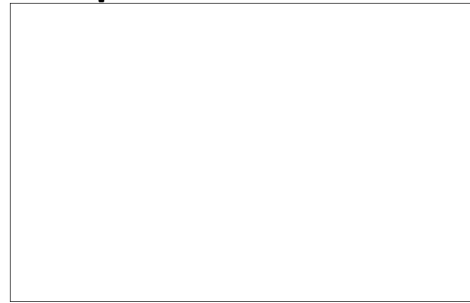




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# National Intelligence Daily

*Friday*  
*17 June 1983*

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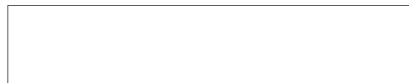
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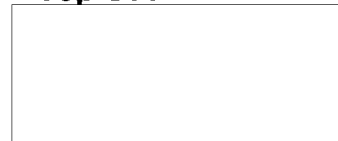
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**USSR: Supreme Soviet Session**

*General Secretary Andropov gained greatly in prestige as a national leader but added little to his real power by becoming President at the session of the Supreme Soviet yesterday, which also featured Foreign Minister Gromyko's speech containing a diatribe on US policies.* 


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Gromyko accused the US of pursuing an irresponsible policy toward the control of nuclear weapons and dismissed Washington's recent START initiative as a move taken "purely for show" that offers "no outlet" for agreement. He did, however, repeatedly assert Moscow's interest in a more productive dialogue. He claimed that "sober-minded figures in the US itself" are questioning the Administration's policies. 

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**Comment:** Andropov's power derives from the posts he already holds as General Secretary and as Chairman of the Defense Council. As President he mainly oversees the translation into law of national policies that he and his Politburo colleagues have already outlined. The new post, however, does strengthen his standing as the national leader. 

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Gromyko's statement is partially intended as a propaganda response to high-level US criticism of Soviet policies. His reference to "sober-minded" elements in the US echoes a similar comment by Andropov on Tuesday. This suggests Moscow views US defense and arms control policies as vulnerable to domestic and international criticism. 

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**CANADA-US: Prospects for Cruise Missile Testing**

*Prime Minister Trudeau probably will approve the testing of US air-launched cruise missiles in Canada at an early date, although public opposition remains widespread.* [Redacted]

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On Tuesday, following receipt of the formal US request for permission to test the missiles, Parliament voted 213 to 34 to reject a motion by the New Democratic Party to prohibit testing. The opposition Conservatives combined with the ruling Liberals to defeat the motion. One Liberal and at least one Tory voted with the New Democrats, however, and six other Liberals abstained. [Redacted]

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The vote was not a true test of sentiment on the issue because New Democratic leader Broadbent had asked for a free vote on his party's motion to allow each MP to vote his conscience. Trudeau refused, however, and instead made the motion a vote of confidence. The Tories, despite supporting the government on the vote, have joined the New Democrats in urging the government to allow a parliamentary debate before agreeing to the tests. [Redacted]

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**Comment:** Trudeau's actions on the vote seem to reflect a growing sensitivity to public and intraparty opposition. By requiring a vote of confidence, Trudeau apparently was trying to impose discipline on a Liberal caucus that has become increasingly unsettled over the prospect of cruise missile testing. [Redacted]

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The Prime Minister evidently intends to delay his government's decision until Parliament adjourns, which is now scheduled for 30 June. He would then be able to conclude the agreement before the session resumes in mid-September. [Redacted]

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The call by the Tories for a debate probably stems from their concern about the growing influence of the domestic peace movement rather than a basic change in party policy. The Tories have consistently supported the government on testing, and they are likely only to want to learn details of the proposed agreement. New Tory leader Mulroney generally has approved Trudeau's view of testing as part of Canada's contribution to NATO and as an appropriate response to the USSR's intransigence at Geneva. [Redacted]

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**JAPAN: Concern Over Trade Surplus**

*Japanese officials fear economic relations with the US may sink to a new low in coming months as Japan's trade and current account surpluses climb.* [Redacted]

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After the recent release of data showing that lower oil prices and recovery in export sales are pushing the trade surplus substantially higher, Japanese officials have begun to discuss new measures to keep the surplus from reaching \$30 billion this year. The US Embassy reports the Ministry of International Trade and Industry is studying the possibility of reducing the commodity tax on certain autos and giving preferential tax treatment to imported machinery. The Economic Planning Agency is evaluating the effectiveness of stimulating import demand by cutting income taxes or interest rates. [Redacted]

