

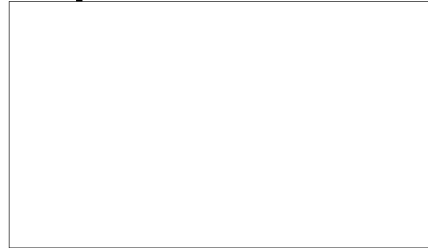


**Director of
Central
Intelligence**

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National Intelligence Daily

*Friday
28 October 1983*

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28 October 1983

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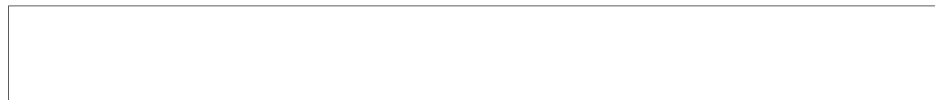
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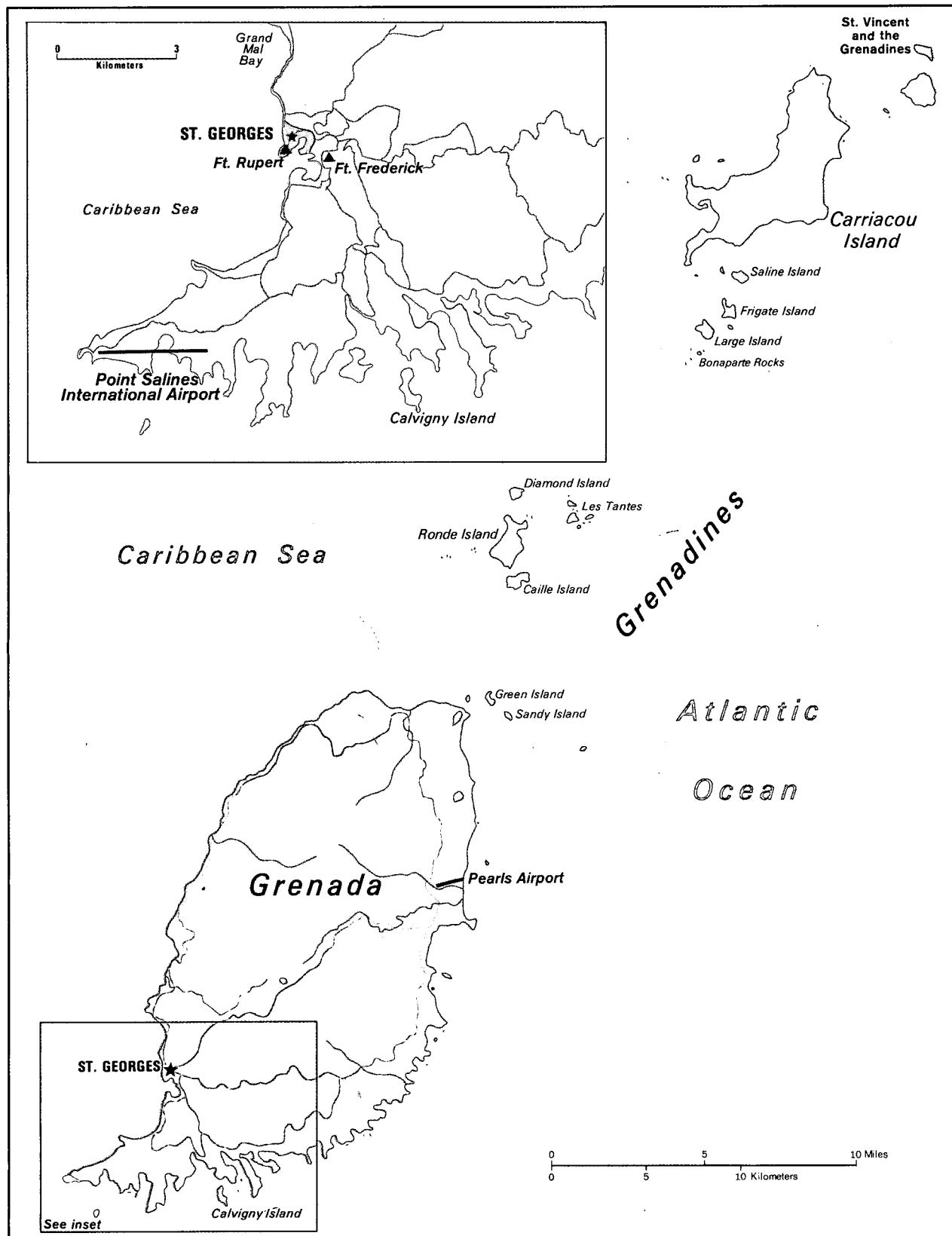
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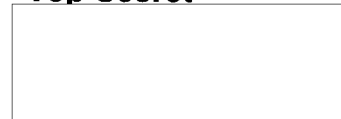
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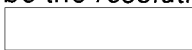
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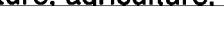
GRENADA: New Government To Be Formed

