

MEMORANDUM FOR: NIOs, AG

Attached is a complete set of the  
NIOs' forecasts for 1983 for your  
information.



cc: VC/NIC

Date 28 January 1983

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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #357-83  
21 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH : Chairman, National Intelligence Council

FROM :   
Acting National Intelligence Officer for Africa

SUBJECT : 1983 Forecasts for Africa

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1. Africa is such a crazy quilt of countries and problems that predictions about future developments there are made at some risk. Nevertheless, there are some general trends that have been developing over the past year or so that will continue and perhaps sharpen in 1983: They are:

- The economic outlook for Africa is gloomy. Even the countries with rich resources--there are very few in Africa--will be constantly grappling with growing external debt burdens with no assurances that any arrangements that are concluded will markedly help them.
- Instability rather than stability will prevail.
- The prospect of chronic instability will keep the Soviets and their friends actively involved at relatively little cost to themselves.
- Even though most Africans know that the Soviets do not provide meaningful economic and financial aid, they will often try to pressure the US and other Western donors for not doing as much as "Moscow does for its friends."
- The Africans will continue to mistakenly assume that the US has great influence with the IMF. When the IMF proposes tough austerity measures on the potential recipients of its loans, the

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US will be constantly pressured to intercede with the IMF to ease conditions for the assistance because local leaders fear that IMF remedies are prescriptions for instability and threaten their rule. When we don't, the US will be faulted and bilateral relations will occasionally be strained.

- The Libyans will continue to be meddlesome, but, with few exceptions, most African leaders have become more alert to Qadhafi's machinations and the Libyans will not have much success in spreading their influence throughout black Africa.

## 2. Expected Developments in Selected Countries

Nigeria: This will be a troubled year for Nigeria because of the difficult economic situation and the potential effect it will have on the political fabric of the country as the civilian government moves toward national elections later in 1983. Nigeria's so called "democratic" system will be severely tested. There will be episodes of violence that erupt unexpectedly and, given Nigeria's history of military coups, could prompt another. President Shagari should be reelected. If he is, this will be good for Nigeria and Africa. But it will be achieved at high economic cost. As oil revenues either stagnate or drop further--a \$1 drop in the price of a barrel of oil translates into a \$500 million loss in revenue--hard currency allocations will be increasingly used for the purchase of consumer goods--rather than meaningful economic development or diversification--in order to prevent shortages of essential commodities during the almost year long electoral process.

I also anticipate periodic frictions in US-Nigerian relations, but that our bilateral relations will remain good. Nigerian leaders may become increasingly concerned about US willingness to assist them in the current economic crisis and will continue to press us to bail them out by buying oil for our strategic petroleum reserve. (We have shown no interest in this when they have raised it before.) The Nigerians also unrealistically expect that the US will provide emergency financial assistance on the scale of that provided to Mexico in 1982.

Horn of Africa: I expect no lessening of tensions in the Horn of Africa. Even though the Aden Pact has not lived up to our worse fears, Libya and Ethiopia have persisted in their attempts to undermine Presidents Nimeiri and Siad and will continue to do so. Both Siad and Nimeiri are vulnerable and I rate their chances of remaining in power at about even. If they go, it will be for economic and other reasons related to the internal situation in their respective countries and will not be the direct result of Libyan and Ethiopian subversion. Because of the constraints on US military and financial resources, it will be increasingly difficult to respond to Siad and Nimeiri with meaningful assistance.

Mengistu faces a number of secessionist challenges from rebels in various sections of the country. The need for large amounts of arms to retain

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control of these troubled areas--and also to confront the Somalis--will further cement Mengistu's ties to the Soviets despite periodic strains over the cost and quality of the Soviet military aid program.

Zaire: There is a better than even chance that President Mobutu will remain in power throughout the year. Mobutu is not likely, however, to implement the reforms needed to rid Zaire of its institutionalized corruption and mismanagement and to revive the country's long-stagnant economy. Although popular dissatisfaction with Mobutu is widespread, Zairians have long been accustomed to severe hardship and Mobutu has adroitly blocked the emergence of any leader or organization around which opposition might coalesce. Mobutu's excessive expectations for assistance are likely to prompt him to place increasing pressure on the US--through cajolery or threats--for economic aid. He will not provoke any permanent damage to Zairian-US relations, but there are likely to be occasional difficult periods.

Southern Africa: Like 1982, southern Africa will be marked by growing violence and instability highlighted by Soviet involvement and aggressive South African destabilization efforts against its neighbors to counter perceived Communist threats and to blunt cross-border terrorism by black nationalists.

- South African support to UNITA will continue and likely increase.
- The MPLA will be unable to reach a reconciliation with UNITA, a move--if it occurred--that would enable the Luanda government to press the Cubans to withdraw.
- Without the Cuban issue resolved, South Africa will not agree to an internationally-sanctioned settlement of the Namibian problem.
- Negotiations on Namibia will drag on inconclusively. In the absence of a settlement, the military struggle in Namibia and southern Angola will go on.
- Turmoil will continue in Mozambique. President Machel will explore options--better relations with the US, a dialogue with South Africa--that he hopes will enable him to avoid calling for Communist assistance including the Cubans. He will avoid making such a request as long as possible because he fears South African military retaliation. He may well be able to get through this year without doing so. [redacted] I cannot rule out the unexpected and we could see a greater Soviet and Cuban involvement with little or no advanced warning.

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In South Africa itself, a continuing economic slump in which blacks have been the hardest hit and an increasingly militant black labor movement could combine to end five years of relative calm in black-white relations and make 1983 a difficult and perhaps violent year. Rapidly rising unemployment and continued high inflation will create additional burdens for blacks. The

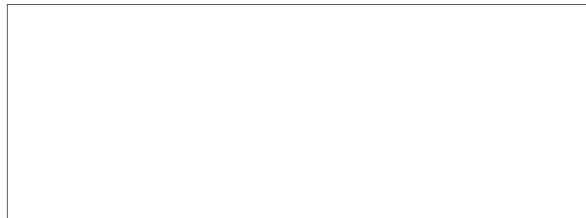
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government, however, is likely to continue to tailor its short- and long-term economic policies to the immediate interests of whites. As the economic slump continues, blacks could well become increasingly restive, demonstrating their discontent in frequent but small-scale protests, which could be exploited by militant black labor leaders, particularly if the government in response to a white backlash, is unduly repressive. Under such circumstances, escalating violence cannot be ruled out. Constitutional changes designed to give Asians and Coloreds some participation in the political process are also likely to increase black resentment.



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18 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH : Chairman, National Intelligence Council

FROM : Harold P. Ford  
National Intelligence Officer At Large

SUBJECT : World Prospects for 1983

I confine my Prospects to certain key situations which have a good chance of developing during 1983 and, if so, will impact seriously on US interests:

1. Western European countries will become more troubled, as will their relations with the United States -- and resistance to INF deployment will rise substantially.

- This will particularly mark West Germany, where new, less pro-US elements of the SPD will increase their influence and perhaps come to office.
- Meanwhile, in the FRG and elsewhere in Western Europe we will see more in the way of depressed economies, unemployment, and political disaffection among younger elements of the population.
- Queasiness will grow over the prospects and possible consequences of proceeding with INF deployment.
- There will be continuing uneasiness concerning the constancy of US policies.
- There will be an increase in receptivity among West Europeans to Soviet and pro-Soviet efforts to exploit these situations.

2. The central focus of Soviet diplomacy will be to try to destabilize Western European societies and divide them from the US -- by a mixture of

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means: new inducements, "reasonableness," and veiled threats. Soviet purposes:

- To negate, lessen, or delay INF deployment.
- To capitalize on W.E. vulnerabilities.
- To portray the US as the recalcitrant party.
- To bring to bear formidable pro-Soviet assets and instruments in W.E.

3. World-wide, the Soviets will conduct a continuing program of propaganda and of seemingly reasonable overtures concerning various arms control questions -- if these do not slow down INF, or do not lead to substantial new arms control positions on the part of the US, our policymakers should be alert to the possibility that Andropov will then switch to a tough new course which seeks to agitate US/Western soft spots in various parts of the world.

4. It is likely that the Soviets will in fact take some "analogous measures" in the Western Hemisphere, in the event of INF deployment.

