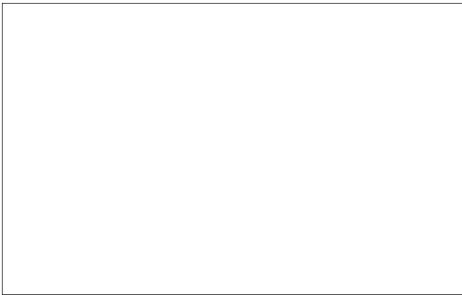




**Director of
Central
Intelligence**

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*Tuesday
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IRAN: Effort To Counter Unrest

The government is cracking down on profiteering and hoarding in an effort to prevent additional public protests similar to those that occurred earlier this month in Tehran and other cities. [Redacted]

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President Khamenei and other senior officials have announced that the regime is taking firm action to stop business practices that lead to shortages and higher prices. The measures include tighter controls over official prices and restrictions on inventories of basic commodities. The government reportedly has threatened violators with severe punishment. [Redacted]

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The demonstrations have protested high prices and shortages of water and electricity. The standard of living for most Iranians has shown little improvement, despite the increase in economic growth resulting from rising oil revenue. Food prices have gone up in recent months, following the removal of controls on rice. [Redacted]

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Comment: Tehran's response reflects its concern that the lower income groups in the cities—the regime's strongest supporters—were in the forefront of the recent protests. The urban unrest also is a sign of growing weariness with the human and economic costs of the war and of frustrated consumer expectations. No major disturbances have been noted in the countryside, however, and staples apparently are still in adequate supply outside the major cities. [Redacted]

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The government controls probably will not be effective. Tehran lacks an efficient bureaucracy to administer the regulations, and the bazaar merchants will bribe officials and exploit loopholes in the new measures. [Redacted]

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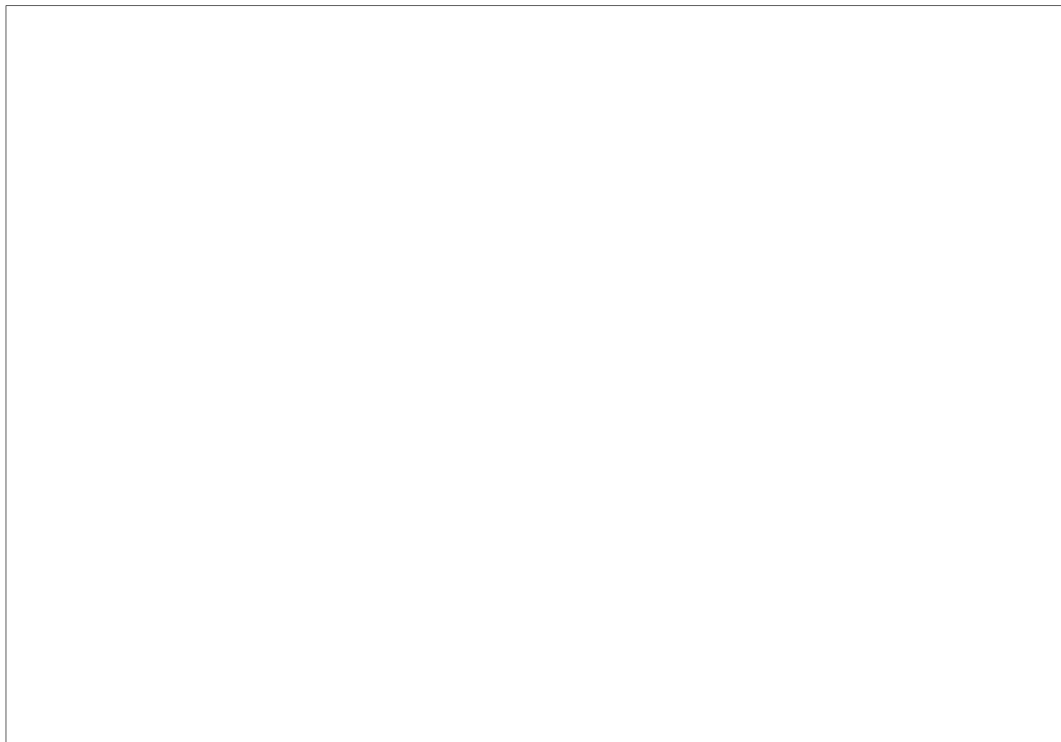
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USSR-EAST GERMANY: Announced Exercise Begins



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Foreign observers have not been invited, and temporary travel restrictions have been imposed in central and southern East Germany to hinder observation by Western military officers from the liaison mission in Berlin.