As the fighting winds down, plans are being formulated for the establishment of a new interim government in Grenada. A major problem facing the new leadership will be the resolution of the country's serious economic difficulties. 

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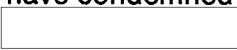
According to Dominican Prime Minister Charles, Grenada's Governor-General—the country's constitutional head of state—will be asked to assume executive authority under the provisions of the Constitution of 1973. She says the multinational Caribbean force will remain in Grenada as police and peacekeeping forces until elections are held. According to a close adviser to Jamaican Prime Minister Seaga, the best possible candidates for an election to a new government in Grenada would be former members of the New Jewel Movement who disassociated themselves from the government of the late Prime Minister Bishop after becoming disillusioned with his policies. 

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Comment: Grenada's new government probably will request US economic aid almost immediately. To maintain imports close to the 1982 level of \$70 million, Grenada could need as much as \$40 million through 1984 to replace lost foreign exchange. In addition to the loss of capital inflows from Grenada's former Marxist allies, tourism revenues and loans from international banks are likely to drop sharply. The longer the fighting lasts and the more extensive the harm to the island's infrastructure, agriculture, and property, the greater the import needs will be. 


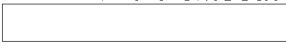
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South American Reaction

Government reactions in the region have ranged from mild criticism to sharp denunciation. Aside from Chile, which has remained noncommittal, the most moderate response has come from Venezuela. Although not condoning the intervention, Caracas has noted the circumstances that precipitated US involvement and highlighted the participation of troops from the Caribbean democracies. Bolivia, Ecuador, Colombia, and Peru have condemned the invasion, citing the principle of nonintervention. 

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Argentina and Brazil have formally criticized the US intervention, but Paraguay has pledged Washington its support. Uruguayan leaders have privately told the US Embassy that Montevideo will play a constructive role in OAS debates. 

Comment:  most South American governments resent what they see as a revival of US military interventionism, but their reaction has been tempered by concern about growing Cuban and Soviet influence in the region. Criticism will abate when US troops are removed and a smooth transition to democratic rule is under way. 

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UK-US: Problems Over Grenada Action

The impression in the UK that the US did not take account of Prime Minister Thatcher's views on Grenada has brought her under severe criticism for her broad support of US policies. [Redacted]

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Close associates of the Prime Minister fear the invasion has damaged her political standing, according to the US Embassy. The associates say there is a widespread impression that the US did not consult the UK early enough and disregarded British reservations. Some Conservatives also worry that Foreign Secretary Howe's standing has suffered from charges that he misled Parliament by denying on Monday that the US would invade. [Redacted]

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The opposition also is citing the Grenada operation as a rationale for "dual-key" controls on INF. The Embassy reports that Defense Secretary Heseltine is furious that US actions are reviving concerns even among Conservatives about joint control of INF. [Redacted]

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Comment: Thatcher's problems are compounded by her insistence in recent years that her close relationship with President Reagan gives the UK special influence in Washington. The government is also hampered by its inability, thus far, to decide what line to take concerning Grenada. [Redacted]

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Howe probably would have to resign if members of Parliament were to believe that he misled them about knowledge of US plans. His departure, following so soon after the resignation of Trade Secretary Parkinson, would throw the Prime Minister's wing of the Conservative Party into disarray. [Redacted]

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Thatcher and Howe probably will be able to ride out the storm, but they will have to come up quickly with a strategy for dealing with concerns in Parliament. The Prime Minister will strive not to allow Caribbean disputes to disrupt relations with the US. She is likely to take a particularly tough stand against any formal "dual key" for INF. [Redacted]

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The British Government will face greater skepticism over its support for US policies, however, and London may be less willing to defend Washington against criticism by the other Western Allies. Thatcher may find it expedient to display more independence from the US. [Redacted]

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[Redacted]

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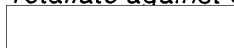
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SYRIA-US: Concern Over Reprisal

Damascus appears increasingly concerned that the US will retaliate against Syrian or Lebanese targets for the bombings in Beirut.