- a. At a minimum, the Soviets would deploy SLCM's aboard subs off US coasts.
- b. Construction and some deployment of additional weapons, short of nuclear-tipped IRBMs or GLCMs, would probably occur in Cuba.
- c. Though dependent in part on US moves at the time, there would be a definite chance (30 percent?) that the Soviets would attempt to introduce IRBMs or GLCMs into Cuba -- but not into Nicaragua or Grenada.

5. The US will face increasing difficulties because of continuing disarray in the world's financial and commercial structures -- which will in turn be importantly affected by continuing US recession.

- There will be more cases of default abroad -- possibly even some instances of debtors' revolt.
- According heightened pressures on US banking houses will be registered.
- There will be increasing manifestations of protectionism, world-wide.
- Many LDCs will be unable to maintain import levels.
- In some instances austerity measures will provoke political instability.

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6. Assuming that general US policies do not change in the meantime, Israel's obduracy and occasional unilateral initiatives will continue to undercut US influence in the Near East and elsewhere.

- Israeli leadership will continue to assume that no American administration will jeopardize such benefits as the US derives from its close ties to Israel by sustaining markedly tougher policies towards it.
- This will apply even if, as seems likely, political instability within Israel grows -- and a post-Begin government possibly appears.

7. The chances are better than even that the Israelis will attempt to strike the SA-5 emplacements in Syria, or otherwise prevent their activation.

- Should this occur, this could lead to the most acute Near East crisis in some time.
- The Soviet reaction is unknowable at this time; it would depend on the timing and nature of the Israeli action and on Moscow's view of the US stance at that time.
- A major military response of some kind by the Soviets would not necessarily be forthcoming, however, since a number of considerations would continue to constrain Soviet options.

8. Iran will become a focus of increased US concern.

- Iran will probably wear down Iraq, or at least begin to emerge from the long stalemated war in better relative condition than Iraq.
- Iranian fundamentalism will continue to thrive, even in the event of the death or departure of Khomeini.
- Iranian fundamentalist influence will get an enormous boost if Iranian pressures contribute to an overturning of Saddam in Baghdad, and especially so if he should be replaced by a fundamentalist Iraqi regime of some sort.
- The USSR under Andropov will meanwhile follow a more subtle course toward Iran than it has previously -- one which seeks to keep the Afghan war from spilling over into Iran, to bank on Iranian elements other than the Tudeh or overt Communists, and to play for the long-run splintering of Iran.

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9. Pro-Soviet and pro-Cuban influence/presence in Central America and the Caribbean Basin will increase.

- Sandinista Nicaragua will continue to grow in relative power in the area, and -- with Cuban, Soviet, and other support -- will continue to assist insurrections there. Anti-Sandinista efforts will suffer from identification with the Somoza past.
- The scene will probably not improve in El Salvador and may deteriorate -- the result of guerrilla pressures and government/military factionalism and fecklessness.
- The Cubans and Soviets will continue to nail down their positions in Grenada and Suriname, and to look to St. Lucia and elsewhere in the area for further such inroads.

10. The USSR and the PRC will improve their relationship.

- The key question is, of course, how much? Perhaps an unknowable. There are numerous pushing and pulling considerations on both sides, there are differences on these questions within both leaderships, and there will be periods of hot and cold ahead as the two sides probe the other's asking prices, etc. Also, China will not want to cut itself off from a US connection.
- There nonetheless is an even chance that within a year or so there will be measurable movement toward improved relations between the USSR and the PRC. Not only in trade, cultural exchanges, and atmospherics, but also in:
  - o Some drawdown of troop strengths along Sino-Soviet and Sino-Mongolian frontiers.
  - o Some Soviet restraint on Vietnam, in return for some Chinese military drawdown along Vietnam's northern border.
- Such a degree of Sino-Soviet detente should not occasion great surprise or panic abroad. Many powerful forces will continue to make the USSR and the PRC wary neighbors and adversaries.

11. The chief bright spots for US policy in the world will include:

- Japanese policies under Nakasone.
- FRG policies if the CDU remains in power. (It may not.)
- Reactions against Qadhaffi in Africa and the Near East.

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- The opportunities afforded the US to improve its position in the Arab world.
- The probable continuing exclusion of the USSR from mainstream events in the Near East.
- Reactions against the USSR because of Afghanistan.
- Domestic economic constraints on Soviet policies.
- Soviet heavy-handedness in many of its dealings with LDCs.
- Concern among LDCs not to permit the USSR or its associates to gain too great a degree of influence in their countries.
- Some long shots:
  - o dos Santos succeeds in holding off Cuban and Soviet pressures in Angola.
  - o Certain leaders expand hesitant efforts to date to improve relations with the West (e.g., in India, Congo, Guinea, and Benin).

**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

NIC #0476-83  
18 January 1983

**National Intelligence Council**

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council

FROM: Lincoln Gordon, NIO at Large

SUBJECT: Perspectives for 1983--Some Politico-  
Economic Interdependencies

1. As an NIO-at-Large without specific geographical or functional responsibility, I did not expect to engage in the 1983 forecasting game beyond making a few suggestions to colleagues. The dismal state of the world economy and uncertain prospects for early and sustained recovery lead me to two items of political speculation which you may find of interest and which are not included in the contributions of others. The items are not high probability forecasts, but they are much more than outside contingencies. They bear directly on US interests, and their likelihood might be lessened by timely US initiatives.

2. LDC Indebtedness and Brazilian Radicalization. Maurice Ernst's memorandum of 23 December 1982 mentions "a debtors' revolt led by Brazil" as a possible major shock to the international financial order. In the absence of a creditor-led initiative to restructure the debt burden toward longer maturities and lower interest rates, I see serious danger of a Brazilian lurch to a kind of populist nationalism systematically opposed to US foreign policies and hostile to US and other Western direct investors. The self-imposed austerity program stretches the limits of popular tolerance at a time of political liberalization, and the US and other "economic imperialists" are a convenient scapegoat for rallying an alliance of Brazilian businessmen seeking protection from both trade and investment competition, chauvinistic military officers, skilled workers suffering real wage losses and the threat of unemployment, and the traditional

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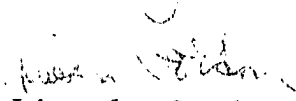
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marginalized unskilled workers and peasants (perhaps politically mobilized by the Church). Fuzzy-minded followers of anti-capitalist "dependency" theory are well represented in the opposition parties which won the most important State and Congressional elections last November.

This scenario does not point toward a Brazilian Cuba or Nicaragua, but the regime would be systematically unfriendly to the United States and a leader in Third World-"Non-Aligned" movements against Western interests. It would be susceptible to Soviet manipulation. It would stifle further economic development for at least several years and cut off the promising prospect of Brazil's "graduation" into full First World status. In addition to leading a "debtor's revolt," it might try to organize a protected "Southern" economic bloc.

3. A British Labour Party Victory? The conventional wisdom foresees a clear Thatcher victory if she calls a British general election next fall. I am impressed by the volatility of the British electorate and the crucial importance of economic conditions to the outcome. By election time, the Falklands victory will have lost its glamor (unless there is a second installment). The other critical factor is the disarray within the Labour Party, but that may be papered over. There are encouraging signs that the Thatcher economic medicine of the last three years is finally producing positive results. My contingency scenario envisages a moderately expansionary government budget and some signs of growth and reemployment in the early summer, then cut off by the inability to win export markets, new pressures on the balance of payments, and another installment of "STOP" in the UK Stop-Go sequence of the last 25 years.

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Lincoln Gordon

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SUBJECT: Perspectives for 1983--Some Politico-Economic  
Interdependencies

DCI/NIO/AL:LGordon/tb (18 Jan 1983)

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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC 0500-83  
18 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH : Chairman, National Intelligence Council

FROM : Hans Heymann, Jr.  
National Intelligence Officer at Large

SUBJECT : Nuclear Proliferation - 1983 Forecast

1. The Context: I assert in this forecast that the economic conditions and market forces that will be with us in 1983 and beyond will have a significant impact on the rate at which Third World countries will be able to pursue the nuclear weapons option. Lest I be accused of adopting a narrow economic-deterministic view of the world, let me acknowledge at the outset that I recognize that a nation's "propensity to proliferate" is basically a function of political and psychological considerations--how possession of nuclear weapons would contribute to (or detract from) the nation's security and what membership in the "nuclear club" would do for its prestige. Where such security or prestige considerations exert an irresistible push--as they do in Pakistan--economic constraints will somehow be overcome. But in most countries of potential proliferation concern--Argentina, Brazil, Egypt, South Africa--the political and psychological pressures are not overarching. There the issue of whether the requisite technology is affordable and accessible matters a good deal.