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Comment: The exercise is the highlight of the Soviet training year in East Germany, and—like several earlier exercises—it was announced in compliance with the Helsinki Accords. Warsaw Pact Commander in Chief Kulikov may attend and might be joined by Defense Minister Ustinov. The field training, involving troops primarily from the 8th Guards Army, is intended to exercise several divisions in combined-arms operations. It may run concurrently with an air defense exercise by Soviet and East German units.

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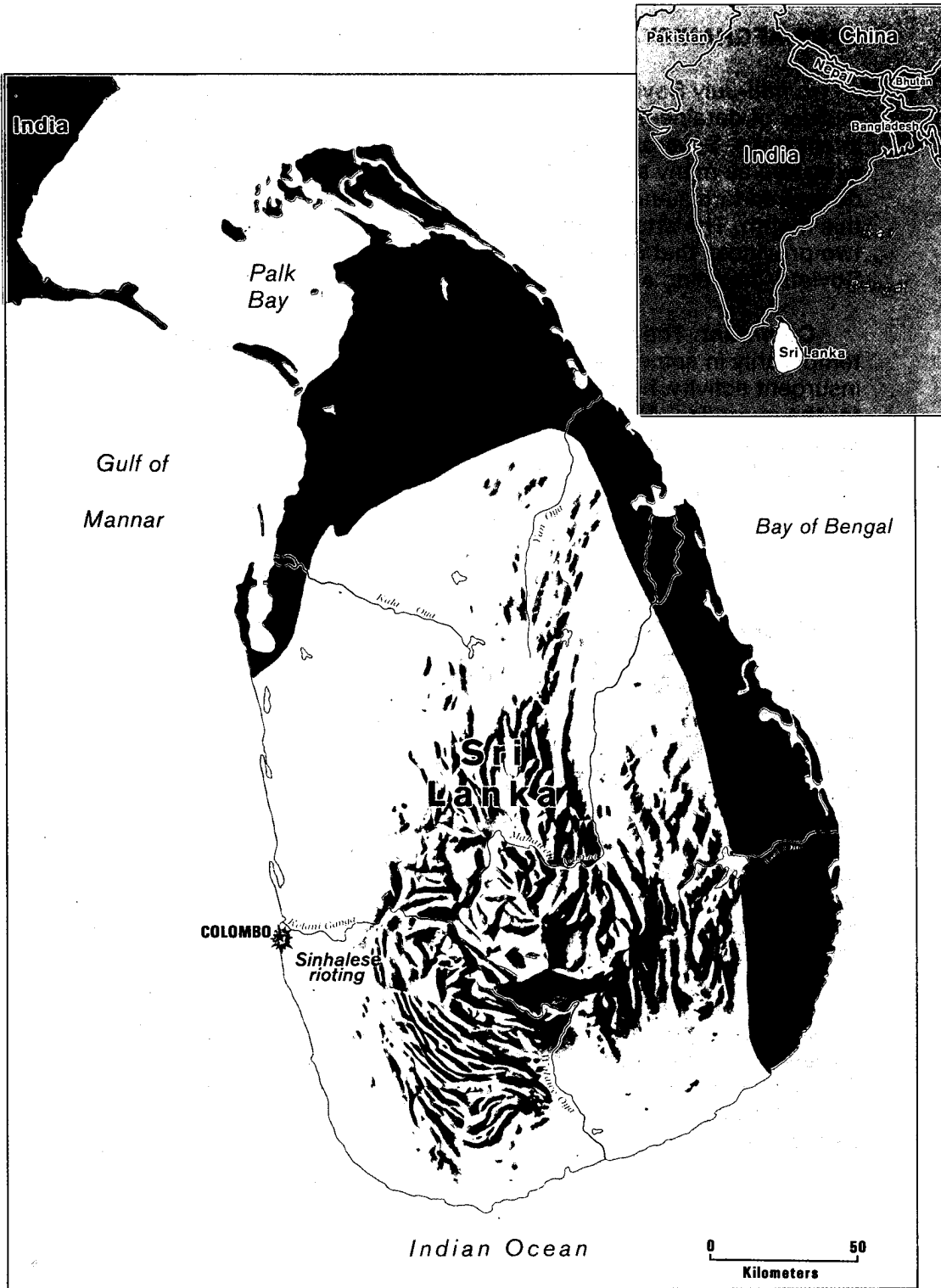
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SRI LANKA: Communal Riots Disrupt Capital