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Syria's government-controlled media are focusing on alleged preparations by the US, the West European states, and Israel for an attack on Syria. Several commentaries have cited the action in Grenada as evidence that the US is willing to use force against Syria.

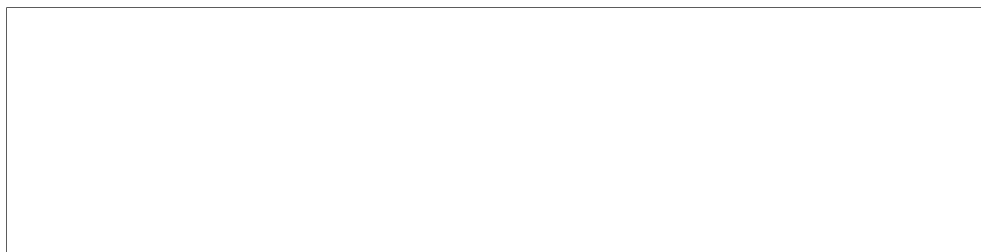


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Syria sent diplomatic notes on Wednesday to West European governments, urging them to discourage the US from taking military action. The notes claim Damascus has information that the US is planning such action in concert with the Israelis and is trying to involve some European countries.

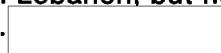


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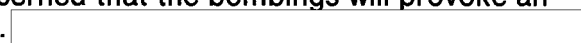
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Comment: President Assad almost certainly believes that a threat of US military action would strengthen his claim to be the only Arab leader opposing "Zionist-imperialist aggression." He is unlikely to limit Syrian goals in Lebanon, but he may modify tactics to appear more reasonable now.

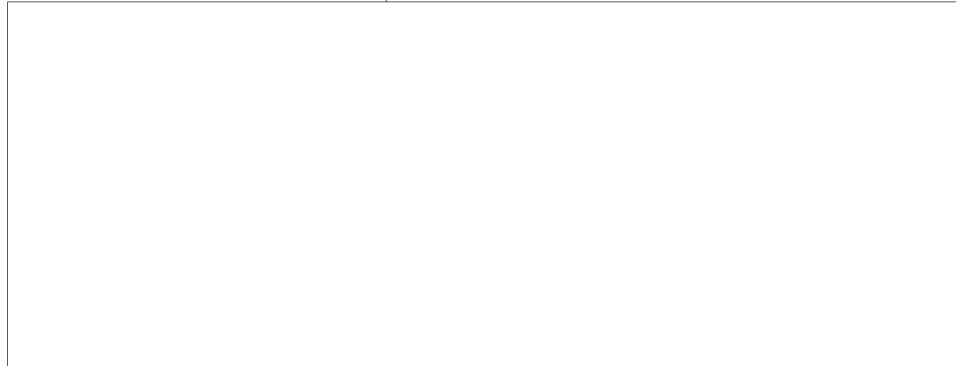


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Assad is probably concerned that the bombings will provoke an increased US commitment.



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INTERNATIONAL: Consensus Developing on COCOM Controls

Members of COCOM appear ready to accept some US proposals to tighten controls on computer exports to the USSR and its allies.



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Dutch and Canadian delegates to COCOM have privately indicated that their governments will conditionally agree to the US proposal to add to the embargo list most of the computer items that have been under negotiation for over a year. Both nations, however, have flatly rejected the US attempt to control computer exports automatically by the "red-line" approach, which specifies performance levels beyond which no exceptions for export would be granted.



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France and the UK have expressed similar reservations about the US proposals. Japan remains skeptical about limiting computer exports without proof of possible military application by the Communist nations.



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Comment: The Dutch and Canadian attitudes contrast with heated exchanges over computer controls in COCOM meetings two weeks ago, when new US proposals were vigorously opposed. This apparent change probably reflects a willingness to adopt some previously discussed controls on computer exports, provided Washington in turn drops its insistence on more rigid controls.



