



**Director of
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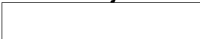
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LIBYA-CHAD: Government's Position Deteriorating

Libyan military involvement in Chad is steadily increasing, and the dissidents have retaken Oum Chalouba. 

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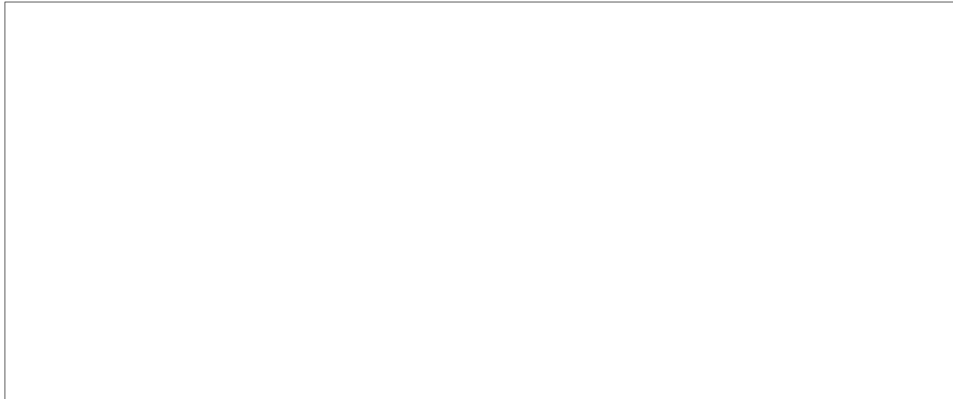
The US Ambassador in N'Djamena believes that, without air delivery of anti-aircraft missiles and reinforcements, Faya-Largeau could fall early today or tomorrow and that the loss of Abeche would soon follow. Three of Chad's six air transports are not operational. 

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Government officials say the forces that withdrew from Oum Chalouba yesterday have fallen back to Arada. Lightly armed Zairian troops have moved to several towns north of N'Djamena. 

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Comment: Without French troops, the government probably could not long survive the loss of Faya-Largeau and Abeche. The capture of Oum Chalouba blocks the principal avenue of escape for President Habre and his forces to the east and their potential safehaven in Sudan. Government troops at Faya-Largeau are bracing for a counterattack, and they cannot spare units for any effort to recapture Oum Chalouba. 

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The limited response by France to Libya's air attacks on Faya-Largeau probably has led Libyan leader Qadhafi to conclude that he can continue to support the dissidents without fear of significant foreign intervention. At the same time, transportation problems and Qadhafi's concerns about his military's attitude toward intervention probably will continue to limit the size of the Libyan expeditionary force and the rapidity with which it can be moved to the battlefield. 

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FRANCE-CHAD: Intentions and Capabilities

The French Government is continuing to develop contingency plans for expanding its involvement in Chad. [Redacted]

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[Redacted] On

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Wednesday the government repeated that it will not send French combat troops to Chad. [Redacted]

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If Paris decides to provide tactical air support in defense of Faya-Largeau or to attack Libyan bases farther north, it probably will deploy the fighters. The Mirages would join eight Jaguar fighter-bombers currently based in Senegal and Gabon. French officials say they would be reluctant to send Jaguars, which are primarily ground-attack aircraft, into Chad without the protection of F-1s. [Redacted]

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The Jaguars can refuel in midflight and normally operate with KC-135 tankers. Without refueling, a Jaguar armed for a bombing mission can attack out to about 400 nm and return to base. Faya-Largeau is on the margin of that range—even if the Jaguars staged from N'Djamena. [Redacted]

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F-1s can fly fighter-protection missions out to about 350 nm without refueling. They could reach Gabon or Senegal from France within eight hours of a decision to send them. [Redacted]

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The French also could operate aircraft from Bangui in the Central African Republic. Refueling facilities are available there, but weapons and rearming equipment would have to be brought in, possibly from Senegal and Gabon. [Redacted]

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France has no airborne-early-warning aircraft and is likely to ask the US for AWACS support for a major operation. French pilots, however, are well trained and aggressive and would be more than a match for the Libyans. [Redacted]