2. The Forecast: It is in this context that I call attention to two trends that have been visible for some time but that will come into much sharper focus in 1983. They will importantly affect--though in opposite directions--the ability of countries to pursue the nuclear weapons option.

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(1) Nuclear Energy Retrenchment and Economic Stringencies --

The first trend--which will work to slow the proliferation momentum--is marked by the sharp cutback that has occurred in nuclear power programs worldwide. The cutback is a consequence of the changed energy outlook (including the protracted oil glut), the recession-induced reduction in electricity demand, the pinch of high capital costs, severe economic distress and unprecedented levels of foreign indebtedness in most potential proliferating countries. These factors operate to limit severely the economic attractions and the financial feasibility of acquiring a complete, independent fuel cycle. As a result, it will be far more difficult now for most Third World countries to argue credibly for a comprehensive nuclear program on grounds of "long-term energy independence" and to use such programs as a cover for a nuclear weapons effort.

This, of course, will not foreclose the possibility that some countries may pursue the weapons option directly (by clandestine diversions or openly) but developing countries have hesitated to adopt such a course, since it would alienate the supplier country support that almost all of them will require for many years to come.

(2) An Increasingly Frenetic International Nuclear Marketplace --

The second trend--which may work to accelerate the proliferation momentum--is an outgrowth of the first. It takes the form of an increasingly fierce competition among the established nuclear suppliers for a dwindling market and the progressive emergence of an international "grey market" in nuclear technology and equipment. This "grey market" involves newly emerging supplier countries functioning outside of the safeguards regime and small nuclear vendor firms able to circumvent or operate beyond the reach of established export controls.

There is no need to dwell on the consequences of the dramatic decline of the power reactor market for most of the "big six" supplier countries--US, USSR, France, West Germany, Canada and Sweden. (US reactor vendors have not received a single domestic reactor order since 1978 and none for export since 1979. No less than 95 reactor orders have been cancelled and numerous others delayed. Some other countries are a little better off, but the entire industry is dogged by enormous overcapacity.) The result is a frenetic competition for the dozen or so reactor export orders that are still in prospect. In this environment, it will be increasingly difficult to maintain safeguards and Supplier Guidelines discipline.

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The problem is aggravated by the accession of an ever-lengthening list of LDCs into the nuclear equipment and materials export market, some--like Argentina, Brazil, and China--operating entirely outside the safeguards regime.

Finally, and most problematic for the nonproliferation effort, we see the steady expansion, especially in Western Europe, of a network of eager vendors and brokers increasingly experienced in packaging sophisticated nuclear components for unrestricted sale to would-be proliferators. The existing export control system of the major supplier nations was never designed to police this kind of activity, nor is there the political will among these nations to intervene forcefully in such market activity.

How the two trends described above will net out in effect is, of course, difficult to predict. My own guess is that the constraints imposed by the first trend will impact more powerfully on proliferation ambitions than the enhanced access to nuclear technology provided by the second.

3. Troublesome Country Problems: For 1983, there is only one country--Pakistan--whose proliferation activities will continue to be intensely troublesome and from which several other country problems radiate. While Zia will try to be cautious about his continued weapons-related activities, he will not be able to avoid further raising the anxieties of those who feel threatened by his actions. Most prominent among these are:

India, whose current efforts to keep the historic Indo-Pakistani hostility within bounds will be sorely tried. The chances are that Pakistani progress towards an explosive capability will remain sufficiently ambiguous this year, to permit Indira Gandhi to put off the tough choices she will eventually face for coping with the impending Pakistani nuclear threat to India's security.

Israel's perception of the Pakistani threat is already far more alarmist than India's.

Nevertheless, given Israel's more immediate security problems closer to home (Soviet SA-5s, controversial West Bank settlements and other politically divisive domestic problems) the Israeli leadership will want to avoid taking the kind of provocative action against the Pakistani facilities this year.

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**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #674-83  
25 January 1983MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

VIA : Chairman, National Intelligence Council

FROM :   
Assistant National Intelligence Officer for East Asia

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SUBJECT : Prospects for 1983 in East Asia and the Pacific

1. This region should remain relatively stable in 1983. Separate from US bilateral relations with the individual countries of the region, but impacting on them are three broad areas of activity:

- Leadership changes. Japan's Nakasone is not likely to make significant changes in policy toward the US. The possibility of a return to Labor Party rule in Australia and New Zealand, however, could result in decreasing military cooperation with the US. The leadership of China, Taiwan, North Korea, Vietnam and Burma is in transition with continuity of existing policy uncertain for years beyond 1983.
- Sino-Soviet relations. The dialogue between Chinese and Soviet leaders could lead to improved trade relations and possibly to some reduction in forces along the border, but major differences are likely to persist over Soviet occupation of Afghanistan, Chinese support for resistance forces in Kampuchea, and other issues. Should the results of this dialogue alter Moscow or Beijing's policies toward Korea or Vietnam new problems or opportunities might arise for the US.
- Economic performance. East Asia will continue to grow faster than other Third World areas, though Indochina and the Philippines are notable exceptions. North Korea's foreign debt problems will not be resolved. Japan's trade balances and surplus in current accounts will continue to cause friction. Chinese economic growth will be erratic and the US role in it, especially in petroleum, will be significant. Technology transfer will be an issue of increasing importance: US to China; Japan to the USSR, China and North Korea; and Japan to the US and China.

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- Military trends. Most military trends in East Asia will remain adverse, as growth and modernization in the Soviet Far East, North Korea, and Vietnam continues to outpace military programs in neighboring countries. The North Korean military buildup and two-front war strategy will remain the most dangerous threat in the region. Japanese military capabilities will continue to fall short of US expectations. The Soviets will continue to have difficulties in trying to derive political influence from military growth.

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### 3. Country Prospects:

- A. Japan: There will be no significant policy changes by the Japanese Government on subjects of interest to the US in 1983. Incremental increases in Japanese defense spending will take place in an atmosphere of more frank public discussion of the Soviet threat. Modest moves to further open the Japanese market to US exports of manufactures will be accompanied by a more realistic open dialogue on these difficult questions. As exemplified by his quick trip to Seoul, Nakasone will take dramatic gestures to improve relations with neighbors. While much of this will complement US efforts, we cannot assume that all of it will do so.
- B. China: For the US, the key element in PRC activities will be the nature and extent of the Sino-Soviet dialogue. For the PRC, the single most important factor will be Washington's treatment of US unofficial relations with Taiwan. We anticipate continued modest improvement in Sino-Soviet relations, though without the development of cooperation or intimacy in areas of concern to the US. We do not envisage a Sino-Soviet detente leading to parallel activity against US interests in Kampuchea, Vietnam or Korea. While there will continue to be difficulties in Sino-American

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trade--technology transfer, textile exports, etc.--the economic ties will continue to expand in such areas as petroleum exploration. Sino-Pakistan relations will retain their symbolic significance, while Sino-Indian ties will continue to normalize, though without a border settlement.

- C. Philippines: We do not expect the deteriorating economy and growing political opposition to President Marcos to adversely affect our military base review negotiations or other US interests there.
- D. Australia-New Zealand: Both countries will have national elections in 1983 with a return to power of Labor Governments by no means ruled out. Relations with the US would be election issues in both countries, though basic military security ties would not be in danger.
- E. Kampuchea: Absent changes in Chinese or Soviet policies, we see little likelihood of major alterations in the continued low level insurgency.
- F. Thailand: The history of replacement of leadership through relatively bloodless coups rather than elections, suggests a change of government in this manner is likely. Relations with the US are unlikely to be an issue nor would they be affected.
- G. Republic of Korea: President Chun Doo Hwan's quest for legitimacy remains unfulfilled, complicated by exogenous economic factors. His increasing isolation and imperial style of rule widens the gap between his government and many Koreans. Relations with the US are more formal than in the past.
- H. North Korea: Severe economic difficulties have not produced any lessened investment in building up Pyongyang's military machine. However, Beijing and Moscow obviously lack enthusiasm for any North Korean adventurism; the uneasy peace on the Korean peninsula should continue.



