



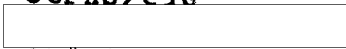
**Director of
Central
Intelligence**

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National Intelligence Daily

*Wednesday
13 July 1983*

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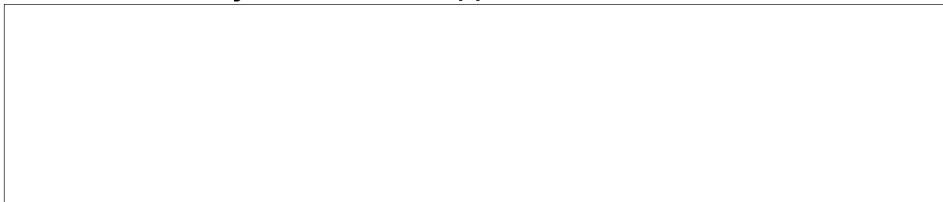
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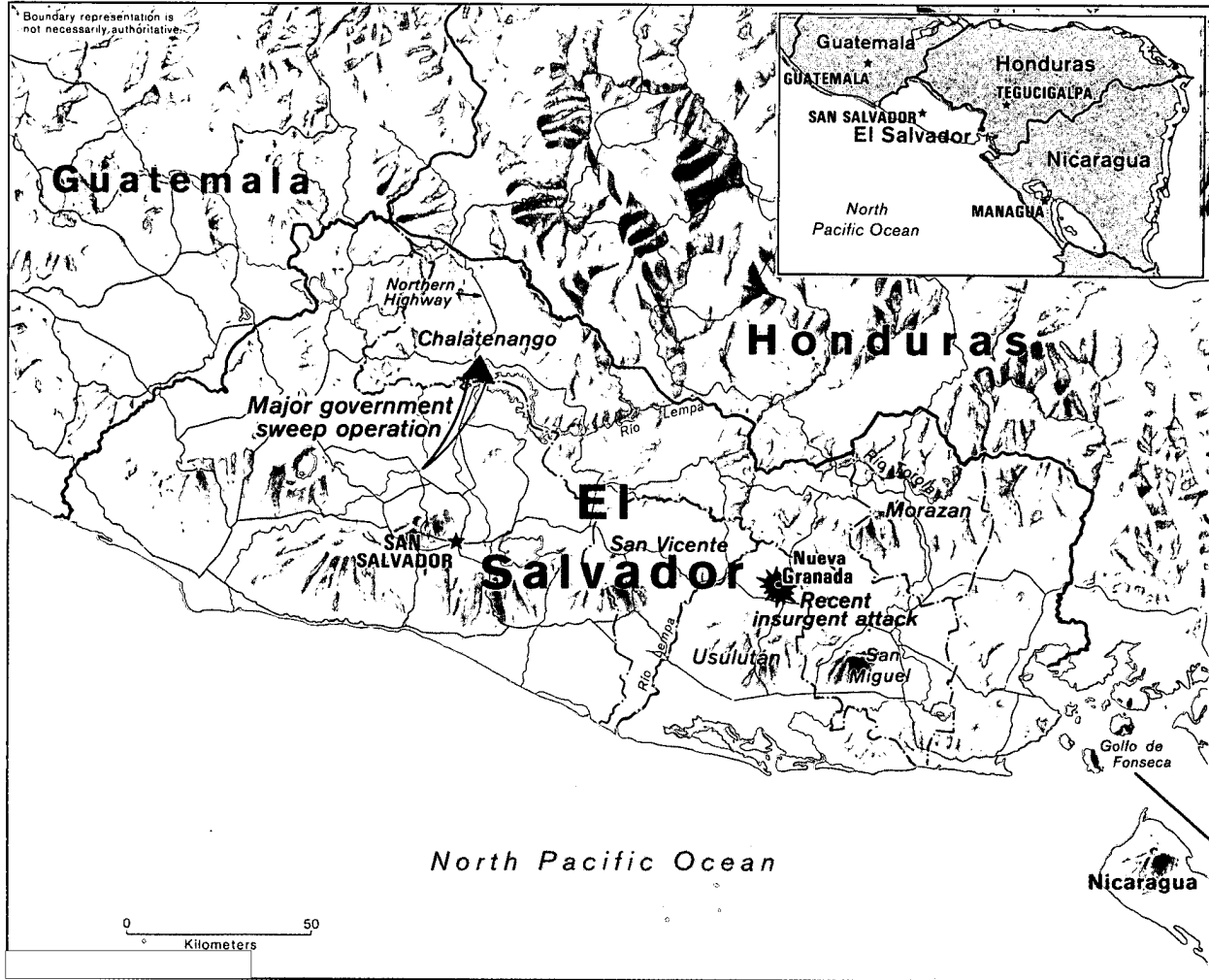
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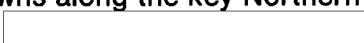


