



**Director of
Central
Intelligence**

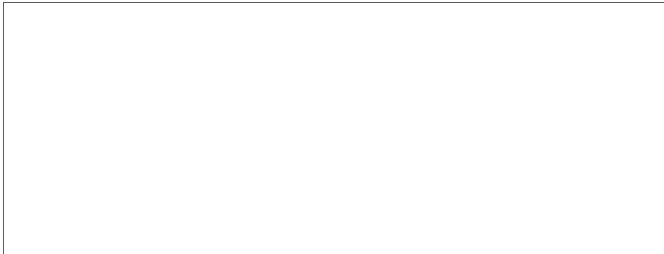
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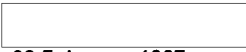
National Intelligence Daily

**Saturday
28 February 1987**



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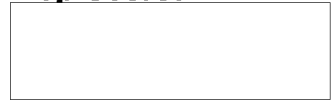


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KUWAIT-USSR:

Looking for Protection

Kuwait hopes to work out agreements with the USSR to purchase military equipment and to protect its exports of crude oil against Iranian attacks in the Persian Gulf. [Redacted]

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[Redacted]

A high-level Kuwaiti delegation will travel to Moscow early next month to discuss military sales in a continuing effort to improve military cooperation with the USSR and balance weapons procurement as well. The Kuwaitis will seek additional spare parts for the SA-8 missiles they bought in 1984 and may explore the possibility of buying armored vehicles and T-72 tanks, according to the US Embassy in Moscow. [Redacted]

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[Redacted]

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Comment: Kuwait will probably sign an agreement for additional SA-8 training and spare parts but will hesitate to commit itself to a sizable purchase of armored vehicles or tanks. Kuwait has deliberately diversified its military purchases from Western and Eastern Bloc suppliers, but its concerns about Soviet intentions would probably stall any agreement that required large numbers of Soviet military advisers. [Redacted]

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Argentina's New Anti-Inflation Program

The new economic program is designed to halt inflation and spur growth. It includes:

- A price and wage freeze with wages adjusted first for past inflation.
- A 7-percent devaluation of the austral.
- A reduction by one-half of monthly minimum official interest rates.
- A hike in gasoline prices and public utility rates.



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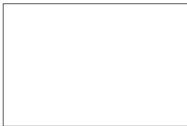
ARGENTINA:

Alfonsin Under Fire

President Alfonsin is facing widespread criticism for his recently announced economic austerity measures, and he continues to grapple with the military over officers being tried for human rights issues. 



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Domestic reaction to the economic program—especially wage and price freezes—has been overwhelmingly negative. Moderate political spokesmen as well as leftist and labor leaders have criticized the plan. Agricultural and industrial leaders claim the measures will distort markets and damage profits, and key members of Alfonsin's own party have been conspicuous in their failure to defend the measures.




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Alfonsin remains at odds with the military over the human rights trials. This week, 15 Navy officers, including active-duty personnel, were arrested after refusing to testify in civilian courts.

 that junior and midlevel Navy officers are increasingly dissatisfied with the lack of support from the Navy Chief of Staff and may call for his resignation. 

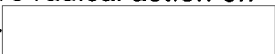
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The Navy's plight has spurred unrest in the Army, according to the US Embassy. Some Army personnel are slated to testify in March, and many officers are reportedly advocating noncooperation with the courts. 

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Comment: The announcement of the wage and price freezes at the height of tension over the human rights trials could seriously erode the political standing of Alfonsin and his party in the national election in October. Recent price increases have undermined the popularity of the economic reforms begun in 1985, and the public has little faith that the new measures will have more than a temporary effect. 

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Labor will almost certainly increase strike activity, and the opposition parties may attempt to provoke public demonstrations over the next few months. If the economic plan unravels and Alfonsin is unable to resolve the human rights issue, he may turn to more radical action on the debt to improve his party's election prospects. 