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Thus far, only a few French advisers and mercenaries are in Chad. If Paris decides at some point to commit ground units, it can draw from some 8,000 troops already in central Africa and from other "Rapid Assistance Forces" in France. [Redacted]

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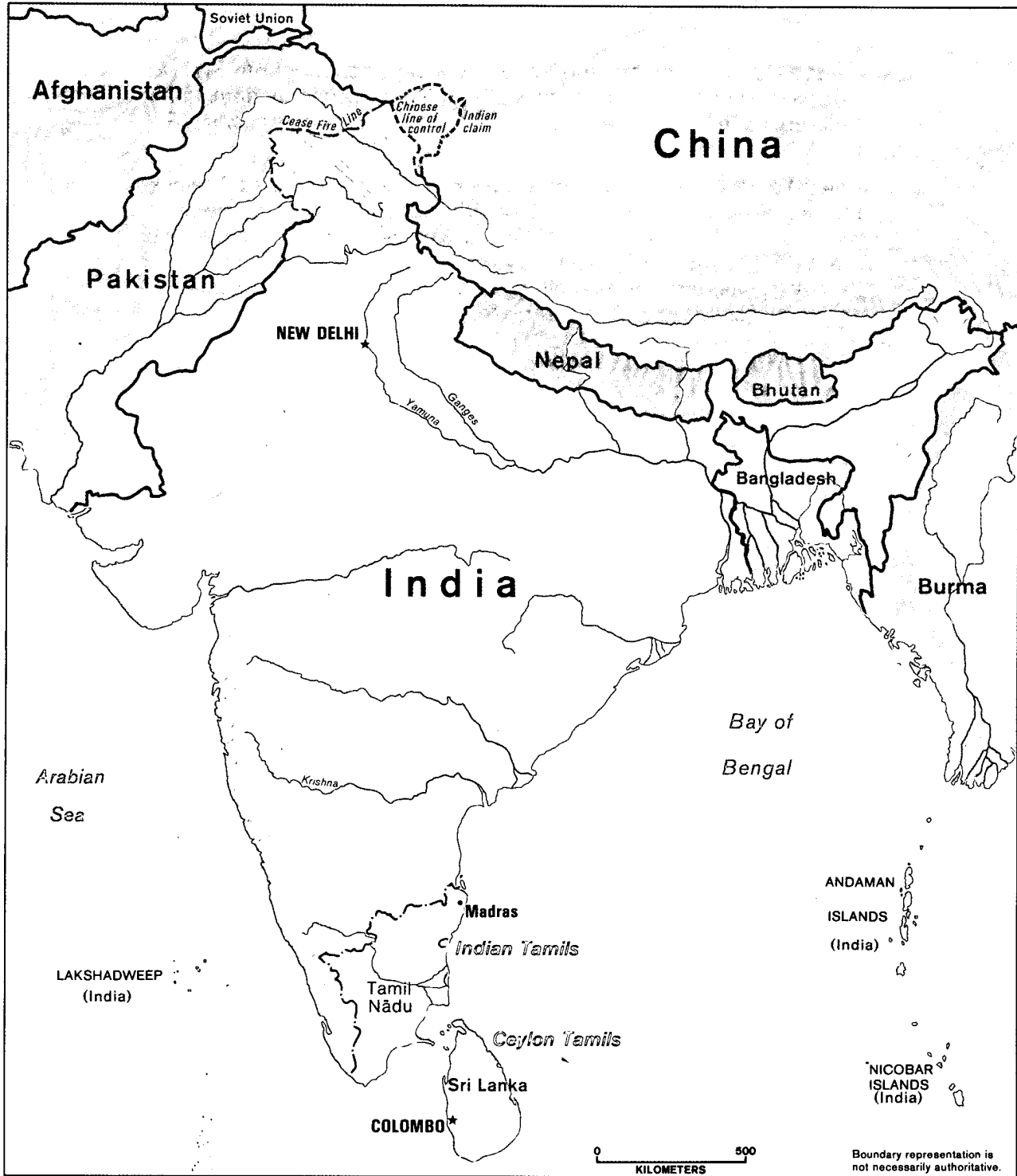
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INDIA-SRI LANKA: New Delhi's Growing Unease