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**Comment:** Japanese officials apparently want to show some initiative on trade in time for the series of bilateral meetings with the US scheduled for July. The measures under consideration, however, probably will not keep the trade surplus below the record \$26 billion registered in 1978. [Redacted]

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Bureaucratic hurdles rule out rapid implementation of import tax changes by the Ministry of International Trade and Industry. [Redacted] studies prepared by the Economic Planning Agency in late May concluded that a \$4 billion nationwide reduction in personal income taxes would lower the current account surplus only marginally. They also noted that a 1-percentage-point cut in the discount rate would add \$2 billion to the surplus. [Redacted]

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**ITALY: Election Campaign Heats Up**

*As the national parliamentary election on 26 and 27 June draws near, more political scandals and a new proposal from Socialist leader Craxi have injected life into the campaign.* [Redacted]

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Eight Socialist leaders, including a leading candidate for the Chamber of Deputies, were arrested on Tuesday in the Liguria region on charges of criminal conspiracy and corruption in public office. This follows similar arrests, mainly of Socialists, in Turin in April. [Redacted]

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Craxi, meanwhile, has publicly proposed a three-year governing pact with the Christian Democrats to carry out needed economic reforms. [Redacted]

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Reports from the US Embassy on recent polls show increasing voter willingness to choose a party. The polls also indicate voters are shifting their allegiances. Nevertheless, political observers state that they still have little sense of the outcome of the election. [Redacted]

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**Comment:** The latest arrests of Socialists are another setback to the party's efforts to increase its share of the vote. They also will hurt Craxi's bid to become prime minister. [Redacted]

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Craxi's initial campaign strategy had been to refrain from public commitments to postelection alliances with either the Christian Democrats or the Communists. In late May he publicly rejected a Communist alignment. His embrace of the Christian Democrats this week may be aimed at counteracting the negative repercussions of the new scandal, or it may be part of a deal to gain the prime-ministership. [Redacted]

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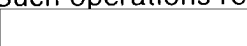
**USSR: Support for Large Carriers**

*Soviet writers on naval matters are citing the conflict in the Falklands to stress the importance of US-style aircraft carriers in modern combat, probably in an attempt to promote such ships for the Soviet Navy.* 


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Several officers writing in the Navy's professional journal conclude that, although aircraft carriers were essential to British success, the force suffered from the lack of early warning aircraft and long-range fighters. They blame these deficiencies and the ineffectiveness of shipboard air defenses for British ship losses. 



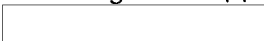
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One writer points out that carriers not only protect the fleet but are critical for amphibious and other military operations in distant places. Such operations require carriers to have ground attack aircraft. 

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**Comment:** The articles evidently are intended to support those who favor large carriers in a debate within the military establishment over the need for such expensive ships. The Navy has three small carriers that are similar to the two used by the British in the Falklands. These carriers also use short-range, vertical takeoff fighters with a poor bombing capability, and they lack early warning aircraft. 

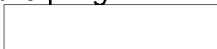
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The Soviets probably are building a large carrier,   
 Admiral Gorshkov, the 73-year-old Navy Commander, favors such ships. He is unlikely to be in command throughout the carrier's development program, however, because of his advanced age and apparent disagreements on broader strategic issues. 

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Admiral Chernavin, who recently became Chief of the Naval Staff, is a prime candidate to replace Gorshkov. Chernavin has criticized articles on Soviet naval theory by an associate of Gorshkov. As a former submarine officer, he might be more receptive to limiting the construction of carriers or even canceling the program if economic problems require sacrifices by the military. 