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IRAN-IRAQ: End of Offensive at Al Basrah

Iran's claim that its offensive near Al Basrah has ended probably signals at least a temporary lull in the ground war, but Iranian forces have the capability to resume attacks at any time. Tehran says the offensive concluded successfully with the establishment of a defensive line west of the Jasim River between Fish Lake and the Shatt al Arab waterway.

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Comment: The announcement suggests that Iran's immediate goals in the seven-week operation have been achieved.

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Although a pause in the ground war is likely, Iran has massive numbers of men and enough supplies to launch new attacks anywhere on the southern front. Tehran will continue to push the propaganda value of the offensive by touting it as a major victory that has further weakened the Iraqi regime.

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[Redacted]

[Redacted]

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NICARAGUA: Concerns About Rebel Politics

The Sandinistas apparently are concerned that proposals by the Unified Nicaraguan Opposition to establish a more visible presence in Central America and to restructure its political leadership could increase foreign support for the rebels. The US Embassy in Managua reports that the regime last week protested Costa Rica's authorization of the recent UNO Assembly meeting in San Jose and warned Costa Rica not to permit the UNO headquarters to relocate there. In statements to the press, Sandinista officials have characterized the UNO reorganization currently under way as irrelevant and labeled the rebels' attempts to improve their political image as merely cosmetic.

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[Redacted]

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Comment: Managua probably is worried that a more prominent UNO presence in the region could increase the movement's legitimacy as a viable political alternative to the regime. The Sandinistas almost certainly relish the UNO infighting, but they probably are concerned that a more representative organization could improve the insurgents' international image.

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AFGHANISTAN-PAKISTAN: More Air Attacks

Afghan aircraft ^{on 27 Feb} yesterday struck Pakistan for the third time in three days, and Islamabad responded with orders to shoot down any intruding aircraft. [Redacted]

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[Redacted] according to the press, a Saudi-funded and -staffed hospital south of Parachinar was also hit. The latest two raids may have killed more than 100. Islamabad has issued a strong protest. Foreign Minister Yaqub Khan, in Geneva for the indirect talks on Afghanistan, said after the attack Thursday that the Afghan actions threaten the continuation of that conference. [Redacted]

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Comment: [Redacted] Friday's attack suggest that it was preplanned, not an inadvertent incursion. The attack probably was intended to press Pakistani negotiators to make concessions at Geneva. As in the past, however, it is more likely to stiffen Islamabad's resolve, and, if the attacks continue, Pakistan may call for a recess in the negotiations. The Pakistani military probably will increase the number of antiaircraft gun and missile positions along the border and renew combat air patrols. Pakistan's chances of downing an intruding aircraft remain small, however, because of early warning deficiencies and the short time Afghan aircraft remain over Pakistani territory. [Redacted]

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CHILE: Debt Negotiations Completed

Chile and its creditor banks concluded a debt relief plan Tuesday that will help it cover a \$450 million shortfall on interest payments on commercial debt over the next two years. According to press reporting, the plan does not involve new lending, but Santiago will save money by making interest payments in 1988 and 1989 once instead of twice a year and by rescheduling at lower interest spreads \$10.6 billion in debt that matures between 1988 and 1991. US Embassy reporting suggests Chile will seek a rescheduling by the Paris Club of most of its official debt due in the next two years. [Redacted]

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Comment: The agreement was concluded after the US and a majority in a committee of commercial banks rejected a series of alternative plans proposed by a major US bank. The drawn-out negotiations delayed the agreement, driving the bulk of Chile's debt relief into next year. Chile will probably still need a bridge loan of \$225 million from the Bank of International Settlement. [Redacted]

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ITALY: Seeking Greater Role in Economic Decisions



Italy's strong reaction to the "Group of Five" meeting on monetary policy in Paris last weekend demonstrates its increased determination to secure a greater role in international economic decision making. Rome boycotted a subsequent "Group of Seven" meeting, according to US diplomatic reporting, because it believed that the principal decisions had already been taken by the G-5 in disregard of the Tokyo summit agreement to include Italy and Canada in important decisionmaking. Statements from Prime Minister Craxi's office and by Foreign Minister Andreotti indicate that the Italians may continue to press for a written clarification of the role of the G-7 before the group meets in Washington in April.

