention and continuing to warn the US against intervention.

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USSR-IRAN: Soviet Position

Soviet leaders have been notably quiet about Iran, and a Soviet Foreign Ministry official told a US Embassy officer this week that the situation there is unclear. The Soviets are undoubtedly concerned about Ayatollah Khomeini's anti-Communist orientation, however, and probably hope to strengthen those forces--especially the Tudeh (Communist) Party--they would prefer to see in power. [redacted] 25X1

The Soviet official indicated that the revolution would not be stopped, although it might slow down or take a conservative turn because the left is weak. [redacted]

The Soviet media coverage of the government of Prime Minister Bazargan, while reminiscent of the cautious line toward the Shah before his fall, has been both more positive and more extensive. The Tudeh Party and the Soviet-supported clandestine radio, the "National Voice of Iran," which had consistently attacked the Shah, have expressed support for Khomeini. [redacted] 25X1

The Soviets, however, treat Khomeini's victory as only the "first stage" in the revolution. While this line can be defended as supporting the Bazargan government, we believe it indicates the Soviets are hoping to see movement toward a leftist regime. The "National Voice" is calling on the revolutionary forces to retain their arms despite the Bazargan government's efforts to disarm the population. The "National Voice" argues that this is necessary to guard the revolution against the threat of imperialists and counterrevolutionaries. [redacted] 25X1

The "National Voice" has also expressed support for the Mujahadin, the terrorist group that defends Khomeini's interests. We have no evidence of any open Soviet contacts with either the Mujahadin or the Chariks, the leftist terrorist group. While both groups have probably received assistance from Soviet-supported third parties, the Soviets have generally avoided providing direct support to such extremist groups. It seems unlikely that the Soviets would support any direct challenge to Khomeini and risk alienating him completely. [redacted] 25X1

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[redacted]

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[Redacted]

USSR: Oil Export Problems

Recent severe weather in the USSR has boosted oil consumption and slowed oil production. It has also led to oil transport difficulties, especially in rail movements. Another problem is the four-month cut-off in Iranian gas deliveries, which has forced the Soviets to substitute oil for gas in the Transcaucasus region, and to cut back oil deliveries to the West. The prospect is for a decline in total oil exports throughout 1979.

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[Redacted]

[Redacted] the USSR has cut off oil deliveries of about 65,000 barrels per day to Sweden for the past three or four months. India also has reported delays in Soviet shipments of kerosene and diesel fuel.

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[Redacted]

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[Redacted] the USSR has also withdrawn from the spot market in Rotterdam

[Redacted]