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The members are willing to listen to further US arguments on computer exports in bilateral discussions next month after the current COCOM sessions adjourn. They almost certainly will not modify, however, their opposition to the red-line approach.



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USSR: Comments on Economic Reform

Soviet officials recently provided insights on why the leadership is moving cautiously in introducing economic reforms. [redacted]

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Fedor Burlatskiy, a Soviet political commentator with ties to General Secretary Andropov, told US Embassy officials in Moscow that economic reform has slowed primarily because the Soviet leadership has not agreed on the replacement of personnel or on a model for reform. He also says the leadership is concerned that economic reforms would induce social change. He asserts that concern in the USSR about the upheaval in Poland considerably retarded the prospects for Soviet economic reform. [redacted]

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In a separate conversation, *Izvestiya* economic editor Borodin told US Embassy officials that improved economic results for the first three quarters of this year are inspiring "new confidence" that some targets of the Five-Year Plan for 1981-85 can be achieved. He says this would lead to more ambitious targets for 1984. He attributes the improvement to the discipline campaign and doubts that major new reforms will be introduced soon, partly because of international tensions. [redacted]

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Comment: Andropov has publicly encouraged steady but deliberate change in the economic mechanism but has met with opposition in the Politburo and economic bureaucracy. He has called for changes to be institutionalized as part of the Five-Year Plan for 1986-90, but statements by other leaders and reporting from other Soviet political observers indicate that the Politburo is undecided on the form and extent of such change. [redacted]

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Having served as Ambassador to Hungary, party overseer of relations with Eastern Europe, and head of the KGB, Andropov will be sensitive to events in Poland. Like his Politburo colleagues, he is concerned about the potential for social upheaval. [redacted]

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Burlatskiy's caution on the issue suggests that agreement within the leadership is unlikely in the short term. The improvements in economic performance may strengthen the position of those leaders who have expressed reservations about the need for change. [redacted]

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PHILIPPINES: Shortage of Imports

The collapse of credit for imports is deepening Manila's financial crisis and could cause serious new economic disruptions and new political problems for President Marcos in the weeks ahead.

[Redacted]

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The US Embassy reports that the banking system has stopped issuing new letters of credit because of the shortage of foreign exchange. Philippine officials are reportedly threatening to institute a foreign exchange rationing system for importers if the banks do not make more foreign exchange available in the next few days.

[Redacted]

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Shortages of imported goods are not yet evident, and there is an 80-day supply of oil. The US Embassy says, however, that the prices of many goods sold from inventory stocks are rising rapidly in anticipation of shortages later. The government has frozen the prices for goods it considers to be affected by speculative buying or by the 21-percent devaluation earlier this month.

[Redacted]

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The Labor Minister is warning that the government may ration oil products to stretch supplies while prices are frozen. The Philippine National Oil Company, meanwhile, continues to fall farther behind in its payments to major US banks, and its efforts to raise new money to finance oil imports have met with little success.

[Redacted]

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[Redacted] foreign exchange will remain scarce through the end of the year. Central Bank reserves have fallen from slightly over \$2 billion in mid-August to about \$300 million. Interest payments on the foreign debt are running about \$180 million per month.

[Redacted]

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Comment: Manila has little choice but to tighten control over foreign exchange if it wants to avoid serious economic disruption in the weeks ahead. The public is becoming more angry about austerity, and the government probably believes that some kind of foreign exchange rationing system is preferable to further devaluation and the political turbulence that would accompany severe shortages of goods.

[Redacted]

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[Redacted]

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USSR-EASTERN EUROPE: MBFR Walkout Threatened

An East European military representative at the MBFR talks told a Western delegate on Wednesday that there might be no Eastern representatives in Vienna after 21 November, depending on the outcome of the West German Bundestag debate on INF scheduled to conclude on that date. On Tuesday, the East moved somewhat closer to the West's positions on MBFR. It modified both its opposition to specifying the number of troops needed to reduce Eastern and Western forces to equal levels and its insistence that Western observation of Eastern reductions would be by invitation only.