Prime Minister Gandhi appears determined to thwart outside intervention in Sri Lanka as Indian Tamils increase pressure for New Delhi to become more actively involved. [Redacted]

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The US Embassy in London reports that British officials believe the Indians will block the proposed Commonwealth relief effort by refusing the use of Madras as a staging site for an airlift of Tamil refugees from Colombo to northern Sri Lanka. Meanwhile, Indian officials have expressed concern about the possible movement of foreign warships toward Sri Lanka in response to President Jayewardene's reported request for help from several countries.

[Redacted]

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Indian opposition parties, particularly Tamil groups in southern India, are continuing to chide Gandhi for her failure to alleviate the plight of Sri Lanka's Tamils. The Prime Minister has responded by offering limited support for local protest actions in Tamil Nadu State, but she continues to avoid any moves implying intervention by India.

[Redacted]

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Comment: Gandhi's apparent stalling over relief efforts reflects New Delhi's desire to prevent the intrusion of foreign influence into Sri Lanka. She may suspect that Jayewardene intends external assistance to be a first step toward introducing foreign security forces into the island. [Redacted]

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The Indians also may be concerned that the proposed airlift could result in the partition of the island into a Sinhalese state in the south and a Tamil state in the north, with the latter looking to New Delhi for support. Jayewardene's continuing failure to offer conciliatory gestures to Tamil demands and his decision to ban the Tamil political party is likely to lead to more communal violence that will in turn heighten tensions with India. [Redacted]

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EL SALVADOR: Status of the Amnesty Program

The amnesty program is making progress, but it may be hampered by a lack of funds. [Redacted]

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Government figures indicate that 254 guerrillas and sympathizers accepted amnesty as of last month. Following the 30-day extension of the law on 16 July, US Embassy officials report that increasing numbers of insurgents and their followers are taking advantage of the program. [Redacted]

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[Redacted]

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Officials in San Salvador also report that 540 of the nation's 733 political prisoners were released by the middle of last month. Since that time, more than 200 amnesty beneficiaries have been resettled in Canada, Australia, and Belgium. Others have been relocated in western El Salvador and have been given government subsidies. [Redacted]

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Meanwhile, amnesty officials claim that funding for the extension period was never appropriated and cite an immediate need for \$20,000 to \$30,000 for publicity and pamphlets to be airdropped over guerrilla areas. They also say that more financing is needed to continue resettlement programs within the country. The officials doubt that the current amnesty, which ends on 15 August, will be extended again. [Redacted]

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Comment: The total number of guerrillas who have requested amnesty since the extension began is unclear. Fear of repression from either the left or right will inhibit large numbers of insurgents from accepting the amnesty. On the other hand, the government's continuing military campaign has probably eroded guerrilla morale and could make the amnesty increasingly appealing. [Redacted]

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WEST GERMANY: Plans for Peace Movement Protests

Peace groups in West Germany are scheduling a number of activities for this month while preparing more extensive protests this fall. [Redacted]

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Nationwide demonstrations are scheduled to begin tomorrow and to end on Tuesday to commemorate the bombing of Hiroshima and Nagasaki, and others will be held on 1 September, which traditionally has been Antiwar Day. On Sunday, local peace groups intend to disrupt an air show at the US Air Force base at Ramstein and to try to damage an aircraft with their bare hands. [Redacted]

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The Pax Christi organizations in Wiesbaden and the Greens in Mainz have planned peace marches later this month. From 2 to 4 September, prominent personalities, including authors Guenther Grass and Heinrich Boell, will participate in a three-day blockade of a US Army facility at Mutlangen. [Redacted]

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Meanwhile, activists are conducting peace camps in various locations to teach courses in nonviolent techniques of protest. [Redacted]

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[Redacted]

Comment: Sizable protest activities during the traditional summer vacation period would portend more widespread and intense activity in the fall. Although most groups advocate peaceful protests, the "autonomous groups" and the terrorist fringe are likely to use violent tactics. [Redacted]

