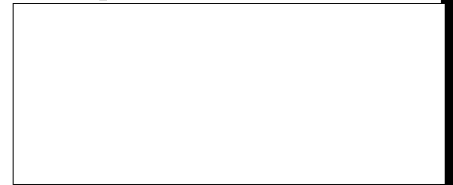




**Director of
Central
Intelligence**

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National Intelligence Daily (Cable)

6 July 1982

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CPAS NIDC 82-156C

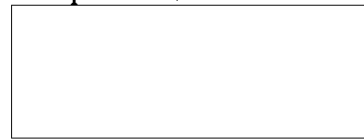
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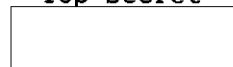
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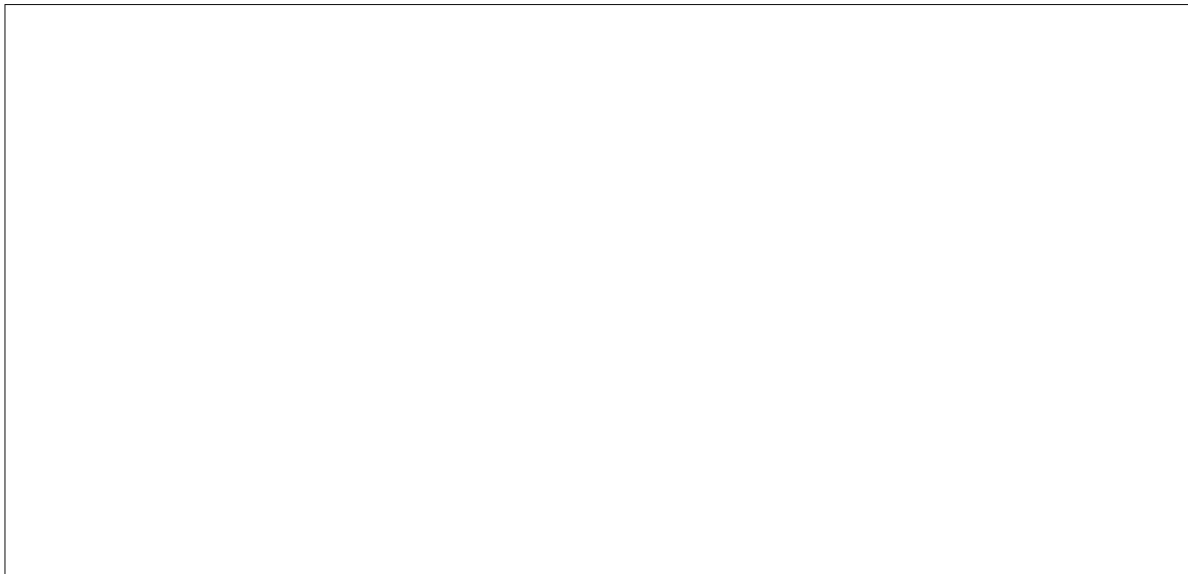
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ISRAEL-LEBANON: Continuing Israeli Pressure

Beirut became quiet again yesterday following a cease-fire that ended three days of intensive artillery and tank battles between Israeli and Palestinian forces in the southern outskirts of the city. Prime Minister Wazzan said he would end his mediator role. 

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Comment: The Israelis are consolidating their positions south of Beirut and trying to push the Palestinians back into West Beirut. The heavy bombardment of the Burj al Barajinah refugee camp suggests that this Palestinian stronghold may be the next Israeli objective. 

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Beirut Cut Off

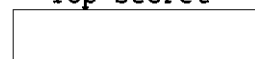
Prime Minister Wazzan said yesterday that he was ending his mediator role because of the Israelis' continued harassment of West Beirut and their control of checkpoints in the city. Beirut radio said Israeli forces had cut off all water, electricity and telephone service into West Beirut and had turned back Red Cross relief vehicles trying to enter that area. 