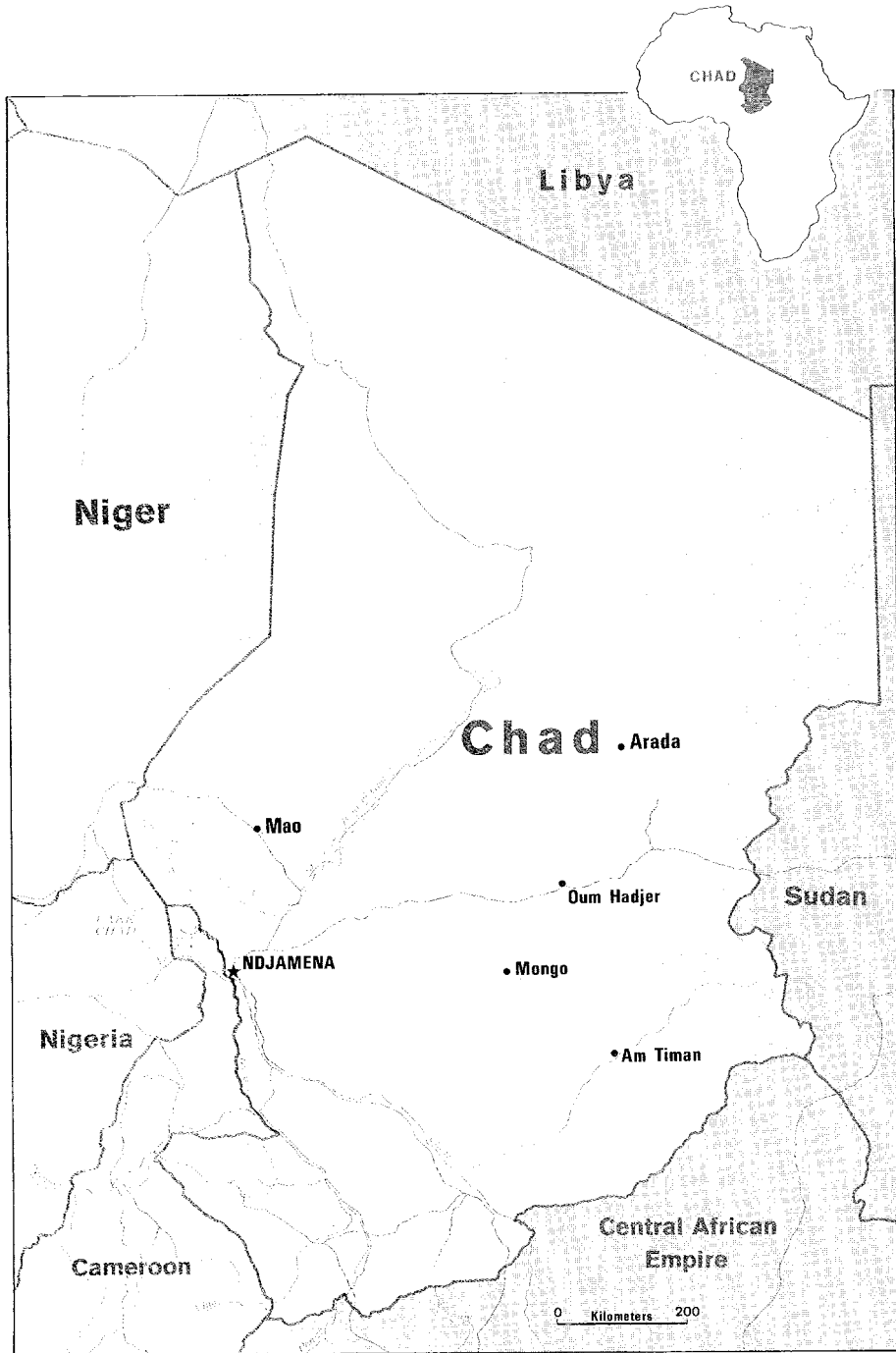
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CHAD: Military Situation

Forces loyal to President Malloum are abandoning most of central and eastern Chad to rebel armies and followers of Prime Minister Habre, a former rebel leader. Units of the Chadian Army appear to be withdrawing south to a line extending roughly from Am Timan to Mongo to Ndjamena. Habre's army controls many of the towns in the center of the country, including Oum Hadjer and part of Ndjamena. Rebels led by Goukouni, the most influential of the Muslim rebel chieftains, appear to have substantially strengthened their position and now control Mao and Arada and most of the territory north. Goukouni's forces and rebels allied with them also control most of the Lake Chad region. By pulling back to the south, Malloum undoubtedly hopes to retain administrative control over the most populous and wealthiest part of the country where he also has his primary base of tribal support. Goukouni, on the other hand, is taking advantage of the situation to strengthen his bargaining position in the peace negotiations scheduled to take place next week in Nigeria.

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MOROCCO - SAUDI ARABIA: Hassan Visit

King Hassan is to visit Saudi Arabia next Monday, according to the Saudi Ambassador in Rabat. Hassan may request Saudi assistance in reopening direct Moroccan-Algerian talks on Western Sahara. French efforts to facilitate such contacts last month apparently were unsuccessful. The war is going badly for Morocco, and Hassan needs a political settlement. He will also discuss regional developments with the Saudis and request renewed Saudi financial support. Saudi aid, other than that tied to specific projects, has been generally blocked for more than a year largely because of Moroccan unwillingness to accept effective monitoring of its end use.