Communal violence in Colombo will complicate President Jayewardene's recent efforts to accommodate the demands of moderates among the Tamil ethnic minority. The government has called up reserves and imposed a curfew to halt mob attacks by the Sinhalese ethnic majority against the Tamil community. The violence erupted on Sunday after an attack on an Army patrol in the predominantly Tamil north, where terrorism by Tamil extremists has been increasing since last summer. Thirteen soldiers were killed in the attack, for which the Tamil Tigers, a separatist terrorist group, claims responsibility. [Redacted]

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The US Embassy reports that the widespread rioting in the capital is aimed at Tamil-owned shops and homes and has resulted in several deaths. Elected Tamil members of Parliament fear for their safety if they continue to work with the Sinhalese to ease tensions between the two communities. [Redacted]

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COLOMBIA: Growing Financial Pressures

Tightening credit and balance-of-payments problems are jeopardizing Colombia's status as the only major South American country to avoid debt rescheduling. [Redacted]

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[Redacted] the US Embassy reports that most lenders are unwilling to extend additional short-term credit. The shortage of cash is becoming more severe because of declines in agricultural exports, capital flight, a drop in tourism receipts, and fewer remittances from Colombians abroad. [Redacted]

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[Redacted]

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Comment: At the current rate, liquid reserves will be depleted by the end of the year. Without \$600-800 million in new loans, Colombia probably will have to join other South American countries in rescheduling its external debt under IMF auspices. [Redacted]

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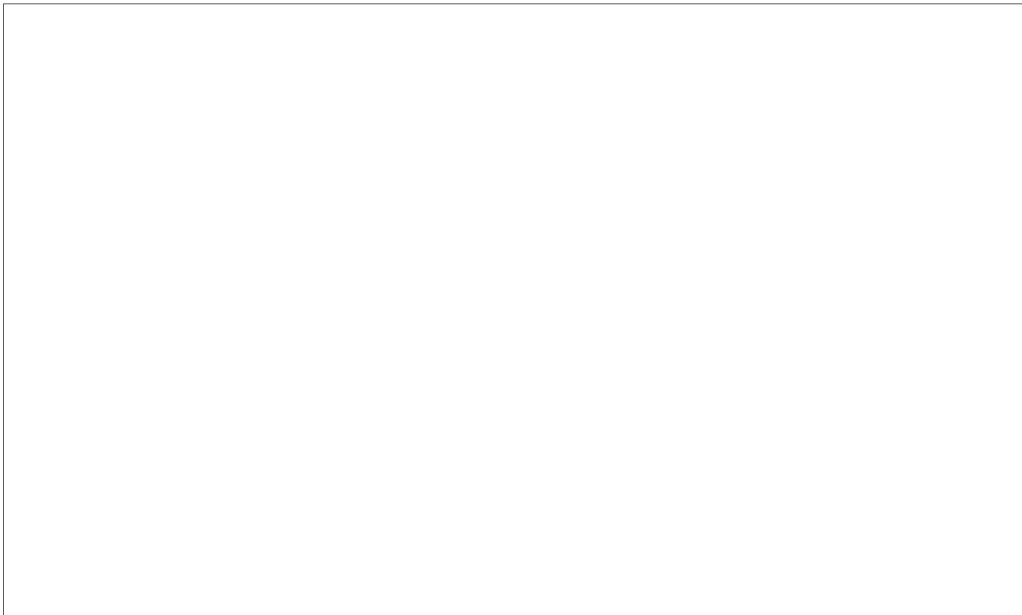
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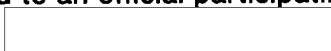


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CHINA-SOUTH KOREA: Movement Toward Further Contacts

Beijing and Seoul have agreed on a formula for a visa—on a Chinese document rather than a South Korean passport—that for the first time will permit a South Korean official to visit China. The South Koreans have accepted China's condition that no publicity be given the visa, which is being issued to an official participating in a UN agricultural training program. 

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Comment: South Korea probably views the action as an indication of China's willingness to move slowly toward additional contacts—at least within the framework of international organizations. The agreement is likely to strengthen sentiment in Seoul for firm handling of the detained Chinese hijackers, whom China does not want treated leniently. Beijing presumably also hopes the move will enhance its credentials for hosting UN events. China's insistence on no publicity, however, reflects its determination to protect its carefully cultivated ties with North Korea. 