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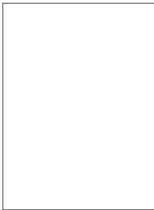
Comment: Italian leaders believe Rome has a right to play an international economic role equal to London's because Italy's strong industrial growth has put the Italian economy roughly on a par with that of the UK. The growing possibility of an early national election will incline all Italian party leaders to push the government to seek a formal guarantee of the primacy of the G-7, and Italy may make this a major issue at the Venice economic summit if it is not resolved beforehand.

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CZECHOSLOVAKIA: "Openness" Emboldens Dissidents



Members of Czechoslovakia's Charter 77 dissident group have launched hunger strikes in several cities to protest the recent arrest of a fellow member on charges of antiregime activity, according to press reports. The regime has scheduled for March the trial of the seven leaders of the outlawed Jazz Section dissident group on charges of participating in an illegal enterprise, according to US Embassy reporting.

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Comment: Soviet leader Gorbachev's widening of the bounds of permissible criticism in the USSR is evidently causing problems in Czechoslovakia. Charter 77 has always been critical of the regime's human rights abuses but has seldom resorted to demonstrations. The Prague leadership probably wants to send a message to dissidents that Gorbachev's policy of openness will not be emulated in Czechoslovakia.

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In Brief

Americas



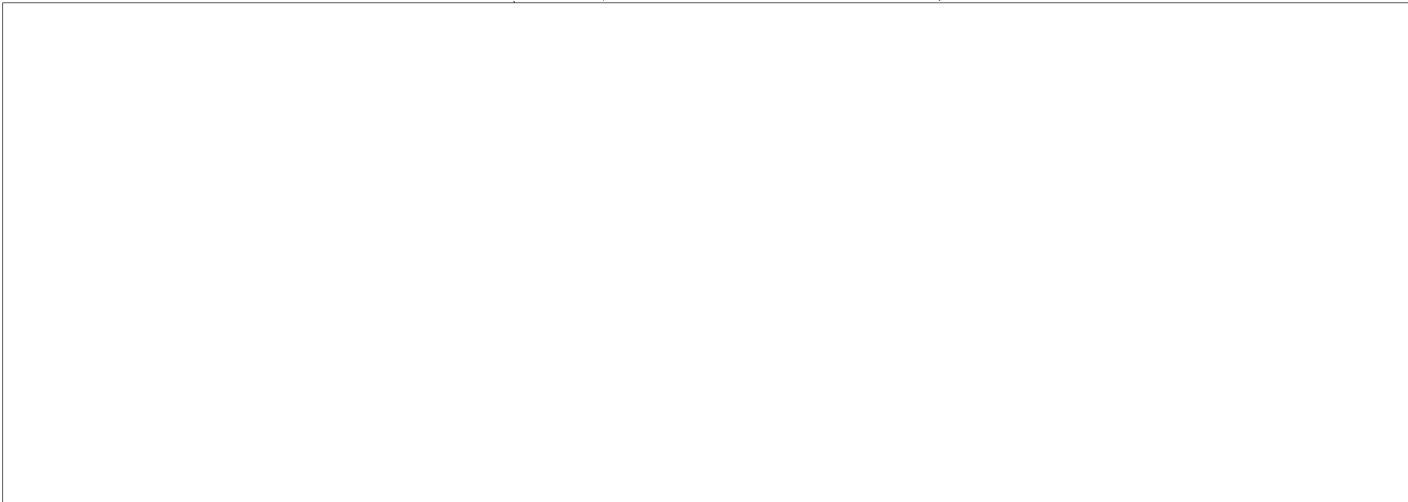
— Nicaraguan rebel commander claims to have shot down Sandinista helicopter in central Zelaya yesterday ... unclear whether troop transport or gunship ... last verified shutdown was 14 months ago.



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Europe



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— Verdict in Paris trial of Lebanese terrorist Abdallah expected today, according to press ... French prosecutor has urged that sentence not exceed 10 years ... government trying to guide result, avoid retaliation.