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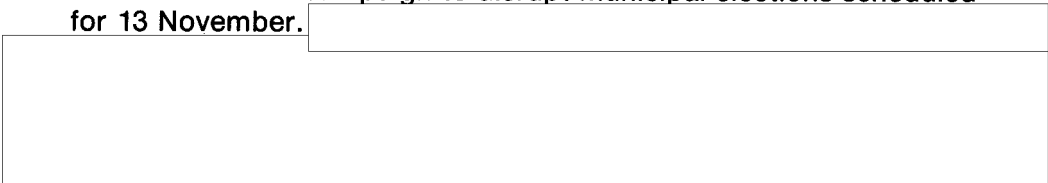
Comment: Although the East has threatened before to walk out of the negotiations if NATO INF deployments occur, this warning is explicit and the first to give a specific date. The East may have timed its moves on Tuesday to create the impression in Western Europe that US intransigence on INF may force suspension of MBFR just as progress is being made.



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PERU: Military Concern About Terrorism

The Peruvian armed forces are again urging the civilian government to let them undertake more aggressive counterterrorist operations. Military leaders believe that attacks by Sendero Luminoso insurgents this month in Lima and in the highlands emergency zone are the start of a campaign to disrupt municipal elections scheduled for 13 November.



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Comment: Recent actions by the insurgents have demonstrated their ability to recover from heavy losses inflicted by the security forces. The elections almost certainly will be held as planned, but the likelihood of increasing violence over the next few weeks will add to a growing climate of fear. This and continuing pressure from the military probably will lead the government to give the armed forces even more freedom of action.



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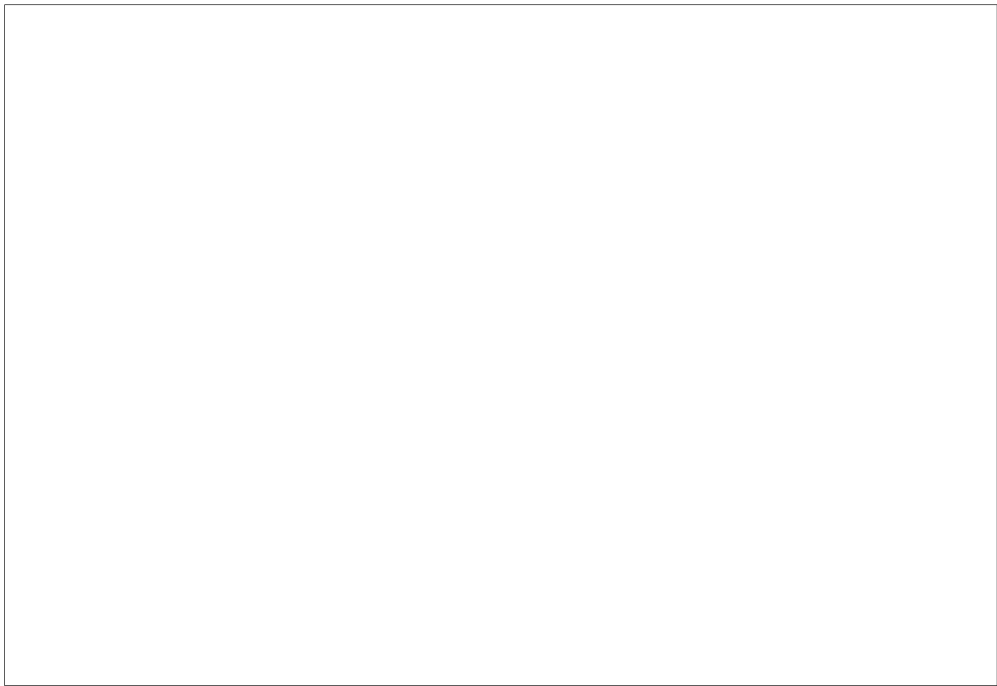


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LEBANON: Financial Difficulties

The Lebanese economy has declined rapidly in recent months, according to a banking source of the US Embassy. Unforeseen expenditures to resupply the Lebanese Army are expected to increase more than twofold the projected government budget deficit. Lebanese bankers, who already hold more than two-thirds of the government's debt, reportedly are reluctant to make additional loans to President Gemayel's government. Cash remittances from abroad, the most important source of foreign exchange, have also dropped in recent months to less than one-third their normal level, resulting in a \$1.4 billion decline in foreign exchange reserves.

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Comment: The economy will continue to deteriorate unless the national reconciliation talks make early progress. Even if an agreement on power sharing were worked out, Lebanese and foreign investors probably would want to wait until success of the agreement was proven before investing in reconstruction.