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USSR-CUBA: Soviet Delegation

Politburo candidate member Solomentsev, who heads the party's control committee, leads the Soviet delegation at the Revolution Day celebrations today. He holds about the same rank as the representative sent last year. [Redacted]

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Comment: Moscow apparently intends to demonstrate continued support for Cuba without increasing the USSR's commitment. Solomentsev's current position suggests he also may have been selected to hold talks about corruption and inefficiency in the Cuban Communist Party, a subject of past Soviet concern. [Redacted]

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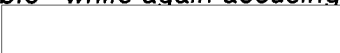


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Special Analysis

CUBA-CENTRAL AMERICA: Havana's Political Worries

Cuba's uneasiness over political trends in Central America has intensified in recent weeks, prompted by concern about the direction of the Contadora discussions, criticism from the Socialist International, uncertainty over the positions of Mexico and Panama, and a sense of growing isolation in its support of Nicaragua. President Castro may use his speech today on the anniversary of the Cuban Revolution to try to recapture the political initiative and evoke sympathy for the Sandinistas. If he does, he will probably try to make Cuba seem "reasonable" while again accusing Washington of causing regional tensions.



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The increased US military presence in the area is likely to have strengthened Havana's concern that Washington will intervene if a war breaks out between Honduras and Nicaragua. Moreover, the failure to date of the Salvadoran insurgents to recover from their recent setbacks adds to Cuba's uncertainty.



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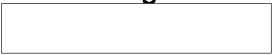


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Cuban Vice

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President Rodriguez, speaking last week at the fourth anniversary celebrations of the Sandinista revolution, welcomed the recent call by the Presidents of the Contadora states for Havana and Washington to join them in efforts to avert war in Central America.



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Rodriguez emphasized that Cuba was like other Latin American nations in its support for negotiations and peaceful solutions. He contrasted this stand with alleged US insistence on "military solutions under the pretext that Communism must be defeated."



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Moves by the Socialist International

President Castro evidently has been apprised of the meeting in Madrid on 8 July of the Socialist International directorate. As a result of that meeting, former Costa Rican President Oduber reportedly was sent to Havana to ask Castro to end support for the Salvadoran

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guerrillas, collaborate in persuading the Sandinistas to undertake a "correction of course," and reduce Cuban "intervention" in Nicaragua. [Redacted]

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Oduber later informed the US Ambassador in San Jose that Castro had maintained that he agrees with the Socialist International's concerns and that he will "see to it" that the Sandinistas comply as much as possible. The US Interests Section in Havana reports that Cuban officials are keeping a tight lid on what occurred but that Castro probably will respond publicly in his speech today. [Redacted]

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Panamanian National Guard Commander Paredes's charge on 1 July that Cuba and Nicaragua are responsible for subversion in Central America also has evoked concern in Havana. Cuban leaders apparently believe that Paredes has abandoned his earlier "support" for the Salvadoran insurgents and the Sandinista regime. [Redacted]

[Redacted]

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On the eve of the recent meeting of the Contadora Presidents, Panamanian President de la Espriella informed the US Ambassador that Castro had written to complain about Paredes's remarks and to suggest bilateral talks. The President said he told the Cuban Ambassador that Central American problems would be solved if Castro stopped exporting revolution. [Redacted]

[Redacted]

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Castro's Next Moves

Cuba already has announced its "formal" acceptance of the proposals made by the Contadora Presidents for urgent action to

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avert war in Central America. Castro could use his speech today to underscore his support. [Redacted]

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In addition, Castro may invite the Contadora Foreign Ministers to visit Cuba or offer to send his Foreign Minister to New York for talks with them under UN auspices. He might take a more dramatic tack by suggesting that he is willing to negotiate directly with the Contadora, Central American, and US leaders. [Redacted]

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Castro also is likely to endorse the recent Nicaraguan peace proposal, which Havana probably urged upon the Sandinistas. He almost certainly will seek to contrast Managua's speedy and "flexible" response—and his own—with Washington's "silence." [Redacted]

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The Cubans probably will continue, however, to set forth preconditions for negotiations. These could include demands that the US withdraw its military advisers from Central America, end its training and other military aid, and stop making "threats" against Cuba. [Redacted]

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In return, Castro may offer to withdraw Cuba's "few dozen" military advisers in Nicaragua. He is likely, however, to reiterate his claim that Cuba is not providing direct military aid to the Salvadoran insurgents. Moreover, he probably will argue that the recent mobilization and heightened training exercises in Cuba were only a response to "US invasion threats." [Redacted]

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Special Analysis

NATO: Views on INF Basing

The West European Allies are continuing preparations for INF deployments in December, while simultaneously putting pressure on the US to explore all possible avenues to reach an agreement with the USSR before basing begins. Starting today, the Allies will use more frequent meetings of NATO's Special Consultative Group as a means of consulting with the US on ways to demonstrate negotiating flexibility at Geneva. They will seek a way to deal with the Soviets' insistence that British and French nuclear forces be taken into account at Geneva. The UK in particular will urge a common approach for the public handling of INF matters.