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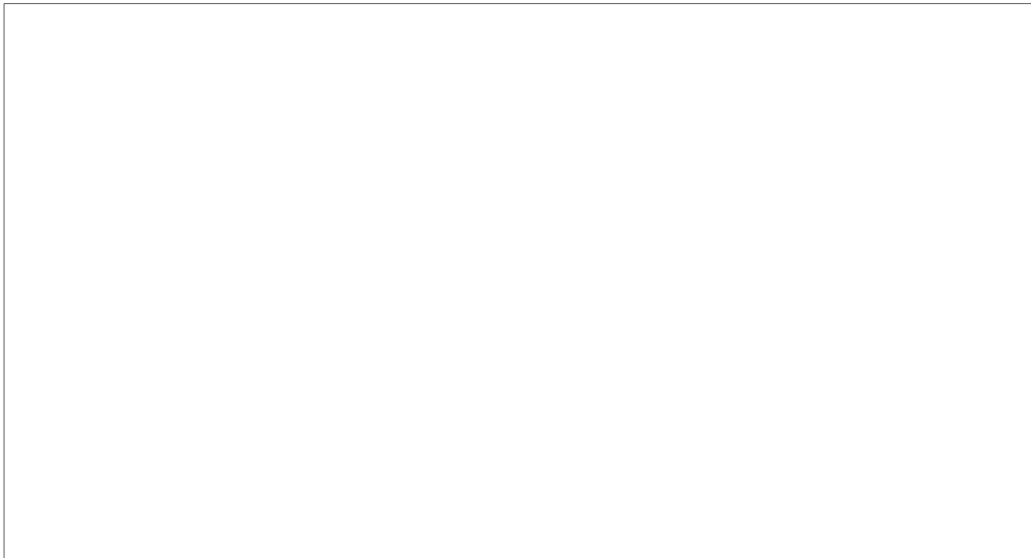
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**CHILE: Strike by Copperworkers**

The copperworkers' strike today protesting the arrest of union leader Seguel for sponsoring protests on Tuesday probably will provoke a firm response by the government and bring tensions to a new high. The union, with 23,000 members, is Chile's largest. The four other unions that make up the National Workers' Command are considering whether to make good their threat to strike if any of their leaders were arrested. [Redacted]

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**Comment:** President Pinochet is likely to arrest the organizers, fire the strikers—employees at one mine were dismissed for striking yesterday—and send the armed services to occupy mines. A walkout by the other unions could spread to professional and political groups that supported the antigovernment protests on Tuesday. A state of emergency already is in effect, and, if strikes spread, the government probably would declare a state of siege. As the opposition grows, controversy in the government could develop—particularly within the national police—over handling the unrest and the timing of the transition to democracy. [Redacted]

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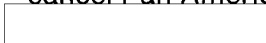
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**CHINA-US: Reaction to Taiwan Air Link**

Beijing is trying to limit the impact of Pan American's resumption of service to Taipei on Sino-US relations. Aside from a routine Foreign Ministry protest, China's Civil Aviation Administration only terminated the airline's emergency landing rights in Guangzhou and requested the US designate another airline to serve China. The Chinese did not cancel Pan American's current landing rights in Beijing and Shanghai.