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— Spanish Socialists, Basque Nationalist Party to form minority regional government in Basque country ... Nationalists retain presidency, Socialists get main economic posts ... disagreement over separatist terrorism may undermine coalition.

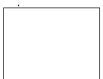
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East Asia



— Hungary and China have restored interparty ties, Chinese party leader Zhao will visit Budapest in June ... China hoping to encourage greater East European independence of USSR.



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Views in the Knesset About an Early Election

If Labor quits the government, the coalition would not necessarily fall, because the remaining coalition partners would constitute a minority government. Only a majority vote in the Knesset would bring about an early election. If Labor were to try to cause an early election, the parties would probably vote as follows:

Probably For

| | |
|------------------------------|-----------|
| Labor | 40 |
| Small left-of-center parties | |
| Mapam | 6 |
| Citizens' Rights Movement | 4 |
| Shinui | 3 |
| Rakah (Communist Party) | 4 |
| Progressive List for Peace | <u>2</u> |
| Total | 59 |

Probably Against

| | |
|--------------------------|-----------|
| Likud | 41 |
| Ometz | 1 |
| Tehiya | 5 |
| Religious parties | |
| National Religious Party | 5 |
| Agudat Yisrael | 2 |
| Morasha | 1 |
| Tami | <u>1</u> |
| Total | 56 |

Uncertain

| | |
|---------------------------------|----------|
| SHAS - Sephardi Torah Guardians | 4 |
| Kakh (Meir Kahane) | <u>1</u> |
| Total | 5 |



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Special Analysis



ISRAEL:

Controversy Over Peace Talks

The just-concluded trip of Israeli Foreign Minister Peres to Egypt indicates that he is redoubling his efforts to negotiate a framework for Middle East peace talks at the same time that Prime Minister Shamir is resisting international participation in such talks because of pressure from hardliners in the Likud bloc. Even so, Israel's Labor-Likud coalition is not likely to collapse in the next several weeks unless Peres makes dramatic progress on the peace process.



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Peres was relatively inactive for several months after he swapped jobs with Shamir last October, [redacted]

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[redacted] His discussions with President Mubarak and other Egyptian leaders focused on the contentious issues of Palestinian and Soviet representation in a Middle East peace conference, according to Israeli and Egyptian press reports. Peres and Mubarak apparently achieved no breakthroughs but agreed to continue their efforts, particularly in the search for an acceptable Palestinian representation. [redacted]

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Shamir: Stiffening Resistance

Since becoming Prime Minister, Shamir has waffled in his public comments about international involvement in Arab-Israeli negotiations. The recent decision by Shamir's Herut Party, the dominant faction in the Likud bloc, to hold its national convention next month, however, forced Shamir to declare that he is unequivocally opposed to an international conference, according to US Embassy reporting. [redacted]

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Fear of a New Election

Neither Peres nor Shamir is anxious to force an early national election because neither is convinced that his party would win a clear victory. Labor is ahead in public opinion polls, but similar polls preceding past elections have consistently overvalued Labor's strength. Several Labor Party leaders warned Peres this week not to seek an early election, arguing that the public would punish the party responsible for scuttling the government of national unity, which remains widely popular. [redacted]

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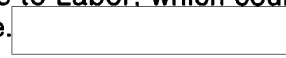
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Peres would risk an early vote only in the unlikely event that Jordan, Egypt, and PLO-approved Palestinians agreed on a negotiating framework for peace talks that was acceptable to Labor, which could then bill an election as a referendum on peace.



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Peres and Shamir will probably hold a vigorous debate on the need for an international conference at the weekly Cabinet meeting tomorrow. With no specific proposals for a conference on the table, however, they are unlikely to make any decisions that would split the government.



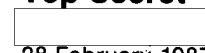
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Nonetheless, Peres's renewed activism on the peace process makes it likely that future relations between Labor and Likud will be more strained than they were during the first two years of the unity government. The pragmatic working relationship that Peres and Shamir had established has been damaged by their disagreement over peace talks.