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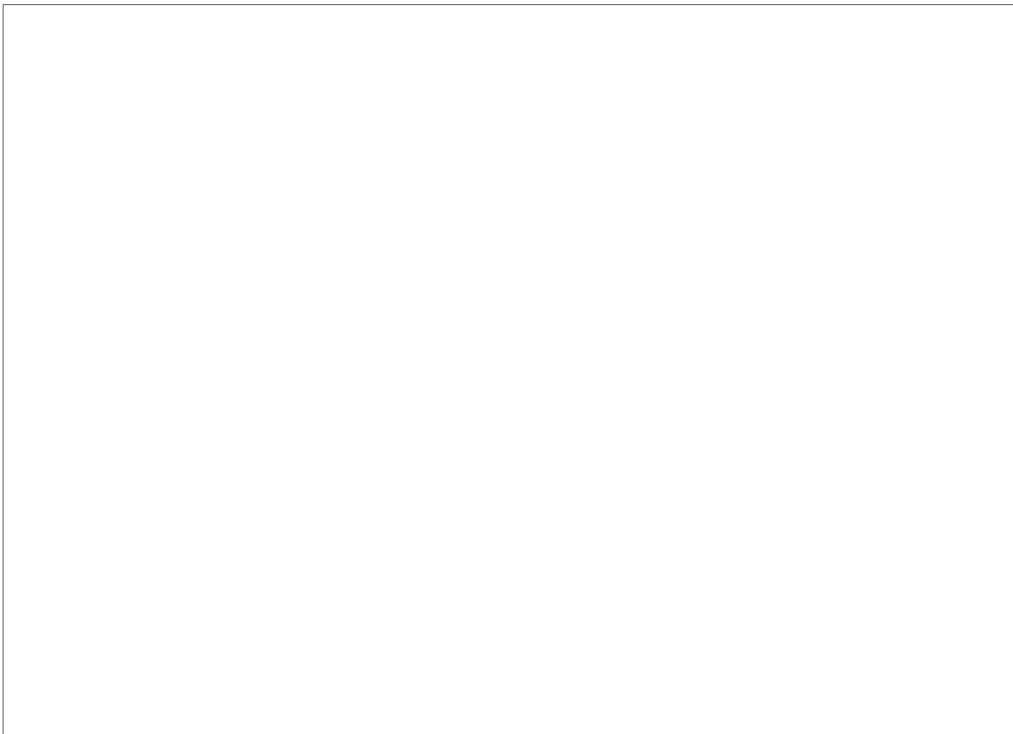
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OMAN-SOUTH YEMEN: Resumption of Relations

The reestablishment of diplomatic relations between Oman and South Yemen, announced yesterday, still leaves many bilateral problems to be resolved. Talks on border disputes are scheduled to begin Saturday. 

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Comment: Both nations hope that the move will lead to new aid from the Gulf Cooperation Council. The announcement, originally set for August, was delayed by South Yemen's unhappiness over Oman's military exercises with the US. Oman still distrusts Aden and is likely to procrastinate on exchanging ambassadors and on negotiating on the border issue. 

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Special Analysis

USSR-PALESTINIANS-SYRIA: Soviets Back Away From Arafat

Moscow has distanced itself from embattled PLO chief Arafat as the challenge to him from Syrian-backed radicals in the organization has grown. The Soviets apparently still view Arafat as the preferred PLO leader and do not relish the prospect of Syrian domination of the organization. They do not, however, want to alienate President Assad and thereby endanger what they view as their best remaining channel for developing influence in the Middle East. [Redacted]

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Arafat expressed bitterness early this month over what he termed his abandonment by the USSR and the Arab world, according to a source of the US Consulate in Jerusalem. Moscow apparently has not responded [Redacted]

[Redacted] to his thinly veiled public plea last week for Soviet aid against Syria. In contrast to three visits by his top aides in June and July, there have been no subsequent high-level visits to the USSR since, and Soviet media recently have ignored the PLO's factional struggles and have avoided referring to Arafat as PLO chief. [Redacted]

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The Soviets' Changing Position

Moscow began offering discreet support for Arafat's leadership a few weeks after the PLO rebellion erupted last spring. The Soviet media appealed for an end to the PLO dissension and indirectly criticized Syrian and Libyan intervention in the dispute. [Redacted]