Herbert Levin

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**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

NIC #10431-82  
23 December 1982

**National Intelligence Council**

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH: Chairman, National Intelligence Council

FROM: Maurice C. Ernst, NIO/Economics

SUBJECT: Perspectives for 1983: The Free World Economy

Attached are my thoughts on the trends and contingencies in the global economy in 1983. Last year I accepted the conventional view, and was dead wrong. This time the uncertainties seem even greater and the world economy more vulnerable to shocks. As a bottom line, I would give high odds on a continued economic slide in the next several months, medium odds on the start of a recovery later in the year, and low, but not insignificant odds on a severe drop at some time in 1983.

Maurce C. Ernst

Attachment,  
As stated

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NIC #10431-82  
23 December 1982

SUBJECT: Perspectives for 1983: The Free World Economy

DCI/NIC/NIO/Econ:M.Ernst:bha(23 Dec 82)



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### **Perspectives for 1983: The Free World Economy**

Conventional wisdom sees the global economy beginning to recover from the current recession within six months or so, the same as last year's estimate, but with a year's delay. Should large additional delays occur, the risks of severe protectionist measures and of a backlash from LDC debtors will increase substantially.

The world economy is still sliding downward. Industrial production continues to fall in the US and has now declined for three successive quarters in Western Europe. World trade began declining in the latter part of 1981; the decline accelerated to a rate of 11 percent in the third quarter of this year, and fourth quarter results are likely to be even worse, reflecting the deepening recession in several European countries and in major LDCs such as Mexico and Brazil.

World economic recovery will probably have to begin in the United States, where real personal incomes are rising slowly and housing starts are up, while inventories and unfilled orders are falling. The European business cycle seems to be lagging ours; unemployment, even though as high as in the US, appears to be politically more tolerable in Western Europe because of the generosity of social insurance coverage; public sector deficits are relatively even larger than in the US; and in most European countries there is even greater aversion to adopting potentially inflationary monetary policies.

The non-OECD countries are a major drag on the OECD economies, instead of the source of stimulus they were during the 1975 recession. A dramatic decline in commodity prices, coupled with the sharp decline in

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international bank lending stimulated by the debt crises in Poland, Argentina, and Mexico, are forcing large cuts in both LDC and East European imports. Many of the LDCs have been forced into severe austerity. Mexico's monthly imports are running about one-half of last year's rate. Brazilian imports are falling and further substantial cuts will be necessary. Other LDCs in financial difficulties, which include most countries in Latin America and Africa, either have already or will soon have to make import cuts in order to meet foreign debt obligations despite reduced export earnings. Import growth also has ceased in OPEC countries, reflecting the softness of the oil market and the shift of most OPEC countries from surplus to deficit in their balance of payments. East European countries have cut their imports from the West by 15 to 20 percent and no near-term recovery is feasible, because of the large debt overhang, not only in Poland, but also in East Germany, Hungary, Romania, and Yugoslavia.

Although Western governments and the IMF have been providing substantial additional financing to countries in major financial difficulty, especially Mexico, Brazil, and Argentina, substantial net new bank credit will be needed to prevent a further contraction in imports during 1983. The major banks appear to be making the necessary commitments, but on condition that the recipient implement rigorous austerity programs negotiated with the IMF. These programs have not yet had much impact on most people or firms, and they have yet to be subjected to domestic political processes in the subject countries. As their impact on the employment and real incomes of various social groups become evident, political resistance to these programs is likely to grow and the chances of substantial slippage in

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the programs will increase. Such slippage could trigger new financial crises, force even more debt reschedulings, and further curtail new bank credit. Other factors which are likely to force further cuts in the imports of the developing countries in the absence of Western economic recovery are:

- o LDC export earnings would continue to slide even if commodity market prices level off, as longer term contracts expire.
- o Many LDCs would no longer be able to draw down foreign exchange reserves as these reserves have fallen to dangerously low levels.
- o Commercial lending to LDCs not yet facing major financial difficulties would probably slow further.

In the industrial countries, industrial production could continue to slide because of falling export demand and a continuing drop in business investment. The decline in LDC imports forced by financial troubles is already costing the US nearly one percent of GNP, and perhaps one-half of one percent in other OECD countries. Social insurance, however, is a strong stabilizer for personal incomes, and greatly diminishes the possibility of a downward economic spiral.

The global economy could be further slowed by financial instability. Large-scale LDC reschedulings are reducing bank liquidity while pressure from regulatory authorities may force banks to make longer provisions for loan losses, thereby cutting into profits. Many domestic firms, as well as foreign governments, are in serious financial trouble. And interest rate deregulation in the US will further cut into bank-profit margins. With

many banks in a weakened position, a variety of shocks could trigger major liquidity crises, and threaten widespread insolvency. Some of the most worrisome, if unlikely, candidates for major shocks are:

- o Default on debt obligations in Mexico, Nigeria, and perhaps Venezuela, should the soft oil market lead to a large absolute decline in oil prices.
- o A debtors' revolt led by Brazil, with demands for a one or two year moratorium on interest payments.

Even if major financial shocks, such as these, should occur, the chances are high that prompt Central Bank action would keep all but a small number of commercial banks operating. Consequently a financial panic--taking the form of a generalized contraction of credit--will probably be avoided or, once started, quickly halted. But there is a significant possibility of financial disruptions that would boost demand for liquid assets, push up interest rates, and further curtail lending to LDCs and other weak borrowers.

A continued economic recession would have a possible silver lining--it could keep oil demand so low as to occasion the collapse of OPEC and a large decline in oil prices. Such a price decline would stimulate economic activity in the industrial West, slow inflation and ease the payments problems of many countries. But it would also create severe problems for the oil exporting countries, forcing the wealthy ones, like Saudi Arabia, to curtail foreign assistance and the use of foreign labor, and pushing the

poorer ones, like Mexico, to the brink of debt default. Energy markets would be chaotic and energy investment plans severely disrupted.

On the upside, the economic upturn, when it comes, may be more rapid than generally expected. Most forecasters not only miss turning points in the business cycle, but also understate both the extent of the decline and the speed of the upturn. Once the recovery begins, the prices of some commodities may spurt because of the low level of inventories, and LDC earnings will rise.

The fallout of a continued and perhaps increasingly severe economic recession would be felt in a variety of ways. In the industrial West, pressure to reflate economies, even at the risk of rekindling rapid inflation in the longer term, will become even stronger. In the LDCs, painful austerity will generate a political struggle over economic policies; in some countries the struggle will take the form of highly nationalistic, populist reactions against foreign businessmen, bankers and the United States. The necessity of having to generate large trade surpluses by cutting imports in order to pay interest on debt may trigger a debtors' revolt, which could spread quickly. The political stability of some LDCs, notably Mexico, will be severely tested, although economic factors alone are unlikely to bring Communist or extreme left governments to power in any country.

Even if the recession does not persist much longer, protectionist measures will multiply and affect a growing part of world trade, often taking the form of de facto cartelization of major industries, such as steel and textiles. Unemployment will remain high even with economic

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recovery; many basic industries seem destined for long-term stagnation; a lasting or worsening recession would make things even worse. The severe erosion of US political support for free trade, threatens to remove what was the greatest barrier to cartelization. Most LDCs are most certain to respond to enforced austerity by imposing quantitative restrictions on their imports, as well as through devaluation. They are also likely to subsidize exports in one way or another and engage in as much barter trade as possible. West European countries have too much stake in intra-European trade to reimpose many barriers, but many feel little compunction about restricting imports from the outside, especially Japan and the Far Eastern NICs. US trade would be damaged by this process, both directly and indirectly.