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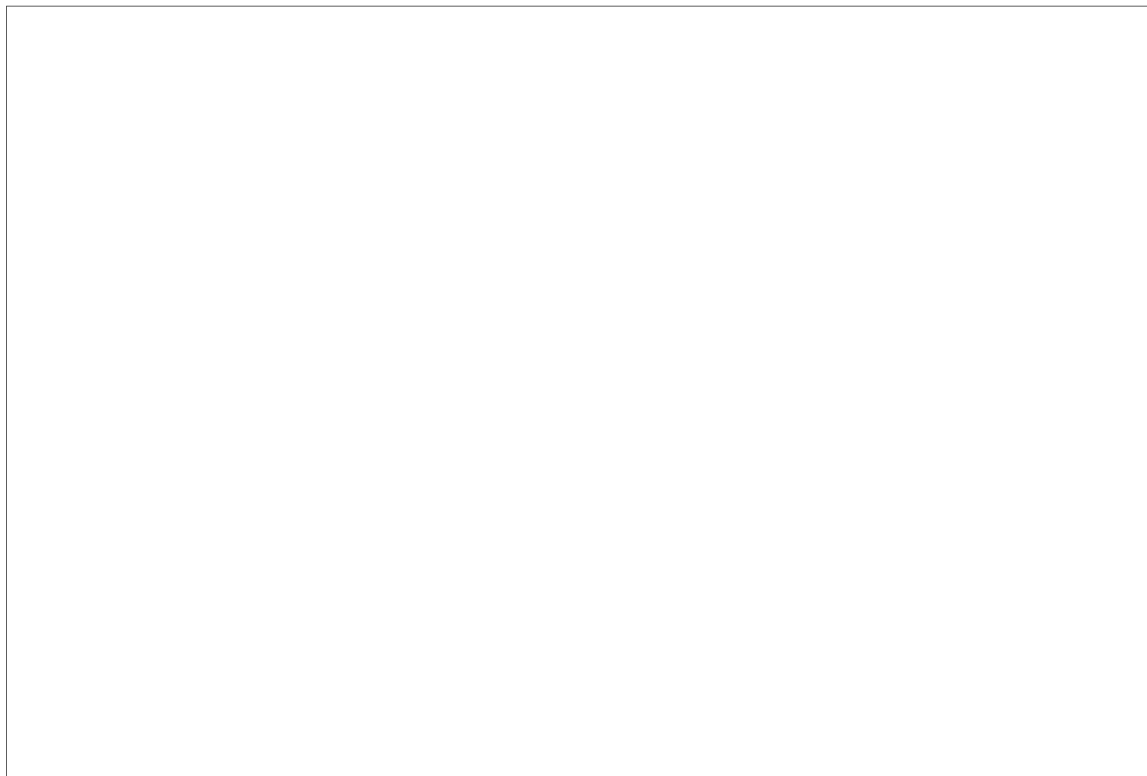
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VENEZUELA: Oil Prices

President Perez has assured US Ambassador Luers that Venezuela--despite the advice of his Minister of Energy and despite having raised residual fuel oil prices yesterday--will not change its crude oil prices before current contracts with US oil companies expire on 31 March. We believe Perez will keep his word. Nevertheless, the inauguration on 12 March of President-elect Herrera--who has already praised the recent round of price increases--as well as growing internal pressure to take advantage of current market trends, will doubtless bring an increase in crude prices when current contracts expire on 31 March.



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USSR: Salyut-6 Update

Two Soviet cosmonauts who boarded the Salyut-6 space station on Monday have activated and performed an initial checkout of the station's equipment. They are giving special attention to the station's life support, thermoregulation, and power supply systems. Although some replacement of parts is necessary, the cosmonauts stated that their preliminary examination indicates the station is capable of supporting a continued mission. It is likely that the Soviets later this month will launch an unmanned Progress resupply vehicle. 

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SPECIAL ANALYSIS

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CHINA: Youth Protests

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Chinese leaders seem to recognize that, in the long term, the success or failure of their drive to modernize the nation depends in part on how effectively they can harness rising public expectations. In recent months, the leadership has been fairly tolerant of peaceful demonstrations by young people impatient for the improved living conditions they associate with modernization. The disruptive protests by urban youth in Shanghai early last month, however, prompted swift but measured action to restore order and to prevent similar outbreaks elsewhere.

[Redacted]

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In early February, youth who had been resettled in rural areas in lieu of college or factory employment took advantage of liberal leave and travel policies during the Lunar New Year celebration to return to Shanghai and protest the refusal of local leaders to approve their permanent transfer back to the city. Students blocked rail service to the city, damaged streetcars, tied up traffic, and surrounded the municipal offices.

[Redacted]

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The central authorities responded swiftly. Public security officials warned the protesters to cease, and after a series of meetings and the receipt of a hastily telephoned directive from Beijing, the disruptions ended. According to the city's radio service, only two of the protesters were detained.