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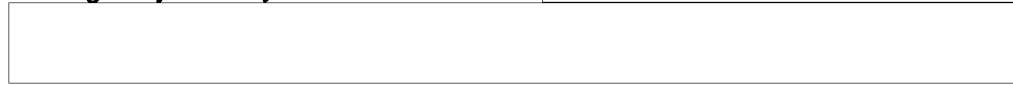
EL SALVADOR: Military Activity

Government forces over the weekend began a major sweep in northern Chalatenango Department, and they are continuing military operations throughout most of the country. 

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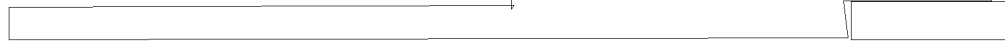
Army spokesmen say several towns along the key Northern Highway already have been retaken. 

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The government has announced that the elite Atlacatl Battalion has pulled out of Morazan Department and has been replaced by an airborne unit and another battalion. 



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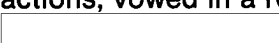
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The guerrillas continue to carry out sporadic actions. Late last week insurgent forces attacked Nueva Granada in northern Usulután, allegedly killing about 13 local defense troops and capturing assorted weapons and ammunition. 

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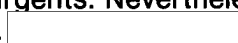


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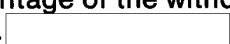
 Meanwhile, Joaquin Villalobos, head of one of the largest guerrilla factions, vowed in a recently broadcast speech to intensify the war. 

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Comment: The Army has held the tactical initiative for over a month, overrunning guerrilla base camps and retaking towns long held by the insurgents. Nevertheless, the guerrillas' losses generally have been light. 

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Villalobos's warning indicates the insurgents still plan to strike back soon. They may take advantage of the withdrawal of the Atlacatl Battalion to hit hard in the east. 

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JAPAN: Austere Budget Outlined

The government, in its initial work on the budget for fiscal 1984, is trying to find middle ground between domestic demands for fiscal austerity and US demands for higher defense spending. [Redacted]

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The Cabinet yesterday instructed most ministries to cut their budgets for the fiscal year beginning on 1 April by 10 percent. The increase in the ceiling for defense spending, however, was put at 6.9 percent. With outlays for foreign aid, energy programs, science and technology, and personnel also slated to grow, Tokyo hopes to hold the growth in total spending to 1 percent. [Redacted]

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Comment: This increase in total spending is less than the growth projected for the current budget. The deficit nevertheless is likely to approach \$50 billion, or about 4 percent of GNP. [Redacted]

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Defense fared better in the bargaining than earlier reports have suggested. The Defense Agency had asked for an increase of 8.9 percent, but the Finance Ministry had recommended no more than 3.7 percent. [Redacted]

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Officials in the Foreign Ministry are concerned that the projected increase will not be enough to quiet critics in the US. The Finance Ministry, however, will try to lower it in subsequent stages of the budget process, which culminates in late December. An increase of 6.9 percent would barely cover the purchases of equipment already ordered. [Redacted]

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CHINA-US: Official Optimistic About Relations

Huan Xiang, head of foreign policy research in the party Secretariat, has told two US political analysts that he is optimistic about relations with the US and pessimistic about prospects for a dialogue with the USSR. 

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Huan emphasized that he regarded Sino-US interests in general as complementary and viewed Asia as a "large area where we can cooperate." He doubted, however, that the US is interested in closer strategic cooperation with China. Huan indicated that Chinese leaders believe the US no longer sees China as an important strategic power and looks instead to Japan to play that role. 

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In addition, Huan asserted that neither Washington nor Moscow is willing to improve relations with China "too much" at the risk of offending the other. He was skeptical, moreover, that Moscow is prepared to weaken its strategic relationship with Vietnam or to pull back its forces from the border to improve Sino-Soviet relations. According to Huan, any change in relations with the USSR would only be tactical. 

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Comment: Huan has direct access to Deng Xiaoping, and his comments probably reflect the views of the senior leadership. He presumably was trying to underscore Beijing's renewed interest in closer relations with the US following Secretary of Commerce Baldrige's visit last month and the US decision to liberalize the transfer of technology to China. Huan's comments appear to be part of a broader effort to encourage the US to demonstrate its commitment to better ties by approving conspicuous sales of technology. 