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The demonstrations in Krefeld during Vice President Bush's visit and the recent fire bombing of the Siemens industrial plant suggest that protests in the fall probably will include street rioting and attacks on military, industrial, and public service facilities. Such activities, however, may alienate moderate members of the peace movement and could strengthen public support for the government's decision to deploy INF missiles. [Redacted]

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JAPAN-IRAN-IRAQ: Foreign Minister Abe's Visits

Japanese Foreign Minister Abe, whose trip to Iran and Iraq begins tomorrow, hopes to use the visits to improve Tokyo's relations with Tehran and Baghdad and to strengthen his own domestic political standing. [Redacted]

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Abe has eschewed any intent to mediate the war between Iran and Iraq but will appeal for an early cease-fire. He also will indicate that Japan stands ready to provide substantial quantities of economic and technical assistance when hostilities end. Japan has extensive trade and investments in both countries, and it is the only major Western power with an ambassador in both capitals. [Redacted]

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The chances of a successful trip to Iran have been improved by a financial agreement between Mitsui and the Iranian Government on the huge petrochemical project at Bandar-e Khomeyni. Work on the project has been suspended since the outbreak of the war. In Iraq, Abe reportedly will bow to Baghdad's insistence that the approaching deadline on official credits to Iraq be extended. [Redacted]

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Comment: The trip is an important step toward more active Japanese diplomacy in the area. It could pave the way for a trip by Prime Minister Nakasone to the region next year. [Redacted]

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There is no prospect that Abe can achieve a cease-fire. Moreover, if the war intensifies during his visits, the Foreign Minister will be placed in a delicate diplomatic position. In that event, his hopes for gaining favorable publicity at home also could be upset. [Redacted]

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UPPER VOLTA: Coup Reported

Pro-Libyan former Prime Minister Thomas Sankara claimed in a radiobroadcast from Ouagadougou yesterday to have overthrown the nine-month-old pro-Western government of Army Major Jean Baptiste Ouedraogo. Sankara was removed from his post three months ago after receiving arms and promises of economic aid from Libya. Details of the takeover are sketchy, and US Embassy reports of continued firing in the capital suggest that the new regime is not in complete control. The approximately 550 US citizens in Upper Volta reportedly are safe.

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Comment: Sankara will have difficulty consolidating power, and he could face an early counter coup. If the new regime holds on, however, it probably will move the country away from its traditionally strong pro-Western stance and turn to Tripoli for assistance. Ivory Coast, Niger, and Togo—Upper Volta's moderate, pro-Western neighbors—will watch the situation closely for fear that the Libyans will try to use the country as a springboard for regional subversion.

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ITALY-US-LIBYA: Concern About Naval Maneuvers

An official in the Italian Ministry of Defense has expressed concern about US naval exercises in the Gulf of Sidra and complained about the short notice provided of the maneuvers. The Ministry of Foreign Affairs has followed up with a lower key note about the need for advance notice of US operations in an area that falls within Italy's "sphere of influence."

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Comment: Italy shares US concerns about Libyan adventurism, and it publicly defends the right of the US Navy to operate in the Gulf of Sidra. The government, however, also wants to preserve commercial relationships with Libya and protect the 15,000 Italian citizens who live there. In addition, the military takes seriously Libyan leader Qadhafi's periodic threats to retaliate against Italian and NATO facilities in southern Italy. Defense officials plan to strengthen inadequate air defense forces in the south—especially with the cruise missile base at Comiso, Sicily, scheduled to become operational next March—but these projects could be delayed by competing priorities.