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(NIO/LA forecast to be distributed separately  
in a few days)

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #0314-83  
13 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence  
VIA : Chairman, National Intelligence Council  
FROM : [redacted] 25X1  
Acting NIO for General Purpose Forces  
SUBJECT : 1983 Forecasts - NIO for General Purpose Forces

1. The attached point paper highlights key military developments expected in 1983 (or beyond). They are divided into two major areas:

- I. Expected Major Trends in Soviet General Purpose Forces in 1983 (or beyond). 25X1
- II. Possible Significant Military Developments Worldwide in 1983 (or beyond) that Could Lead to Regional Destabilization. [redacted]

2. You will note that many of the regional forecasts cover conflict areas where political factors outweigh military considerations. Although we have coordinated this paper with the regional NIOs, we believe you will find fuller treatment of these potential trouble spots in their forecasts. Further, a cursory review of Part II might lead one to conclude that the Soviet provision of arms outside the Bloc in 1983 could cause worldwide destabilization. While some of these arms transfers are indeed probable, the accomplishment of many of them during the next year or two would constitute a new policy for the Soviet Union and would, in any case, be militarily and economically infeasible. [redacted] 25X1

3. We are indebted to SOVA and OGI for much of this input and can elaborate on any of these that interest you. [redacted] 25X1

[redacted] 25X1

Attachment: A/S

[redacted] 25X1

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NIC #0314-83

MEMORANDUM FOR: DCI  
DDCI

VIA : C/NIC

FROM : Acting NIO/GPF

SUBJECT : 1983 Forecasts - NIO for General Purpose Forces

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I. Expected Major Trends in Soviet General Purpose Forces in 1983 (or beyond)

-- Continued force restructuring, experimentation with new doctrinal concepts such as Operational Maneuver Groups, command and control improvements, and implementation of new Pact-wide alert system.

-- Little real change (either growth or reduction) in force size and manning.

-- Little impact from arms negotiations.

-- No major increase in forces committed to Afghanistan but more aggressive operations against insurgent forces; possibility of cross-border operations against sanctuaries in Pakistan. The NIO/W has commented that although Brezhnev was content to muddle along in the last two years, there is reason to question whether Andropov is either willing or able to continue an ambiguous course. He also believes that the operational choices we cite would require substantial increases in Soviet force levels. We agree that a major land campaign across the borders (which we believe is unlikely) would require substantial additional forces; more limited cross-border raiding or air attacks still are possible and could be handled with present forces.

-- Continued modernization of weapons and support systems.

● Ground Forces

-- Confirmation of deployment of T-80 to Soviet forces in East Germany and in USSR; enhanced frontal armor protection and mobility.

-- Continued conversion of Soviet units to a new structure with better combined-arms capabilities.

-- Continued deployment of SS-21 and SS-23 missiles plus nuclear-capable artillery in Eastern Europe.

-- Formation of several new active (very low strength) divisions in Central USSR and along Southern periphery.

-- Continued increases in artillery--much SP.

-- Possible deployment of first low-energy tactical laser weapon system.

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- Air Forces

- Flight testing of new heavy, long-range transport (similar to but larger than C-5).
- Probable initial deployment of MI-26 (HALO) heavy-lift helicopter.
- Continued testing and possible deployment late in the year of two new fighters equipped with lookdown/shootdown systems. Possible wider deployment of SU-25 close-air-support aircraft.
- Development and flight testing of RAM-Q, a possible close-air-support fighter-bomber similar to the US A-6.

- Navy

- Continued CVA program development: completion of catapult/arresting gear test facility; start of carrier construction; first appearance of new carrier aircraft.
- Launch of new class of attack submarine (follow-on to V).
- Deployment into Mediterranean of new class cruiser (BLK-COM-1) offering first opportunity for close-aboard collection.
- First Typhoon SSBN operational deployment (has implications in deployment of general purpose forces assigned for SSBN protection).
- First accurate SLCM (SS-NX-21) becomes operational, perhaps testing under way with converted Y-Class (ex-SSBN).

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## II. Possible Significant Military Developments Worldwide in 1983 (or beyond) that Could Lead to Regional Destabilization

### East Asia

-- A Chinese SLBM will become operational (but probably not before 1985) as the Chinese begin to expand SSBN operating areas. The US will be faced with the problem of redirecting general purpose naval forces to monitor PRC SSBN movements.

-- The Soviets could reach an agreement either this year or next with the PRC on a mutual reduction of forces along the Sino-Soviet border. While a token reduction is most likely, any Soviet forces withdrawn could be redeployed to the European or Central Asian USSR. Should these forces be substantial, NATO and/or the US Central Command would have to reassess planning to accommodate the increase. Such forces could be used as a bargaining chip in the MBFR arena, but it is much more likely that they would be redeployed to the Central Asian USSR.

-- China's arms exports to Pakistan, Egypt, and other countries could well begin to provide enough hard currency for the PRC to begin importing high technology components in a long-overdue effort to modernize its armed forces. Japan, Vietnam, Taiwan, India, South Korea and the USSR would be anxious over this development.

-- The firepower and mobility gap between North and South Korea continues to increase as new North Korean units and equipment are introduced. At some point, possibly as early as late this year, these developments could present an unacceptable level of risk in terms of US reinforcement capabilities and requirements and could force the US to choose among a number of undesirable options: increase US forces in Korea; devote more equipment and manpower to rapid redeployment; greatly expand military aid to South Korea. As long as the absence of any Soviet or PRC backing continues to inhibit North Korean adventurism, the situation does not warrant exceptional alarm.

-- The Soviets are unlikely to increase greatly their military support to Vietnam because of their desire for rapprochement with the PRC. We consider it likely, however, that the Vietnamese will mount increasingly aggressive combined arms operations in Laos and along the Thai-Kampuchea border, which Thailand will view as more threatening. While we do not expect overt attacks into Thailand by Vietnamese forces, miscalculation by either side will become much more likely.

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South Asia

-- In an attempt to discourage India's proclivities toward diversification of arms supplies, we expect the Soviets to provide at least some of the following in 1983: T-72 armor technology, MIG-27 fighters, air-to-air missiles, associated electronic "black box" components, and/or more advanced SAM systems. We expect all of these by 1985. Such arms in Indian hands will further intensify the Indo-Pakistani imbalance.

-- We believe the Soviets will continue their commitment to Afghanistan and introduce (some in 1983 and all by 1985): countermeasures against hand-held SAMs being used sporadically by insurgent forces, ground attack fighters (MIG-23, MIG-27 and advanced SUKHOI fighters), improved helicopter gunships, and late generation armored vehicles (T-72 tanks and BMPs). A few thousand Afghan soldiers, trained in advanced systems and politically indoctrinated, will return from the USSR as the Soviets attempt to reconstitute Afghan army forces. We believe, however, that the Afghan Army will remain unreliable.

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Near East-Africa

-- It is highly possible that Iran, increasingly better equipped with Western arms obtained for hard currency and confident of victory, will mount a large-scale offensive, attempting to unseat Husayn.

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-- We consider it possible that the Soviets will secure a major military basing agreement (port facilities and air bases) with Libya or Syria in 1983 or 1984 and deploy tactical air units for "advisory/training" duties, enhancing Soviet capability to provide air support to naval and amphibious forces operating in the Mediterranean.

-- The Soviets will try to press upon Algeria improved weaponry such as the upgraded T-72 tank, MI-26 HALO helicopter, SU-25 and MIG-29, F-class submarines (possibly T-class or K-class submarines later), possibly the SA-14 (for SA-7) and SA-13 (for SA-9) missiles, increasing their influence in all parts of the Algerian armed forces. Algeria, seeking a middle course, will nonetheless be hard pressed to resist the favorable terms offered.

-- Within the next two years, the Soviets are expected to provide Libya ground, air and naval systems comparable to or identical with those cited above for Algeria. Combined with Egypt's Western arms imports, the severity of any possible conflict between Libya and Egypt will be increased.

-- The Soviets, continuing their interest in monitoring and maintaining a presence along Western sea lines of communication, will arrange for increased port availability/reconnaissance aircraft basing in the southern Atlantic and Indian Oceans.

-- To assist in offsetting increased threats from South Africa and UNITA, the Soviets will provide Angola with improved weapon systems (such as the SA-9 SAM system and MIG-21 aircraft). Because Angolan forces have only a limited ability to

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to absorb technology, delivery of more advanced weapon systems such as SA-6 SAMs or late generation aircraft like the MIG-23 and MI-25 helicopter gunship would require additional Cuban pilots and technical personnel.