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Comment: Wazzan has been the chief contact between the Lebanese Government and the PLO, and his refusal to participate in further talks could seriously delay the negotiating progress. [redacted]

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West Bank Unrest

Two West Bank Arabs were killed and several wounded Saturday during demonstrations protesting the Israeli invasion of Lebanon. The body of an Israeli settler--whom security officials believed was killed by Palestinians--was discovered near Bethlehem on Friday. [redacted]

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Comment: The West Bank has been generally quiet since the Israeli invasion began, but the recent activity may point to an increase in political activity and the possibility of further violence. [redacted]

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Casualty Estimates

Israeli Economy Minister Meridor yesterday announced that Israel now believes 331 Lebanese and Palestinian civilians were killed and 1,083 wounded in the recent fighting. The figures do not include casualties in the Beirut area. [redacted]

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Comment: The Israeli figures do not include PLO military casualties, which Israeli spokesmen have previously put at about 1,000 killed in areas outside of Beirut. [redacted]

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GREECE: New Cabinet

Prime Minister Papandreou's replacement of virtually all of his economic ministers in a cabinet shakeup over the weekend is designed to underscore the priority he places on solving economic problems. []

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Greece maintains a good credit rating, but it is plagued by a 25-percent rate of inflation, sagging investments, and a poor balance-of-payments outlook. In making the cabinet changes, Papandreou stated that economic problems require "more intensive handling." Except for the replacement of Deputy Defense Minister Petsos, there were no changes in the foreign affairs and defense ministries. []

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Former Governor of the Bank of Greece Arsenis will head up the new Ministry of National Economy, which replaces the Ministry of Coordination and assumes many functions of the old Ministry of Industry and Energy. Former Governor of the Industrial Development Bank Koulourianos will become the new Finance Minister. []

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Arsenis gained much of his practical experience working with the UN on development and monetary policy, while Koulourianos spent a major portion of his career with the World Bank. Both received some higher education in the US and are considered political moderates. []

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Comment: The changes are likely to be well received by the business community and may help rekindle investor confidence. Most industrialists had remained skeptical of the new socialist government--a problem compounded by the inexperience of many of the previous economic ministers and the apparent lack of intergovernmental coordination on key policy issues. []

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The changes also underline Papandreou's gradual shift toward pragmatic foreign and economic policies. Most Greeks thus far approve of the Prime Minister's handling of foreign affairs, but growing public unease over the government's stopgap economic policies had begun to surface. Papandreou probably felt compelled to put together a new team that could help improve the business climate before municipal elections in the fall. []

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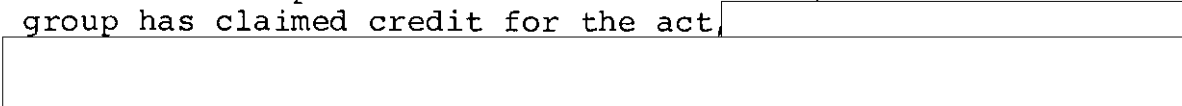
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HONDURAS: Bombing of Power Plants

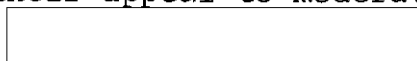
Terrorists on Sunday dynamited two major electrical plants in Tegucigalpa, blacking out the entire Honduran capital. Some power was restored yesterday, but at least 80 percent of the city's 500,000 inhabitants are expected to be without power for three to seven days. No Honduran group has claimed credit for the act,



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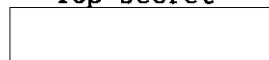
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Comment: Salvadoran insurgent leaders have publicly threatened to strike against the Honduran Government in retribution for its recent military cooperation with San Salvador in blocking guerrilla movements along the common border. If Salvadoran leftists are behind this latest escalation of violence in the neighboring country, they are unlikely to sway the public commitment of Honduran authorities to crack down on the local operations of foreign terrorist groups. Moreover, such actions by the guerrillas could undermine their appeal to moderate supporters internationally.



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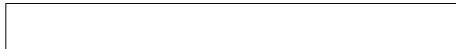
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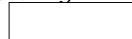
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SPECIAL ANALYSIS


PAKISTAN: Zia's Political Prospects



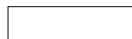
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President Zia, who yesterday marked the fifth anniversary of his takeover, faces growing problems but no immediate threat to his rule. His largely benign authoritarian regime has given Pakistan general political stability and substantial economic growth. Zia lacks an organized constituency outside the Army, however, and he could find his hold on power challenged if the economy stagnates or a popular leader emerges to unite the opposition. 