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[Redacted]

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Pravda's top Middle East commentator, after Arafat's expulsion from Syria in late June, accused "some Arab figures" of aggravating the PLO's internal strains. [Redacted]

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Moscow's decision to move away from Arafat first became evident during Foreign Minister Gromyko's talks in July with Faruq Qadoumi, head of the PLO's Political Department. Soviet accounts said Gromyko had suggested that the PLO cooperate with Syria, intimating Arafat should make his peace with Assad. [Redacted]

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A subsequent radiobroadcast cited the PLO dissidents' displeasure at the talks last spring between Arafat and Jordanian King Hussein concerning possible PLO participation in the US-Middle East peace initiative—a dissatisfaction Moscow itself had frequently voiced.

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Weighing Soviet Interests

Moscow probably hoped its modest lobbying during the summer on Arafat's behalf could help fend off Syrian control of the PLO. It openly opposed Syrian efforts to dominate the PLO during the Lebanese civil war in 1975-76 and probably still would like to avert Syrian control of the PLO.

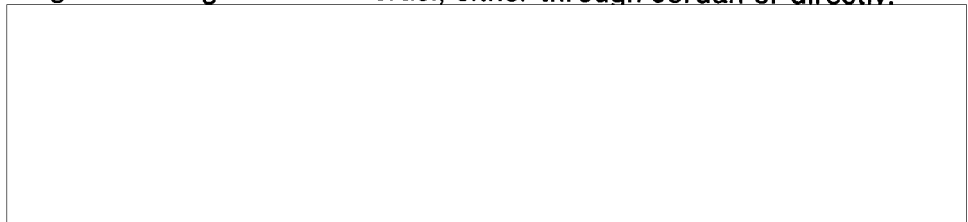
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Moscow has tried to develop influence in the Arab world mainly by supporting the Palestinian cause. Soviet leaders probably still believe that the USSR's influence can best be enhanced if both Syria and an independent PLO are committed to Soviet participation in an Arab-Israeli peace settlement.

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Moscow also appears concerned that Arafat's eclipse could splinter the PLO and that Palestinians in the West Bank and Gaza might then negotiate with Israel, either through Jordan or directly.

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Nevertheless, the Soviets apparently concluded during the summer that their efforts to reconcile Assad and Arafat were likely only to alienate Damascus—Moscow's most important ally in the Arab world.

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Ararat and other PLO officials publicly acknowledged that the Soviet mediation effort had failed.

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Soviet concern presumably has been heightened by US-Syrian discussions on Lebanon.

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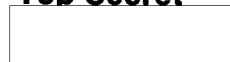
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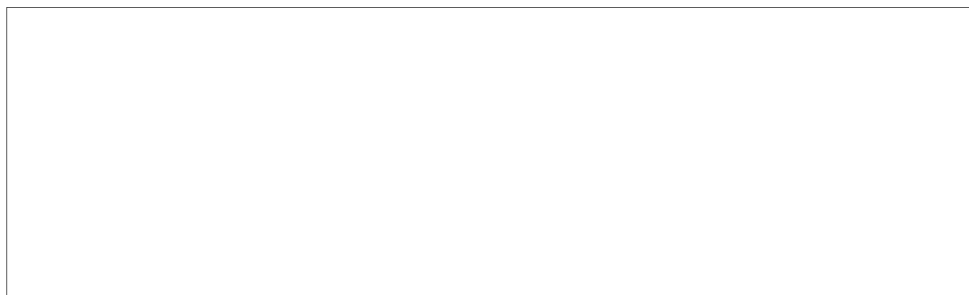


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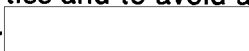
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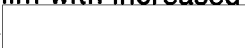
Outlook

The Soviets are likely, at least for the time being, to continue their hands-off approach toward the Assad-Arafat rift. They would attempt a serious mediation effort only if Assad seemed receptive. Moscow probably will avoid openly condemning Arafat's opponents, both to maintain Soviet-Syrian ties and to avoid alienating PLO factions that may emerge victorious.



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If Arafat survives as PLO chief, Moscow is likely to bank on the PLO's dependence on Soviet weaponry and on the widespread hostility in the PLO toward the US Middle East peace plan to assure that Arafat maintains close relations with the USSR. Moscow might try to mollify him with increased military and diplomatic support against Israel.