-- The Soviets may provide Mozambique with SAM defenses (SA-2, 3, 7) and improved fighter aircraft (MIG-21 and MIG-23). Cuban pilots would have to fly any delivered MIG-23s.

-- While we believe that South African military incursions will become increasingly adventurous, we do not expect decisive outcomes in any of the conflicts on their borders in 1983.

-- We do not expect decisive outcomes in the imbroglios in Morocco, Chad, or the Horn of Africa in 1983.

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Latin America

-- The Soviets may substantially improve Cuban air defense forces and capabilities, threatening SR-71 reconnaissance flights, probably not in 1983 but likely by 1985. When it occurs, the Cubans may announce that airspace violations by reconnaissance aircraft will be met with force.

-- A major new airfield is being constructed in Grenada with Cuban/Soviet assistance, indicating that the Soviets may be considering providing Grenada with fighter aircraft. Even an obsolete model, such as the MIG-17, would constitute a potential threat to other Caribbean islands and shipping lanes.

-- Despite recent Nicaraguan denials, the Soviets could provide Nicaragua with MIG or other model fighters. SA-2, SA-3, or SA-6 SAM systems; MI-8 HIP helicopters; and/or OSA-I/II missile attack boats could also be provided. Such acquisitions would make the Nicaraguan air and naval forces substantially superior to those of its neighbors.

-- We believe that Argentina will attempt to broaden and deepen its arms imports from Western sources in order to avoid the effects of short-term embargoes. While quite unlikely, the Soviets might reach an agreement with Argentina to provide an array of modern armaments including the T-72 tank, artillery; MIG-23 and MIG-25 aircraft; MI-8 HIP and MI-24 HIND helicopters; OSA guided missiles torpedo boats, amphibious craft, and Nanuchka guided missile patrol craft. Such acquisitions could threaten Chile or the Falklands. The Soviets will continue to offer a wide range of weaponry on favorable terms, but Argentina is unlikely to be receptive.

-- In an attempt to retain influence in South America, the Soviets could decide to provide Peru with T-72 tanks, the BMP, or improved artillery on favorable terms in 1983, steps that Ecuador and Chile would regard as potentially destabilizing. Soviet provision of air and naval arms to Peru is unlikely at this time.

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**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

National Intelligence Council

NIC 459-83  
18 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

VIA: Chairman, National Intelligence Council

FROM: Charles E. Waterman  
National Intelligence Officer for NESA

SUBJECT: Prospects for 1983 in the Near East and South Asia

1. A number of unresolved US policy issues will remain under debate during the upcoming year. Their resolution could, of course, affect developments in the area. Specifically:

- Should more tangible pressure be exerted on Israel in order to pursue the Reagan initiative?
- Will we supply major sophisticated weapons systems to moderate Arabs, in particular Jordan?
- Will a suitable formula for talking with the PLO be found and acted upon?
- Will it be politically feasible for the US to "stay the course" in recreating Lebanese security?
- Is the present hands-off "mix" in our relations with Iran and Iraq satisfactory? If not, should we "tilt" towards Iraq; pursue positive openings in Iran; or encourage anti-regime activity in Iran?
- Will Pakistan's nuclear program be an impediment to closer ties planned with that nation?
- Is our balance in relations with Pakistan and India appropriate, or should we more aggressively attempt to follow-up recent modest overtures from India?

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-- Is our mix in relations with Algeria and Morocco appropriate, or should we more aggressively attempt to follow-up recent indicators that Algeria may wish closer relations?

2. Regardless of US policies, a number of non-country specific trends merit examination prior to discussing specific geographic areas:

-- Fundamentalism: Where manifested in recent years, non-governmental fundamentalist movements have proved disruptive to established regimes. In their political form, these movements have tended to appear under authoritarian regimes which repressed secular forms of alternative political activity -- and when political/economic frustrations are high. During the past year, politically meaningful Shia or Sunni fundamentalist activity has been noted in many Arab countries, the latter most form most notably in Syria and Egypt. Although intangible and less conspicuous than in the aftermath of the Iranian revolution, the overall appeal and adherence to fundamentalist modes of thought probably continues to increase area-wide, and will continue to do so in 1983.

-- Economic factors: Negative repercussions of the petroleum glut, and resultant diminishing revenues in the producing states, will impact more severely in the Near East and South Asia area than elsewhere. Specifically, the following effects will begin to appear: slowdown in economic and security assistance from petroleum producer states to resource-poor regional states; slowdown in economic development activity with resultant absence of contracts and diminution of remittances from third country workers in the producing areas. Finally, less disposable income could over time tend to diminish the political influence of both more moderate producer countries such as Saudi Arabia, and that of radicals such as Libya and Iran.

-- Soviet influence: Despite potentially negative effects on Arab stability arising from the Palestine dispute, Soviet influence in the Middle East proper is at its lowest point in 15 years. Their most significant recent move has been to deploy the SA-5 missile in Syria, an action portending a direct Soviet combat role in that country. The political implications of such a move are significant. The Soviets may be attempting to obtain for themselves many of the capabilities for influence on both sides of the conflict that the US currently enjoys. This means enhancing the intensity, durability, and quality of their direct military involvement with Syria; possibly opening a meaningful dialogue with Israel; and increasing their acceptability to moderate Arabs. These goals are not necessarily mutually exclusive.

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### 3. Country Predictions:

- A. Lebanon: After tortuous negotiations, at least a limited disengagement of forces is likely to emerge by mid-1983. A complete withdrawal is possible but by no means certain - and even this will not mean the end of foreign -- especially Syrian, Israeli, and Palestinian -- influence and competition in Lebanon. Both Tel Aviv and Damascus will continue to exploit Lebanon's numerous fissures to advance the position of their respective proxies. Other Arab states, including Egypt and Libya, and France may become more active. While the Phalange will remain the preeminent Lebanese militia, it will not go unchallenged. As events in the Shuf have demonstrated the non-Maronite militias remain capable of impeding Phalangist plans. While a return to full-scale civil war seems unlikely given the Phalange's strength and the general war weariness, considerable instability is likely to continue. Should complete troop withdrawals not occur, Palestinian and leftist Lebanese guerrilla actions against the IDF may intensify as some southern Lebanese turn against Israel. Intermittent Israeli-Syrian clashes may occur as well, including more air battles. The Soviet role in the latter development will be critical and likely to escalate. In general, the trend will continue towards solidifying a Syrian zone of influence in the north, and an Israeli zone in the south - albeit within formal Lebanese sovereignty.
- B. Jordan: King Hussein increasingly appears likely to make an announcement of Jordanian willingness to join in direct peace talks with Israel conditioned on a settlements freeze and progress toward troop withdrawals from Lebanon. PLO leader Arafat and the Fatah majority seem likely to back, at least tacitly, Hussein. Syria will lead the anti-Jordanian camp, including rejectionist Palestinians, and try to intimidate Amman, possibly by a troop buildup on the border.
- C. Israel: Begin is likely to call for new elections sometime in 1983 either after the Sabra-Shatilla investigation is completed or if King Hussein joins the peace process. Israeli electoral politics are notoriously unpredictable but the odds (and the polls) favor Begin's reelection. A meaningful settlements freeze is unlikely, though Begin might accept a limited duration slowdown which did not halt "thickening" of existing settlements. In the broadest sense Israel will achieve most of its foreign policy goals in 1983 -- an acceptable settlement with Lebanon, continued military preeminence, non-belligerency with Egypt and Jordan -- but with continued domestic controversy and strained relations with the US. If the later worsen appreciably, a Soviet-Israeli dialogue may begin (albeit within strict limits). Longer term problems, including

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economic stagnation, Ashkenazi-Sephardic tensions, emigration, Israeli Arab unrest and West Bank violence, will get worse but not reach crisis proportions.