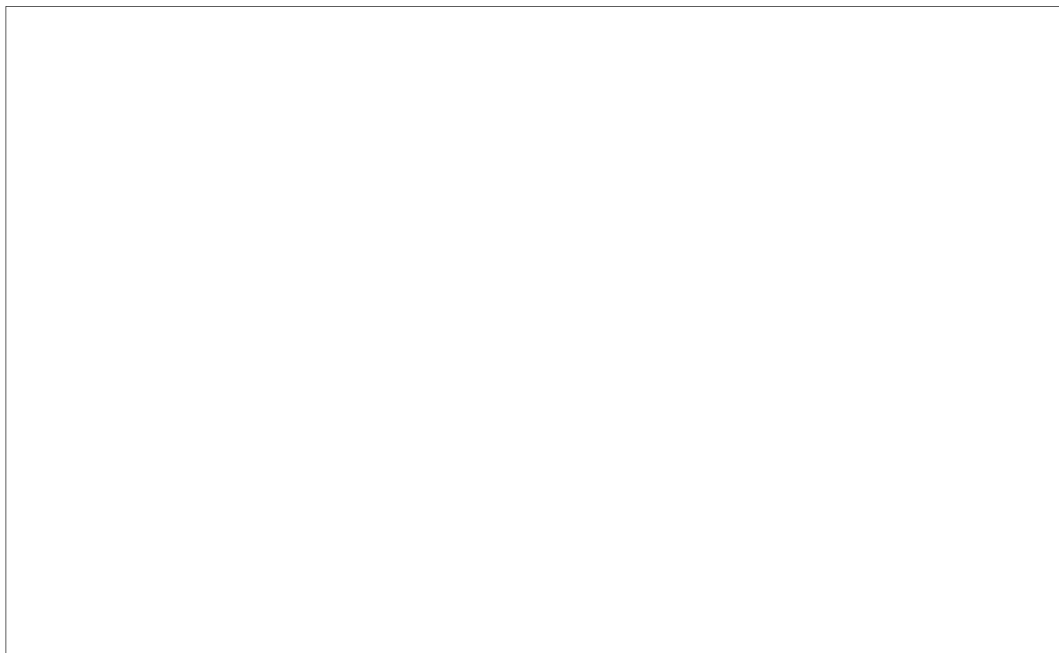


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**Comment:** The Chinese previously warned the US of "serious repercussions." Beijing apparently decided, however, that a stronger response might risk the loss of Chinese landing rights in the US. China's profitable air service to the US, which is scheduled to expand this year and next, is a major source of hard currency. In addition, Beijing probably does not want to jeopardize its prospects of gaining greater access to US technology.



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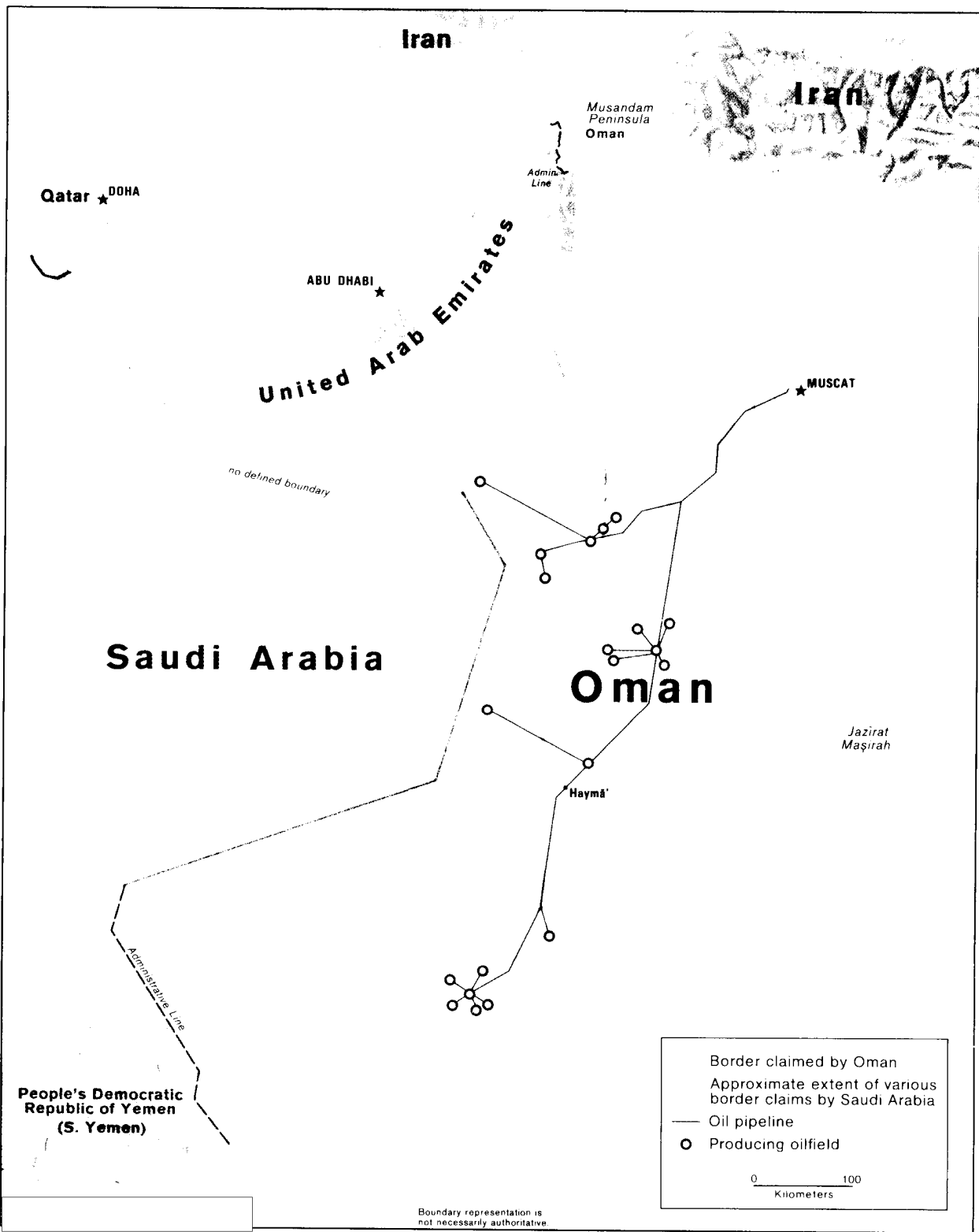
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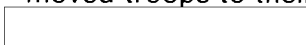
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**OMAN-SAUDI ARABIA: Border Dispute**