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USSR-CENTRAL AMERICA: Warming Up to Contadora Effort

Soviet officials and media have begun to give cautious support to the Contadora group—Venezuela, Mexico, Panama, and Colombia—by saying it is trying to achieve “a just settlement of the conflict in the region.” In May Mexico had sought the USSR’s endorsement of the group’s role and objectives, but Foreign Minister Gromyko said then that Moscow’s endorsement might cause an adverse US reaction. The change follows Cuban and Nicaraguan endorsements of the Contadora effort. [Redacted]

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Comment: The Soviet attitude probably shifted as a result of growing concern about US reactions to the Central American situation. Moscow may see the effort as a way to check US activities that it believes could threaten the Sandinista regime and increase chances for a US-Cuban or US-Soviet confrontation in the region. The USSR could be moving toward a more direct and authoritative statement following talks in Nicaragua by Soviet Foreign Ministry Secretary General Fokin and in Mexico and Costa Rica by roving Ambassador Mendeleovich. [Redacted]

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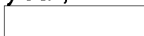
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Special Analysis

ITALY: New Government's Prospects

The five-party government named by Socialist Prime Minister— designate Craxi faces a difficult future. It probably is only a matter of time before Craxi's coalition partners—the Christian Democrats, Social Democrats, Republicans, and Liberals—begin to snipe at one another again, especially over economic policy. By early next year, Craxi may find it increasingly difficult to deal with his partners. 

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The Christian Democrats will control 15 of the 29 ministries in the new government. They will hold the most important portfolios, including the Foreign Affairs, Interior, Justice, Southern Affairs, and Treasury Ministries. 

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Republican Party leader Spadolini will replace Minister of Defense Lelio Lagorio, a Socialist. The Socialists will actually hold three fewer posts this time than in the outgoing Fanfani government. 

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Foreign Policy Attitudes

The large size of the cabinet and the predominance of non-Socialist ministers will ensure basic continuity in foreign policy, in which Craxi has supported the US on cruise missile deployments and other issues. Craxi almost certainly will continue to emphasize Italy's close ties to NATO and the US. 

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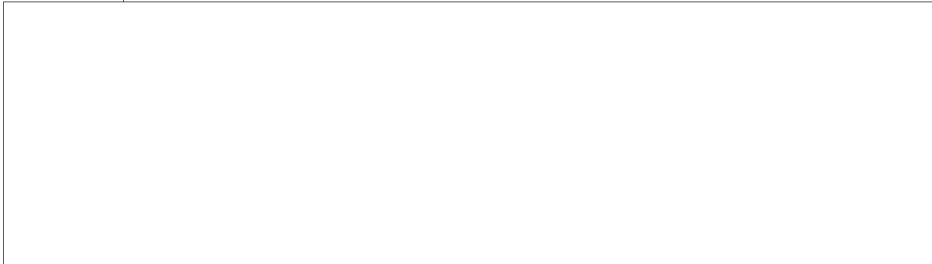
At the same time, Craxi's record suggests that he will try to persuade the public that he is "different" from his predecessors. He is likely to try to underscore his "European" credentials. 

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Late last month a high-ranking Socialist Party official told the US Embassy that Craxi hopes to travel to Paris, Bonn, and London early this fall. 

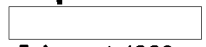
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In addition, Craxi may be a more difficult ally on matters involving the Middle East, North Africa, and the Third World. His views on these areas frequently reflect his reliance on the French press and contacts in the Socialist International for information on international affairs. Christian Democratic Foreign Minister Andreotti, while sharing his party's pro-Western attitudes, also has shown interest in Third World causes. [Redacted]

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Political Goals and Institutional Reform

Craxi probably hopes that, as prime minister, he will be able to reassert his wavering authority in his party and to strengthen his leverage over the Christian Democrats. To achieve these goals, he will calculate that he has to persuade the public that he will govern better than his predecessors. [Redacted]

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The Prime Minister-designate hopes to concentrate his efforts on strengthening government institutions and making them more efficient. He may compensate for the unwieldy size of his cabinet by forming a small inner cabinet drawn from the more important ministries and reducing the number of cabinet undersecretaries. [Redacted]

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Craxi's attention will be directed toward reforms designed to strengthen the office of prime minister, including limits on the use of the secret ballot in parliamentary voting, and to streamline legislative procedure. Over the longer term, he would like to institute changes in the proportional representation voting system and install a German-style constructive vote of no-confidence. [Redacted]

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All of these proposals will be contentious. As a result, Craxi's prospects for success are uncertain. [Redacted]

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Economic Program

Problems also are likely to arise among the coalition partners on economic policy. The new cabinet's economic proposals call for reducing inflation and for laying the groundwork for economic recovery. [Redacted]

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Press and US Embassy reporting indicate that his program probably will entail:

- Creating new jobs over the next three years in the public sector and in the depressed south.