- D. Egypt: Close ties with the US require positive movement in the peace process. Should Jordan enter the negotiations with PLO tacit approval, Cairo will be pleased. Even in the best of circumstances, however, as long as Begin rules Israel the Egyptian-Israeli relationship will be a "cold peace" highlighted by distrust and mutual acrimony. Domestically Mubarak's position is slipping but barring major new economic problems he should muddle through. There is an outside chance that a collapse of the peace process could combine with economic distress to produce serious disorders. In this case the military is likely to seize power while maintaining a generally pro-Western foreign policy.
- E. Saudi Arabia: Despite decreased oil revenues, continued domestic stability is likely. There simply is no organized opposition inside the country of significance. Some increase in dissension within the royal family is possible, however, if Fahd is perceived to be ineffectual in reversing the financial decline. Riyadh will not play a significantly helpful role in the peace process or with Lebanon or in ending Egypt's regional isolation but it is not likely to be a major spoiler either. The Saudis will continue to be essentially passive observers, not leaders, always seeking Arab consensus and the path of least resistance. An Iranian breakthrough against Iraq or Saddam's replacement by a regime willing to accommodate Tehran would send tremors through the House of Saud, possibly leading to closer ties with Washington but perhaps just as easily inducing an effort to "buy" a settlements with Khomeini through "reparations."
- F. Iran: The clerics will continue to consolidate their standing in 1983. They face no serious rivals, and in particular all leftist parties appear increasingly ineffective. Should Khomeini die, the situation will be less predictable but the Islamic Republic is likely to remain in one form or another. As the regime eliminates its enemies at home, more attention and effort will be devoted to foreign adventures. Iraq will continue to be the prime target but an increase in aid to the Afghan mujahedin is also likely since western Afghanistan is perceived to be a traditional Persian zone of influence. The emigration of the skilled middle class (estimated at 1-2 million since 1979) will continue to drain the national brain trust, creating more impotent exile groups, but not endanger the regime's survivability in 1983.

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- G. Iraq: 1983 will be a critical year for Saddam Husayn. He is too much a "survivor" to be written off but the challenges he faces have never been greater. The war is likely to grind on, punctuated by occasional Iranian offensives, with the long term human and economic trends favoring Tehran. The key unknown is Iran's ability to bring these advantages to bear. Even without an Iranian military breakthrough, economic stringencies and war weariness will test Saddam's abilities. Should he go, a series of coups is quite possible. Moreover, almost any successor is likely to try to reach an agreement with Khomeini. A blatantly pro-Iranian Islamic Republic successor regime would be highly unlikely, however. There is always the chance -- albeit remote -- Tehran will decide to opt for a peace agreement. Should it do so we may have little warning as the two parties will negotiate directly (they still maintain embassies in each's capital). A settlement is more likely to be a truce, however, in a continuing struggle for hegemony in the Gulf.
- H. Syria: Damascus will become increasingly isolated as Lebanon moves toward non-belligerency and Jordan edges into the peace process. The normally cautious Assad will be tempted to take dramatic steps to regain the initiative including allowing even more Soviets into Syria, destabilizing northern Lebanon or threatening Jordan, but Syria's capabilities are limited. Domestic unrest, quiet since the February 1982 Hamah uprising, is likely to intensify again as the opposition revitalizes and gains access to more foreign backers in Lebanon (traditionally the home of Syrian exiles).
- I. Maghreb: The Saharan war will simmer on without major change, nor will it bring down either King Hassan or President Benjedid. Qadhafi will continue to be a noisy irritant but his efforts to gain significant influence either in Africa or Middle East are no more likely to succeed in 1983 than they have before. Tunisia, ruled by an increasingly feeble Bourguiba, and a weak economy, has the potential for serious domestic unrest. If so, Qadhafi would be a destabilizing factor.
- J. The Yemens: A subtle but important shift in South Yemeni policy is underway. Aden has made peace with Oman and largely abandoned the NDF rebellion in North Yemen. Moreover, ties with Moscow have cooled though they remain close. In 1983 this trend is likely either to continue gradually or be reversed following a coup led by more enthusiastically pro-Soviet leaders. Should the latter occur a marked increase in Saudi concern about the Yemens is likely with attendant requests for US aid.

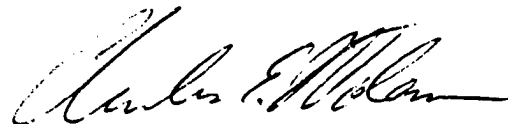
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4. The unexpected in the Middle East is the norm. Most Middle Eastern leaders have serious health problems (Begin, Fahd, Khomeini, Numayri, etc.) and could die unexpectedly causing power struggles. In the last two years, two heads of state have been assassinated (Sadat and Bashir Jumayyil). Some such event is likely in 1983, as well.



Charles E. Waterman

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**TOP SECRET**

(Security Classification)

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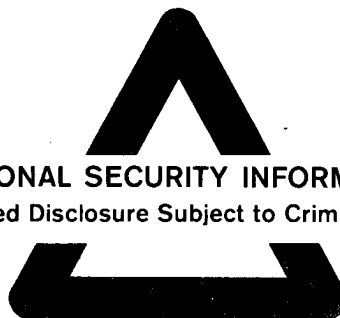
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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

[Redacted]

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SP - 2/83  
12 January 1983  
Copy 6

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence  
THROUGH: Chairman, National Intelligence Council  
FROM: National Intelligence Officer for Strategic Programs  
SUBJECT: Prospects for 1983 in Soviet Strategic Programs

1. My observations are of two kinds: major Soviet program developments in 1983, and major strategic force issues in the national security community.

[Redacted]

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Soviet Strategic Program Developments

2. In 1983 the Soviets will probably initiate the deployment of some major new strategic weapon systems:

- SS-NX-20 SLBM for the Typhoon SSBN.
- Sea-launched cruise missile on submarines.
- Air-launched cruise missile on Bear aircraft, eventually Blackjack and maybe Backfire.
- AWACS aircraft.
- Modified Galosh ABM interceptors at Moscow.

The offensive missile systems had successful flight test programs in 1982, and will probably be deployed in very limited numbers, a year ahead of our previous estimates. [Redacted]

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3. The Soviets will continue deployments of a variety of new or modernized strategic systems:

- Replacement of SS-17, SS-18, and SS-19 ICBMs with the more accurate MIRVed variants.

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[redacted]

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SUBJECT: Prospects for 1983 in Soviet Strategic Programs

--Deployments of additional long-range MIRVed SS-N-18 missiles on D-class SSBNs.

--Further deployments of Backfires and Fencer fighter-bombers; retirement of some older missiles and bombers.

--Further deployments of low-altitude-capable air defense systems: SA-10 and the Foxhound interceptor. [redacted]

4. Testing will continue for several new major strategic systems

[redacted]

5. Flight testing will probably begin in 1983 for several new or modernized missile systems [redacted]

[redacted]

6. [redacted] several potentially significant Soviet program areas:

--Non-acoustic antisubmarine warfare.

--Mobile basing modes for new ICBMs:

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[REDACTED]  
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--Directed energy weapons for air defense, antisatellite, and ABM.

--ABM capability of new advanced tactical SAM, the SA-X-12. [REDACTED]

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Important Security Issues

7. INF. This area promises to be the hottest topic in 1983, since this is the year of deployment. As numerous papers point out, the Soviets will devote great efforts to derailing the NATO deployments, and they seem willing to reduce their European SS-20 deployments, whether in an INF Treaty or in a deal with the Europeans. Although there are many differing opinions in the Intelligence Community, I believe:

--The Soviets will continue to try to convince the Europeans that the best deal they can get is some reduction of SS-20s in Europe.

--Since the Europeans fundamentally do not want to deploy INF systems, in my opinion they will pressure the US to accept some sort of agreement, even one which codifies Soviet INF superiority in Europe.

--The Europeans will, if necessary, seize upon the planned US deployment of nuclear SLCM to get them off the hook. This problem was of concern in 1980-81.