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Zia has deftly employed censorship, house arrests and preventive detention to keep the opposition off balance. He has been aided by the absence of any real alternative to his rule among opposition leaders. He also has benefited from public fears--particularly predominant in Punjab Province--that the Indians or the Soviets would exploit internal unrest or that an opposition movement would set loose dangerous separatist pressures in Sind and Baluchistan Provinces. 

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The Army is well disciplined and will follow Zia and the senior generals as long as it is not called upon to quell mass civil disturbances in its home province of Punjab. The generals will accept a gradual return to civilian rule, but probably will insist on guarantees to protect their privileges and a veto over the major foreign and domestic policies. 

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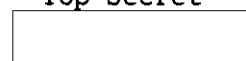
The Economy

Zia has benefited from the economy's strong performance, which is the result of good harvests, stable economic policies, the increased security of private ownership and a steady flow of worker remittances from abroad. His cautious economic policies, however, may not continue to result in growth in the years ahead. 

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Large private investors worry about the long-term stability of the regime and have failed to respond to government incentives. Pakistan's external financial position remains dangerously dependent on world crop prices and the vagaries of workers' remittances. [redacted]

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An economic downturn could stimulate serious public dissatisfaction with Zia. Price increases are a growing concern to most Pakistanis, and Zia's policy of reducing subsidies for food and energy could be exploited in the potentially volatile urban areas by his opponents. [redacted]

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Islamization

The President's policy of Islamization probably has reached a point of diminishing returns. Many educated Pakistanis resent pressure for religious conformity and feel threatened by the rise of Islamic fundamentalists and their armed student groups. [redacted]

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Some Army officers are concerned that a constant emphasis on Islam will intensify tensions between Sunnis and Shias and among other groups as the regime seeks to bring laws into conformity with Islam. If Zia presses on with Islamization, he could arouse destructive sectarian tensions. On the other hand, if he holds back he risks losing the support of influential clerics, who have benefited from Zia's Islamization program and keep the volatile cities quiet. [redacted]

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The Opposition

The opposition has failed to convince Pakistanis that it would rule Pakistan better than Zia. The Movement for the Restoration of Democracy--a coalition of opposition parties--is increasingly divided. [redacted]

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Moderates in the Movement believe some form of accommodation with the Army is possible. Radicals reject any deal with the Army and believe the next political convulsion will take the country substantially to the left. [redacted]

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The Pakistan People's Party--the largest party in the Movement--is still the most important political force in Pakistan after the Army. It would win any national election held on the traditional plurality basis. [redacted]

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The loyalty of the party's rank and file to former Prime Minister Bhutto's wife and daughter appears unshaken. The party is neither well led nor well organized, however, and needs an election or an explosive issue if it is to prosper. [redacted]

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Opposition to Zia is most intense in Sind and Baluchistan, where the Army and civil bureaucracy are viewed as instruments of Punjabi interests. In North-West Frontier Province, opposition leaders recently have begun to exploit growing tensions between Afghan refugees and local populations. Although these activities could lead to an increase in ethnic and sectarian violence, they probably would be manageable for Zia unless serious violence also breaks out in Punjab. [redacted]

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Outlook

Zia will have to respond to the growing impatience with martial law or face serious opposition. He probably will continue to use the appointed Federal Advisory Council as a soundingboard for his vague plan for "Islamic democracy" and as a vehicle for a progovernment coalition of interest groups. He has hinted that national or provincial elections will be held on a nonparty basis in the next two years. [redacted]

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The Pakistani leader will move cautiously. He is aware that any plan to provide Pakistan with altered permanent institutions also could unite the opposition. [redacted]

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Opposition politicians and anti-Zia interest groups will attempt to gain momentum for their causes this fall and winter and may succeed if clerical and merchant groups become seriously disillusioned with Zia's economic policies. If Zia loses out to a revived opposition, his most likely successor would be another general who would ensure the Army's interests in any subsequent regime. [redacted]

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[redacted]

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