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The West German Government is increasingly worried about the likelihood of large-scale and possibly violent anti-INF demonstrations this fall. Government leaders recently mentioned again the compromise INF formula worked out last year by US and Soviet negotiators—the “walk in the woods” approach. Statements by Chancellor Kohl, Foreign Minister Genscher, and Defense Minister Woerner probably were designed to assure the West German public that Bonn was making every effort to encourage agreement at Geneva that would make missile basing unnecessary.

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In addition, the Kohl government is probably hoping to push the US into breaking the deadlock at Geneva. Government spokesmen have stressed, however, that the statements do not mean that West Germany is backing away from its commitment to deploy Pershing II missiles.

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British resolve on INF is firm, and the planned deployment of cruise missiles at Greenham Common should occur as scheduled in December. The government is worried, however, that a delay in initial deployments in West Germany could undermine NATO's policy on INF. Prime Minister Thatcher expressed her concerns to Kohl earlier this month, and she also told US officials that she is more concerned than the Chancellor about the implications of the debate in the Bundestag. [redacted]

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Italian Foreign Minister Colombo last week stressed to Norwegian Foreign Minister Stray that Italy's next government would go ahead with the deployments as scheduled in March, unless agreement at Geneva made basing unnecessary. Socialist Party leader Craxi is likely to head the next coalition government. [redacted]

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Public opinion polls show that there is more opposition in Italy to INF than in other basing countries. If opponents of INF succeed in bringing the basing issue to a parliamentary vote, the government could find it difficult to manage the challenge. Pressure from leftwing Socialists has already been blamed for Defense Minister Lagorio's recent statements that hinted at an INF initiative by a Craxi-led government and perhaps at an interest in the "walk in the woods" formula. [redacted]

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Dutch, Belgian, and French Positions

The governments in the Netherlands and Belgium have not yet made a final INF basing decision, but they recently have taken steps to keep the question of deployment open. The Dutch have announced that Woensdrecht is their proposed cruise missile site. The Belgians are likely to confirm Florennes as their cruise missile site this week, and preparations at the base probably will become evident to the public in August. [redacted]

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The Hague and Brussels hope that initial basing in West Germany and the UK will weaken domestic opposition to INF. This fall, however, they will closely watch antimissile demonstrations in West Germany. If the expected peace marches are accompanied by widespread acts of civil disobedience or violence, or if West German deployments are somehow delayed, the two governments will be even more reluctant to make a final decision on basing. [redacted]

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A French Foreign Ministry official says President Mitterrand is unwavering in his support of INF deployment, despite a public statement last month that the "walk in the woods" proposal had been a reasonable one. He reports that Paris opposes the proposal because it would eliminate Pershing II deployments and tend to equate Soviet SS-20s and French IRBMs. Mitterrand has rejected

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including French nuclear forces in arms reduction talks, and only the French Communists have accepted Soviet arguments on this point.

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Public Handling

The British have taken the lead in seeking a coordinated public position in the Alliance on deployments to prevent confusion in the months ahead. They probably will push even harder for Allied coordination, as a result of the recent statements from Bonn and Rome suggesting renewed interest in the "walk in the woods" formula.

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Other NATO members also are concerned about public handling of INF. They believe that NATO should take steps to ensure that the USSR shoulders the blame for lack of progress at Geneva.

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Special Consultative Group Issues

The Allies will use the Special Consultative Group meetings to consult with the US on additional ways to move toward agreement at Geneva. They almost certainly will want the US to have worked out positions on shorter range missiles and aircraft and on regional INF limits before negotiations resume in Geneva on 6 September.

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Some Allies may see the idea of regional limits for US and Soviet INF deployments as a way to deal with Moscow's insistence that British and French nuclear weapons be taken into account at Geneva. They may suggest privately that equality between the US and the USSR should be established in Europe but that the USSR should be permitted additional SS-20s on its non-European territory to compensate informally for the British and French forces. Alternatively, some NATO countries might favor taking British and French systems into account in expanded START talks.

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