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USSR: Anticorruption Campaign in the Military

Several recent articles in the military newspaper *Red Star* stressing the need for greater labor discipline suggest that the anticorruption campaign in the military is being put into effect. [redacted]

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Red Star has reported that, following the party plenum last month, Defense Minister Ustinov complained that discipline remained inadequate in some units. This was followed by articles by General Yepishev, Chief of the Main Political Directorate, calling for increased efforts to improve discipline and create a "moral atmosphere" in every military unit. Yepishev also noted that it was time to implement the campaign. [redacted]

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In mid-June *Red Star* also carried an unusual account of a general fired for extorting bribes during an inspection. The unit's commander, who also was fired, diverted money from a unit mutual aid fund to cover the bribe. [redacted]

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Comment: The reemergence of the discipline campaign is primarily designed to make more efficient use of defense resources and thereby strengthen the economy. For the top military ranks, this means assuring political leaders that military resources are being managed effectively and honestly during a time of economic stagnation and some popular dissatisfaction. The humiliation of a general on grounds of corruption suggests that rank alone will not ensure special privileges in the future. [redacted]

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[redacted] bribery during inspections is common. This is indirectly attested to by the announcement last January in *Red Star* that special inspection commissions would be established outside the military. No official mention has been made of such commissions since then, but Yepishev's statement may mean that such investigations are about to be carried out. [redacted]

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USSR-FRANCE: Andropov and Marchais on INF

In a joint communique issued yesterday in Moscow, General Secretary Andropov and French Communist Party chief Marchais agreed that French and British forces have to be taken into account in the INF talks in Geneva. The French press reported that Marchais did not concur, as TASS had reported earlier, that "the main danger is now represented by the intention of US imperialism to deploy its new missiles in Europe." Marchais instead called for balanced arms reductions by East and West. TASS subsequently withdrew the disputed report, noting that the communique would be issued in its place. [Redacted]

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Comment: The French Communist Party's endorsement of the USSR's insistence that French and British systems be accounted for is a coup for Moscow. The Soviets, however, apparently overestimated Marchais's willingness to subscribe to a direct attack on the US position on arms issues. The Soviets also may want to dampen any speculation in the West that Moscow is ready to drop its insistence on accounting for British and French systems. [Redacted]

[Redacted]

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USSR-CHAD: Soviet Commentary

A TASS statement issued yesterday demanded an immediate halt to "any interventionist actions" in Chad. TASS explicitly criticized France's dispatch of arms to Chad and accused "Western powers" of putting pressure on African countries to become involved in an "internal" dispute. [Redacted]

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Comment: This is the highest level Soviet commentary to date on the fighting in Chad. Previous statements have characterized President Habre's government as pro-Western and reported dissident leader Goukouni's allusions to a CIA role in the earlier overthrow of his government. The USSR's effort to dissuade France and others from aiding Habre and the omission of any reference to Libyan involvement in the conflict amount to an endorsement of Goukouni's effort to topple Habre. [Redacted]

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WEST GERMANY-EL SALVADOR: Appointment of Ambassador

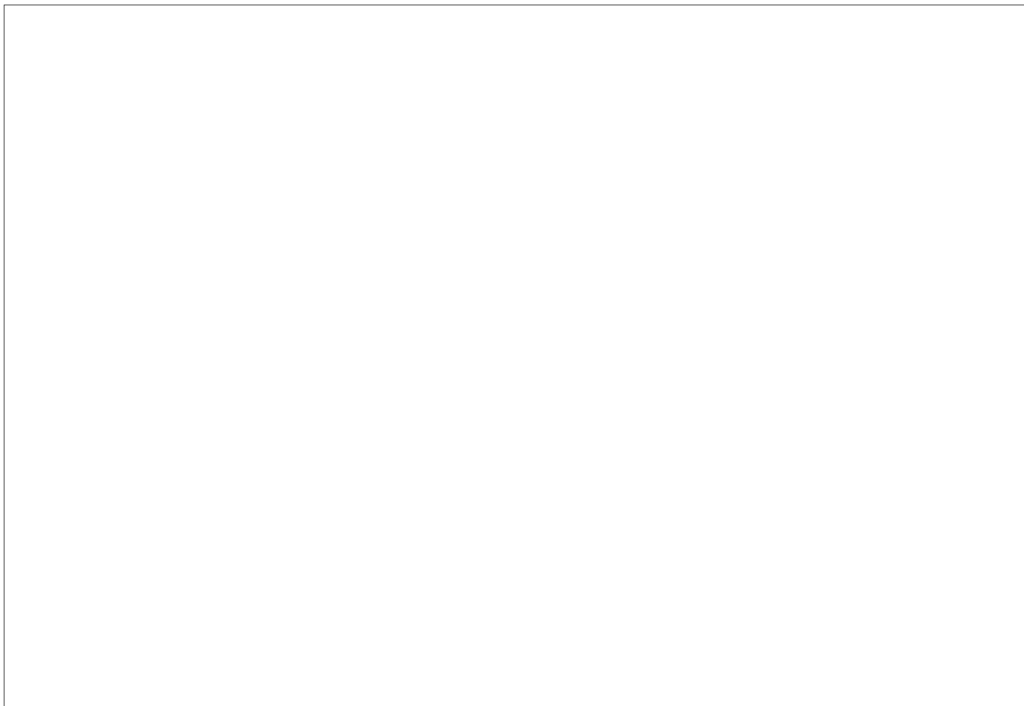
The West German Government has announced its intention to send an ambassador to San Salvador in the near future during former President Duarte's visit to Bonn, but it probably will wait until after the presidential election in El Salvador scheduled for later this year. Since 1980, West Germany has been represented in San Salvador by a chargé d'affaires. 