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Early Debtor Reactions

Although Peruvian President Garcia and Cuban President Castro openly lauded Brasilia's move, most initial reactions have been low-key.

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many debtors are studying Brazil's action to see if it will eventually work to their advantage:

- **Mexico** gave public assurances that it will continue to service its debt and will not follow Brazil's lead.

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- **Argentina's** Treasury Secretary immediately issued a press statement that Buenos Aires would halt interest payments if Western banks were unresponsive to its financial needs. The statement was a high-risk gambit to gain approval of Argentina's \$2 billion loan request, but the Argentines subsequently calmed fears by denying they would join Brazil and by implementing a new stabilization program.

- **Philippine** Finance Minister Ongpin believes the Brazilian decision has strengthened Manila's bargaining position with its creditors. Manila probably will be content to prolong negotiation with the banks in the hope of eventually extracting better terms.

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- **Ecuador** has been slow to react publicly, but it plans to defer its ongoing financial negotiations until it has assessed creditor responses to Brazil's action, according to the US Embassy.

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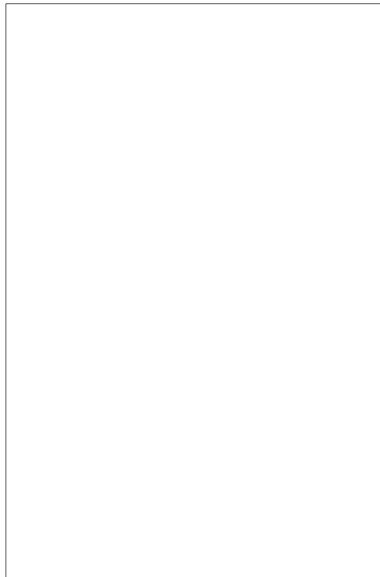


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Special Analysis

**INTERNATIONAL-
BRAZIL:**

Reaction to Debt Moratorium



Debtor governments are assessing Brazil's decision to suspend interest payments but probably will not follow suit, especially if new financial packages from commercial bankers appear likely.

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Debtor LDCs are expressing solidarity with Brazil's interest suspension and probably believe the action strengthened their own bargaining positions. Moreover, their leaders will note that domestic support for President Sarney's government increased following his announcement. Whether other debtors imitate Brazil's actions will depend on the scope for economic growth allowed under new money packages.

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Difficult Negotiations Ahead

Brasilia has expressed interest in beginning negotiations with commercial banks around mid-March. Nonetheless, the reluctance of creditors to make precedent-setting concessions and Brazil's recalcitrance about giving in to creditor demands have decreased the likelihood that an agreement will be reached soon.

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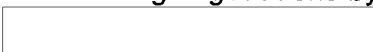
Brazil believes it had little choice but to reduce its debt service payments. Cash reserves have been drawn down rapidly in recent months and are currently estimated at only about \$2 billion—less than two months' worth of imports. The economy also is in bad shape, with interest rates and inflation both heading toward quadruple digits.

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Politically, Sarney has gained time to rebuild a consensus behind his leadership and to consider additional measures to shore up the economy. Moreover, Brasilia almost certainly believes it has gained the upper hand in coming negotiations by announcing a suspension of payments.

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International bankers are uncertain about the steps Brazil will propose in future negotiations. They are especially concerned about Brazil's lack of a credible domestic economic program and its apparent refusal to agree to IMF supervision.

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~~A few banks withdrew a portion of Brazil's \$15.5 billion short-term trade and interbank lines. In response, Brasilia on Tuesday told Brazilian banks overseas they should not pay international banks trying to withdraw these credit lines but to deposit the money in an account with Brazil's Central Bank, according to the US Embassy.~~

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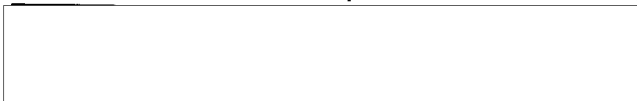
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Swing Factors

Unanticipated events could lead debtors to rethink their initial moderate response. At worst, the breakdown of financial cooperation could trigger a chain of successive debt payment suspensions.