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- Reducing the inflation rate next year from 16 percent to 10 percent through such measures as an incomes policy and limiting increases in administered prices.
- Keeping the budget deficit under \$51 billion this year— about 17 percent of GDP—in part by limiting transfers to local governments and by reforming the social security and health care systems. [Redacted]

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The program gives ground to the austerity-minded Christian Democrats and Republicans while preserving a key Socialist objective of creating more jobs. The government's success in hitting the inflation target will depend on keeping the budget deficit in line and slowing down wage costs. The Socialists hope to finance the jobs program largely by shifting expenditures from other programs. [Redacted]

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Despite Craxi's interests in other areas, the economy probably will be the first and most difficult subject on the new government's agenda. Debate in the coalition probably will be acrimonious, and further modifications in the government's program are likely. [Redacted]

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Special Analysis**SAUDI ARABIA-SYRIA: Concern About Syrian Intransigence**

The visit to Damascus last weekend by Prince Bandar, King Fahd's close adviser and his new Ambassador to the US, reflects Riyadh's concern that Syria's positions on Lebanon, the PLO, and the war between Iran and Iraq are jeopardizing key Saudi policy objectives. The Saudis, however, have little leverage with Damascus on these issues. On Lebanon, Fahd increasingly will look to the US to extract concessions from Israel that could reduce Syrian intransigence.

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Bandar's trip follows several weeks of high-level exchanges between Riyadh and Damascus. Fahd also has been in close contact with PLO chief Arafat, who held lengthy discussions with the King last week.

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Continued Syrian support for Iran remains another point of friction between Riyadh and Damascus, especially now, when tensions between the Saudis and Iranians are increasing over the coming pilgrimage to Mecca. The Saudis believe that Syria's support for Iran—particularly its closure of Iraq's oil pipeline—has encouraged Tehran to conclude it can win the war and has saddled Saudi Arabia with the burden of major economic aid to Baghdad.

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Fahd probably also is looking ahead to the next Arab summit, which will be held in Riyadh in November. As the summit approaches, the King is likely to increase his efforts to reduce differences between conservative Arab governments and the radical states led by Libya and Syria. His eagerness to avoid embarrassing disruptions of the summit will give radicals increased leverage in their dealings with the Saudis over the next few months.

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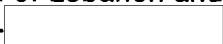
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Fahd's Concerns

The King views the Syrian-backed rebellion within Fatah as a threat to continued moderate control of the PLO and, consequently, to the moderate Arab consensus he has worked to build. Moreover, he and other Saudi leaders worry that Arafat's inability to regain control of the PLO will lead to a resumption of Palestinian terrorism, which this time they fear will be aimed at Saudi Arabia and other conservative Arab regimes. Fahd also believes that continued friction between Arafat and Assad complicates efforts to bring about a withdrawal of foreign forces from Lebanon, thereby facilitating the partition of Lebanon and blocking progress in the Middle East peace process.



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Syria's intransigence has helped prevent Fahd from obtaining a major success in foreign affairs, with which he has been preoccupied since he became King. He needs such a success to counter his domestic critics, who assert that his cooperation with US regional initiatives is unjustified in the face of continued US support for Israel.



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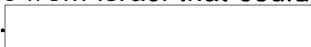
Outlook

Syria will continue to rebuff Saudi Arabia's petitions to end its support for Iran and the Fatah rebellion and moderate its position on a troop withdrawal from Lebanon. Fahd will not cut off financial aid to Syria—his only leverage with Assad—for fear of driving Damascus closer to Moscow and provoking Syrian-sponsored terrorism against Saudi Arabia.



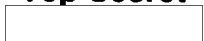
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In the absence of Syrian movement, the King increasingly will look to other countries that might exert a moderating influence on Damascus. Riyadh might even discreetly approach the Soviets to urge increased Syrian flexibility. At the same time, Fahd will increase his appeals to the US to extract concessions from Israel that could reduce Syrian intransigence in Lebanon.



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