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Comment: Waiting until the election would allow the West Germans to claim that the democratic process in El Salvador had reached the point where full diplomatic representation was merited. If Bonn were to send an ambassador now, the government's critics would be more prone to claim that it was supporting a rightwing regime guilty of human rights abuses. In addition, Bonn does not want to move too far ahead of other West European countries on this matter. The government also may resume development aid to El Salvador—frozen since 1980—but any such move almost certainly would be balanced by continuing aid to Nicaragua. 

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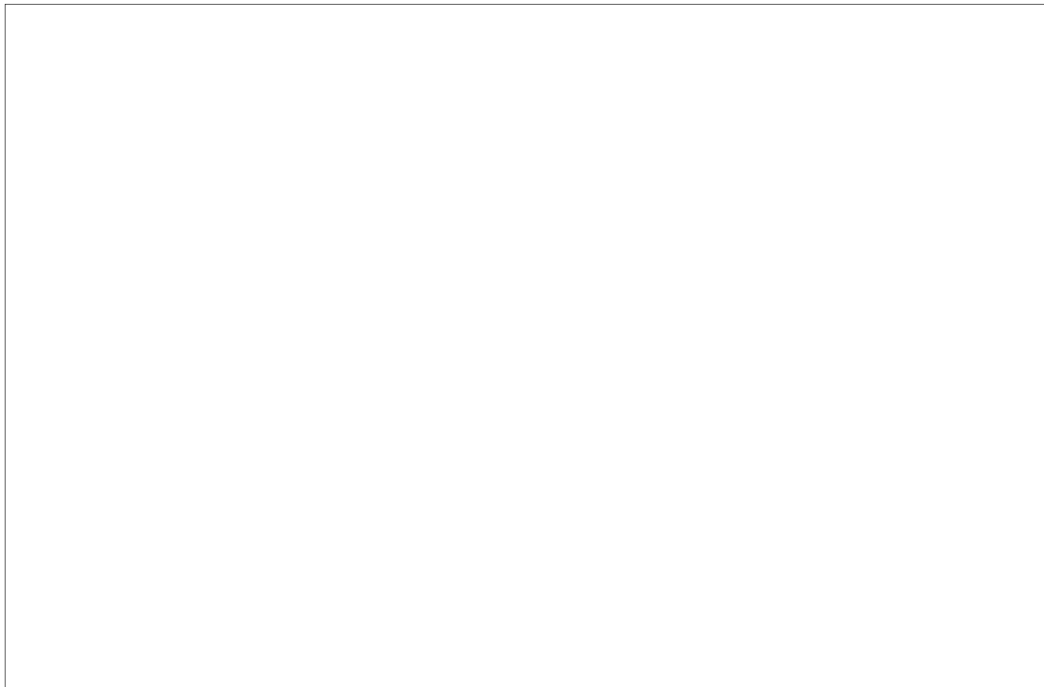
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MEXICO: Impact of Local Election Results

The blow dealt to the ruling party in the first round of the municipal elections may cause President de la Madrid to reassess his commitment to harsh austerity measures and to review his campaign promise to respect local election results. [Redacted]

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Comment: The losses follow those last year in three state capitals and threaten the party's reputation for representing virtually all Mexicans. If the government believes it may be defeated in even a few key contests in the next elections, which include the contest for governor in Baja California, it may rig some of the voting. To stem further defections from the ranks of the ruling party, de la Madrid also may limit scheduled reductions in government spending and employment. [Redacted]

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