The most important of these events would be the banks' increasing resistance to further compromise. Long delays in reaching agreements for new money and rescheduling probably would precipitate renewed financial crises in at least several countries and might persuade debtor governments to abandon their moderate policy courses.

Rapidly evolving internal politics could quickly change the complexion of Third World debt policies. Ecuador's President Febres-Cordero, for example, has swung from one of the most financially responsible leaders in Latin America into technical default largely because his domestic political standing has slipped. A breakdown in financial negotiations that undermines public confidence could lead to shifts in economic teams and adoption of more radical debt actions.



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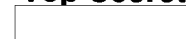
Outlook

The resolve of debtor governments has strengthened; in particular, they are more willing to act in the face of perceived creditor inflexibility. Creditor banks, too, may feel compelled to draw the line. They are moving quickly to settle outstanding issues with other debtors in order to isolate Brazil and to deter other countries from following suit. Over the long run, however, Brazil's actions could harden attitudes toward future concessions and new money for all debtors.



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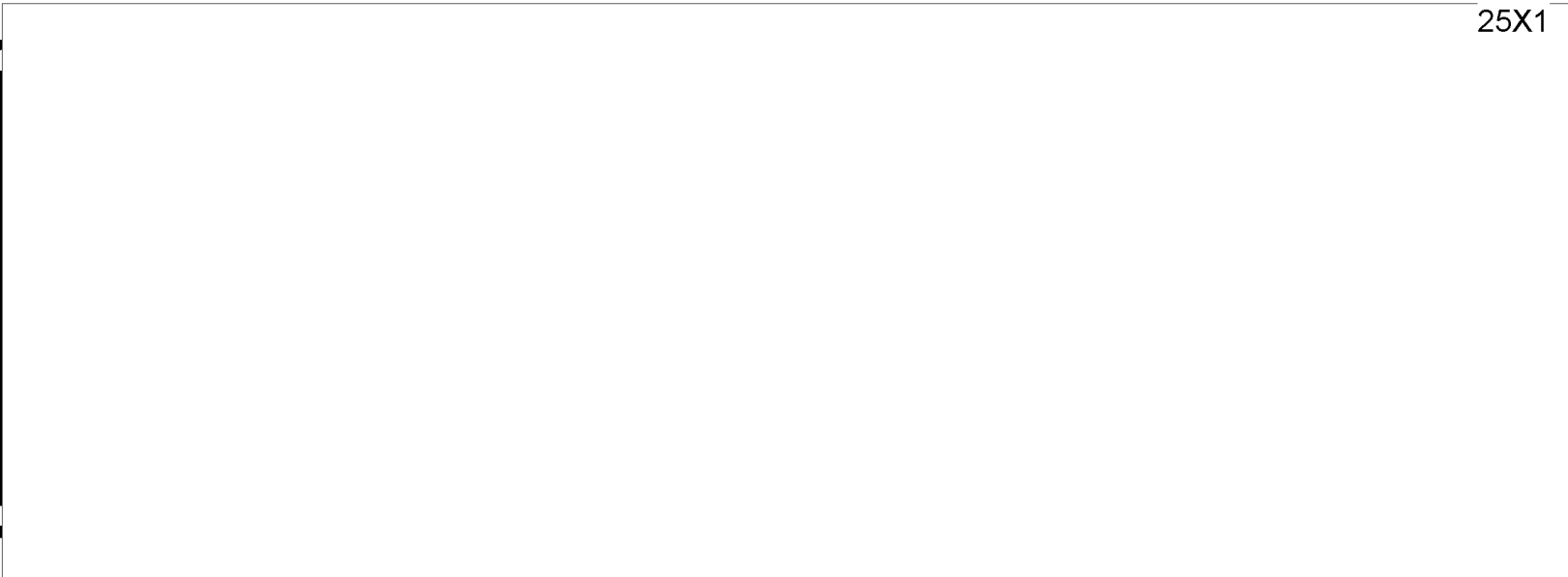


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