The longstanding dispute over the undemarcated border between Oman and Saudi Arabia has revived. A senior Omani official told the US Ambassador that King Fahd had complained to Sultan Qaboos over the lack of progress in the border talks. Fahd asked Oman to cease oil exploration in an area near Hayma that Oman considers well within its territory. Unconfirmed reports claim that Oman has moved military units to positions in the border area and that the Saudis have moved troops to their frontiers with Oman and South Yemen.

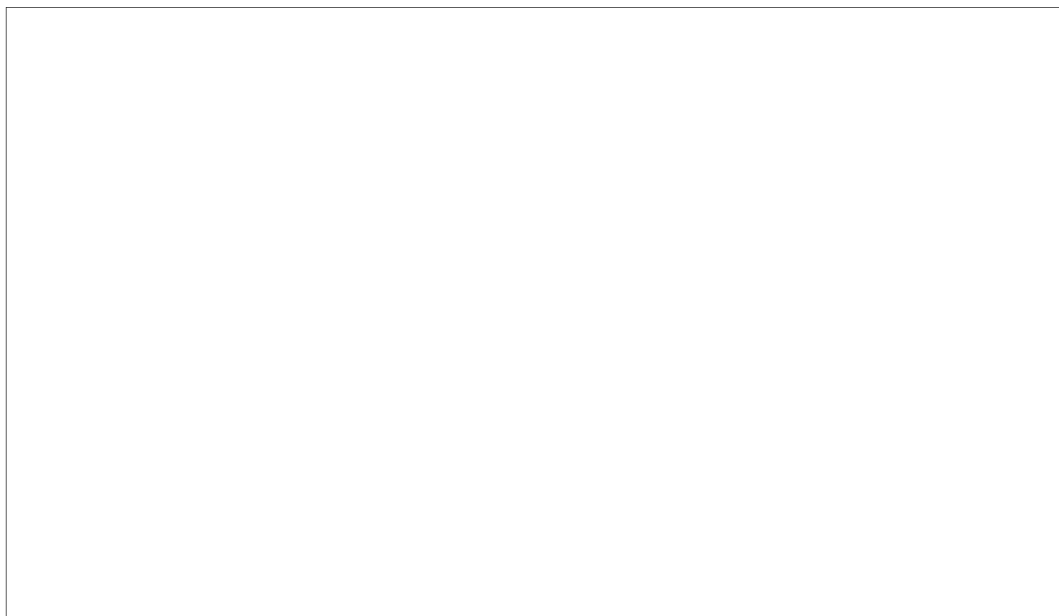


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**Comment:** As in the past, neither Riyadh nor Muscat is likely to push its case to the extreme. Saudi policy on the border issue has been inconsistent, reflecting the views of individual senior Saudi princes, tribal concerns, and national oil interests. Riyadh probably also is seeking to protect its interest in the Oman-South Yemen border negotiations, which include discussion of territory claimed by Saudi Arabia.