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Nevertheless, in the long term, Soviet concern that Arafat will not support their interests could induce Moscow to support more radical PLO leaders committed to Soviet participation in resolving the Arab-Israeli dispute. Such a shift would become likely if Moscow calculated that a new leadership could dampen dissension within the PLO, assert some measure of independence from Syria, and acquire broad support in the Arab world.



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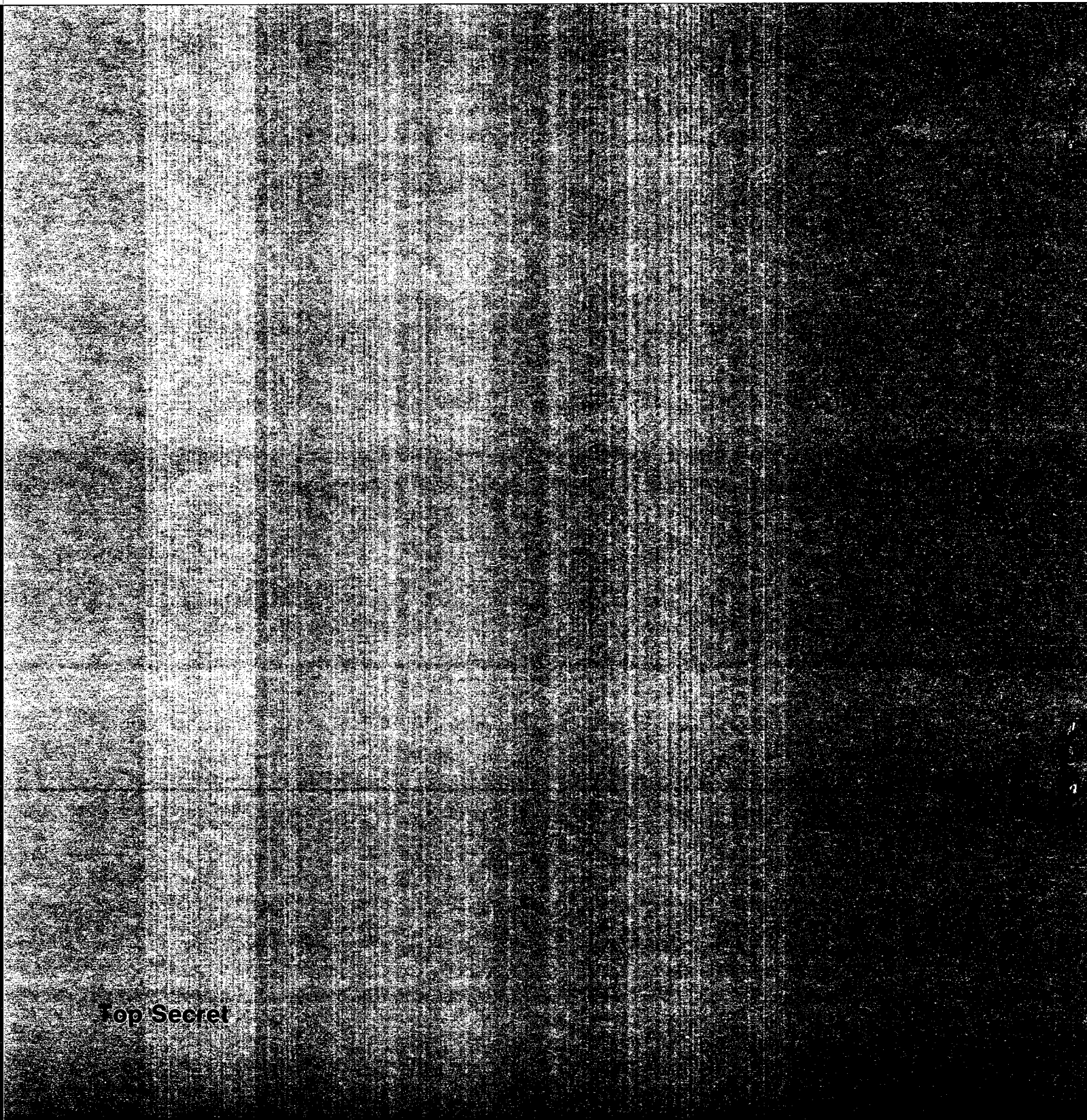
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