[Redacted]

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Problems with Resettled Youth

The Shanghai protests, while the most violent, are not the first involving disgruntled resettled students. Protests by the students--unhappy about their educational

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or urban job prospects--have occurred throughout the history of the "down-to-the-countryside" program. Modifications of the program announced at a national conference last fall heightened expectations that real improvements were just around the corner and led the students and urban youth to demand immediate improvement in their living condition and transfers home. Beijing had tried to avoid the impression that changes would come swiftly; the conference held that, while it was possible to "modify the policy and improve methods," the end of 25X1 the program and the solution of related problems could come only after modernization--that is, slowly. [redacted]

The most successful and widely publicized protest came in late December when a group of 28 students from the border areas of Yunnan went to Beijing and demanded a meeting with top officials. Although Premier Hua Guofeng and Vice Premier Deng Xiaoping apparently did not meet with the group, Vice Premier Wang Zhen, who once had responsibility for the resettlement program, and the Minister of Civil Affairs did. They sharply rebuked the students for leaving their workposts and warned that such behavior could seriously damage China's modernization effort. [redacted]

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Managing Expectations

The Shanghai protests, and similar disturbances in Hangzhou and Nanchang, reflect potential contradictions in China's overall drive toward modernization. The relaxation of restrictions on the public airing of grievances last fall was aimed largely at generating popular enthusiasm for modernization. The regime's open commitment to change and, more specifically, to the improvement of living conditions already appears to be resulting in rapidly rising levels of expectation and a degree of protest clearly unacceptable to the regime. [redacted] 25X1

How successful Beijing is in balancing popular expectations against realistic goals will be an important factor determining the long-term success or failure of its modernization effort. Beijing's response to the recent protests, in fact, suggests a deep awareness of the long-term implications of such unrest. [redacted]

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The leadership has taken strict action only against a small number of instigators. More important, it has not attempted to sweep the recent disturbances under the rug. Instead, it has widely publicized the Shanghai protests as a means of forcefully restating its basic policy that "socialist democracy" is necessary but that it cannot be permitted to disrupt the modernization effort. The leaders have begun to drive home the sobering point that improved conditions, both political and social, depend on how successful the drive is to boost production and modernize China.

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[redacted]

OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Spain

According to official projections of results of yesterday's legislative election announced late last night, Prime Minister Suarez' Union of the Democratic Center will win about 170 of the 350 seats in the lower house of the legislature--five seats more than it won in 1977 but short of a majority. The Socialists of Felipe Gonzalez have about 116 seats. As anticipated, abstentions rose to over 30 percent, giving a boost to the Communist Party, which will probably increase its 20 seats in the current legislature to about 25. The rightist Democratic Coalition may slip from 16 to eight seats. [redacted]

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COMMENT: *Suarez' party appears to have won a surprisingly clear victory. King Juan Carlos is virtually certain to nominate Suarez to form another government. Parliament must approve Suarez' appointment; because he lacks a majority there, Suarez may delay government formation, perhaps until after the municipal elections on 3 April.* [redacted]

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UK

The opposition Conservative Party yesterday won two byelections held in districts traditionally "safe" for the Tories. The Conservatives promptly called for a general election. According to Western news services, official results of the referendum on devolution in Scotland and Wales will not be known until tonight. A poll conducted after the referendum by Britain's commercial television network indicated that voters in Wales overwhelmingly rejected devolution. Those voting in Scotland approved devolution, but voter turnout was low. The network projected that the measure would consequently fail to meet the requirement that 40 percent of the electorate approve it. [redacted]

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Italy

According to the US Embassy, Prime Minister - designate La Malfa has proposed the formation of a government composed of the Christian Democrats, Republicans, and Social Democrats that would be supported by the Socialists and Communists. The three prospective coalition members support the proposal. The Socialists and Communist Party leader Berlinguer have not commented, but the Communist daily *L'Unita* has ruled out the proposal as a possibility. The Embassy believes that the Socialists are trying hard to convince the Communists to go along with La Malfa and at the same time are attempting to decide whether they can risk supporting him if the Communists do not. Christian Democratic and Communist leaders met yesterday; they reportedly did not resolve their differences. La Malfa will consult with leaders of all the parties and then report to President Pertini.

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Namibia

The US Embassy in Ethiopia reported yesterday that South-West Africa People's Organization (SWAPO) President Sam Nujoma, upon arriving in Addis Ababa on Wednesday, publicly accused the US and other "imperialist countries" of subverting the UN plan for Namibia while working toward the creation of a South African puppet regime in the area. Although Nujoma restated SWAPO's desire for a UN-supervised election, he advocated active participation by the Organization of African Unity in the implementation of the plan and strongly rejected the inclusion of NATO or Australian forces in the proposed UN peacekeeping contingent for Namibia. Ethiopia's acting Foreign Minister Dawit informed the US Ambassador that Nujoma is giving serious consideration to boycotting the election. The Embassy commented that Nujoma's trip to Addis Ababa reflects his intention to maintain close connections with the East as insurance against failure of the UN plan.

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