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**KENYA: Moi Moves Against Rival**

Cabinet ministers allied with President Moi this week publicly charged Constitutional Affairs Minister Njonjo with joining the US and other Western powers in a plot to overthrow the government. Njonjo's accusers also questioned the loyalty of Njonjo's fellow Kikuyu—Kenya's largest and most powerful tribe. Prominent Kikuyu have rallied to Njonjo's defense. [Redacted]

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**Comment:** The ministers' criticisms of Njonjo are part of an effort by Moi to remove his longtime challenger from power. Although Moi probably does not believe the accusations, his political allies may try to exploit Njonjo's close public identification with the West. The unusually strong Kikuyu reaction in support of Njonjo, who is an unpopular figure, presumably stems from their concern over the implications for the tribe and may cause Moi to hesitate in moving further against him. If the President does proceed with his campaign against Njonjo, however, he risks causing the Kikuyu to unite against him. [Redacted]

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**LESOTHO: Moving to the Left**

The government has taken another step to expand its ties to radical and Communist states by announcing on Wednesday the establishment of diplomatic relations with Nicaragua. The move follows Prime Minister Jonathan's recent tour of six Communist states, during which diplomatic relations with China also were established. According to a Foreign Ministry official, the Chinese, the North Koreans, and the Soviets are expected to open embassies in Maseru. The influential Roman Catholic Church in Lesotho has criticized Jonathan's recent actions, and the US Embassy reports growing dissension in the cabinet and the ruling Basotho National Party. [Redacted]

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**Comment:** South Africa probably will express its displeasure over Jonathan's moves by applying economic pressure. This will add to the popular discontent with Jonathan's leadership. Lesotho's turn to the left also may lead Pretoria to doubt the utility of its recent agreement with Maseru, under which each country agreed to stop supporting insurgency in the other. [Redacted]

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## **Special Analysis**

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### **CENTRAL AMERICA: Economies in Crisis**

*Production in Central America has plunged approximately 20 percent since 1979 and the onset of major guerrilla activity in the region. This is in stark contrast to the 13-percent growth attained by Latin America as a whole during the same period. In the countries directly affected by insurgencies, destruction caused by the fighting has been a major factor in the economic downturn.* [redacted]

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In Nicaragua, damage and production losses associated with Somoza's overthrow reached \$2 billion, according to World Bank estimates. The Sandinistas calculate that insurgent activity in 1982 alone caused an additional \$58 million in direct losses. [redacted]

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In El Salvador, guerrilla attacks have cost at least \$700 million in direct damage and production losses since 1979. In Guatemala, damage from sporadic guerrilla attacks probably has totaled about \$20 million in the past two years. [redacted]

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### **The Spreading Costs of Violence**

The region's economic interdependence, which once was an asset, has spread economic ills even to those areas not directly affected by fighting. Foreign and domestic investment has plummeted, and foreign commercial lending has all but dried up. [redacted]

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Regional trade, the outlet for virtually all of the area's manufactures, has been hamstrung by delays in payment, import restrictions, and currency convertibility barriers. Harvests have declined as rural violence has cut into seasonal labor migration throughout the area. [redacted]

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Meanwhile, a substantial rise in oil prices, weakening demand for agricultural commodities, and skyrocketing interest rates caused the regional current account deficit to balloon from roughly \$750 million in 1979 to nearly \$1.6 billion in 1982. Capital flight—including the more than \$1 billion drained from El Salvador since 1978—has been a major contributing factor. In response, Central American countries made deep cuts in imports, drew down foreign exchange reserves by \$1.6 billion, and borrowed about \$6 billion during 1979-82, mainly from official sources. [redacted]

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**Outlook for 1983-84**

If insurgent activity continues near current levels, it will take about \$2.3 billion in foreign aid each year just to sustain import volumes, prop up living standards at present levels, and forestall further drops in production. Since no such amount of aid is likely, import volume will decline further and overall economic activity in the region probably will fall by 3 to 5 percent this year and—at best—will stagnate in 1984. [Redacted]

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For Honduras and Costa Rica, the picture is a little brighter. Their governments, however, will have to continue to adhere to economic policies designed to shore up banker and investor confidence. This is becoming increasingly difficult because bad weather in Honduras is hampering its agricultural exports, and in Costa Rica the public is resisting austerity measures required by the IMF. [Redacted]

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If insurgents make strong gains, no foreseeable amount of foreign aid could promote economic growth. Assistance would be used to sustain imports and living standards because governments in the region would be hard pressed to contain investor panic or to channel aid into productive investments. A surge in the flight of capital and talent would further cripple these economies. [Redacted]

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Not even decisive military victories over the insurgents, or an unexpectedly rapid global economic recovery, would cause quick economic improvement. The region's private sector, weakened by years of political turmoil, capital flight, low investment, and dwindling inventories, will be a long time recovering even under optimal conditions of security, foreign investment, and economic aid. [Redacted]

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