--The result may not be a Treaty, but it will have the same effect, although without verification procedures. [REDACTED]

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8. In the INF discussions the Soviets will continue the "analogous response" theme of Soviet forward-based deployments as a response to NATO INF deployments. These possibilities include cruise-missile-carrying submarines, with the prospect of cruise missile launches undetectable until nuclear impact on Washington, D.C. and elsewhere, and ballistic missile deployments in Cuba (or Grenada) for short-flight-time attacks. Both of these options will continue to be alluded to, and both are backed up either by available Soviet hardware (the SS-20) or by Soviet programs in development (although not necessarily for Western Hemisphere deployment)--the new SLCM, for 1983 deployment, and a new IRBM, for flight testing in mid-year. The Soviets can allude to these programs without having to make physical preparations or deployments. Then the Soviets can get the coercive value of the "analogous response" but can wait to take actual steps, if taken at all, only after the US and NATO take steps to deploy. I think the Soviets are dead serious about an analogous response, and I believe if the US actually deployed Pershing II in Germany, the Soviets would follow through with one, maybe both, of the above options. In my mind Cuba is a real possibility, not simply a bluff. They will continue to lay the groundwork for this option. In their minds a

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nuclear confrontation would have been brought about by the P-II, not by the Soviets forward basing of missiles. [redacted]

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9. START. Progress in these negotiations depends on how the INF issue is resolved this year. Serious progress in START is possible, in my view, if the US agrees to include bombers and cruise missiles along with ICBMs and SLBMs, as the Soviets insist, and if the Soviets agree to include ballistic missile throw weight in some way or other. The problems that will be difficult, however, and on which these negotiations could derail, are:

- The Soviets seem absolutely unwilling to include Backfire in START, and we may have to cover them in INF in a way that simultaneously satisfies our START objectives. This approach seems reasonable to me, given Backfire's primary role as a theater attack aircraft.

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- Soviet tests of a number of new and improved ICBMs and SLBMs is likely to begin

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--Depending on how the basing decision for MX comes out, we could have serious problems with the Soviets in our attempt to maintain a distinction between silos and deployed missiles for MX, and in not counting new silos as new fixed launchers.

--Soviet testing of a new small-sized solid propellant ICBM, a likely prospect this year, will raise quite a stir in this country. The language of SALT II is such that the Soviets could claim that the new small solid ICBM is a legitimate follow-on to the SS-13, or is a variant of the medium-sized solid propellant, through the first 12 test flights--regardless of its true parameters. It is hard to see how this new missile could be claimed as an SS-13 follow-on unless its size and characteristics are much closer to the SS-13 than we are currently estimating.

--Much less likely, but possible, is a discovery on our part that the Soviets are violating the ABM Treaty, such as with construction of forbidden interior ABM radars or covert ABM deployments. [REDACTED]

10. MX. The key US strategic program issue is MX. We will continue to be called upon, by the President's MX Commission as well as by Congress, to discuss Soviet capabilities to attack MX. My congressional testimony, now incorporated in NIE 11-3/8, supplementary work by the DCI's WSSIC, and the strategic force estimate NIE 11-3/8 should do the job. [REDACTED]

11. ABM. A major review of US ABM policy and programs by the NSC is going to be undertaken this year. It will draw upon our completed NIE on Soviet ABM, and on NIE 11-3/8. In addition the ABM Net Assessment that we are conducting will be an integral part. I think there will be some significant debate, at least internal to the Administration, on the issue of whether the US ought to proceed with a significant expansion in strategic defensive efforts, including much more research and development in the ABM area. [REDACTED]

12. The potential ABM capability of the SA-X-12 SAM in development is likely to cause a considerable stir this year. The blurring of distinction between an ABM and an air defense SAM, as a result of the SA-X-12's potential capabilities, will indicate that the Soviets (and the US, if we choose to modify the Patriot) could have significant ABM capabilities deployed later in the 1980s, while remaining within the limits of the ABM Treaty. The Treaty may need to be modified, or missiles like the SA-X-12 may need to be banned. [REDACTED]

13. Cruise Missiles. The imminence of the Soviet deployment of cruise missiles will likely cause a reexamination of the inadequacy of US continental air defense and some pressure to fix it. There is no existing capability to detect Soviet SLCMs launched from submarines in normal SSBN patrol areas off

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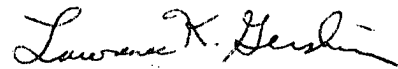
SUBJECT: Prospects for 1983 in Soviet Strategic Programs

the US coast, and ALCMs launched from bombers could easily underfly US and Canadian surveillance radar coverage. [REDACTED]

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14. Non-acoustic ASW. It is possible that the most significant reactions to the contents of NIE 11-3/8-82 will be to our concern for Soviet progress in non-acoustic ASW. We are raising the possibility that US SSBNs on patrol might not be perfectly safe for the rest of the century. This is upsetting, since an important aspect of our confidence in the deterrent value of our strategic forces lies in the certainty that submarine weapons would be highly survivable. Although a Soviet breakthrough would not mean that submarines would necessarily be highly vulnerable, or that many submarines would be knocked out, the shattering of the image of total invulnerability could be a serious blow to public perceptions of the deterrent value of this force. [REDACTED]

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Lawrence K. Gershwin

[Redacted]

SP - 2/83

SUBJECT: Prospects for 1983 in Soviet Strategic Programs

Distribution:

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- 14 - DDI/Registry

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**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

**National Intelligence Council**

NIC 626-83  
24 January 1983

MEMORANDUM FOR: Henry S. Rowen  
Chairman, National Intelligence Council

FROM : Stanley M. Moskowitz  
National Intelligence Officer for USSR-EE

SUBJECT : 1983 Soviet Forecast

Overview

1. The likely major lines of development in the USSR in 1983:

- Andropov will concentrate on building his political base but may run into difficulties as his domestic policies impinge on the activities of other Soviet leaders.
- Andropov would like a summit with President Reagan as a legitimization device of his world stature and as a means to increase public pressure on the US to seek accommodation with the Soviets.
- Emerging signs that the US administration is becoming more positive toward a summit and desirous of an arms control agreement will reinforce Andropov's natural inclination not to make concessions or significantly alter Soviet behavior in the world.
- The situation in Eastern Europe will continue to be troublesome and under control but the potential for a major crisis somewhere in the Soviet empire persists.
- The Soviets will be a much larger factor in the Middle East in 1983 than it was in 1982.
- The brightest spot for the USSR is Central America where events are running against the US.

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Soviet Domestic Developments

- The USSR is going into a much more turbulent period. It will be marked by a reshaping of the ruling apparatus and an attempt to make the entire system work better.
- Andropov will continue to use the anti-corruption drive to simultaneously consolidate his power and strengthen the economy.
- Most Soviets initially welcomed the anti-corruption drive and saw it as directed against someone else. Its intensification is now raising fears in both the general population and in party circles.
  - For the population, there is the threat of increased controls over personal lives and tougher penalties for deviation. There are hints in the press that Andropov will rely on forced labor to punish shirkers.
  - The intelligentsia's hope for a regime more attuned to an open cultural life is being dashed by a campaign to repress prominent figures such as Vladimov and even Medvedev.
  - For many of the party rank-and-file, Andropov's campaign could mean demotions, transfers to undesirable locations, and even arrests and trials.
- The Spring Plenum, traditionally held in May, will tell us more about how successful Andropov is being at shaping the country and especially the party.
- There is an outside possibility that his quiet purges will lead to a resurgence of opposition and some major political infighting. If so, he will probably emerge victorious and strengthened but there is also the outside possibility that he will be forced to demonstrate more "passion for collectivity".
- The Spring Plenum should also tell us more about his plans for the economy. There is one report that he has invited the Central Committee members to an "open forum" to discuss the economy. If so, Andropov will use it to push for change.
- The indications are that there may be more tinkering at the margins, some moves to increase individual incentives in agriculture, but no shift in investment priorities (particularly military) or major reform.
- But Andropov has got the pump primed for change, and there is at least a 40 percent change that some significant economic reforms will be started in 1983.

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- Tinkering, combined with greater labor discipline and possibly a good agricultural crop, will lead to some improvements in the economy.
- The improvements are likely to be small and temporary.
- Not only will the Soviet Union continue to muddle down but the frustrations brought about by tightened discipline without improved living conditions may lead to more spontaneous unrest, as has already happened sporadically over the last few years.

### Eastern Europe

- In Poland, the stalemate is likely to persist. The government is no longer endangered but its isolation from the population will continue. It will resist liberalization or increased repression in the fear that either course could lead to a popular explosion. Any break in the deadlock would probably occur in a way unfavorable to the government as some unforeseeable event triggers a resurgence of opposition.
- In Romania, Andropov faces the mixed blessing of an oppressive anti-Soviet nationalist regime showing its increasing incompetence to run the country and a rising danger of political upheaval. Andropov would welcome the disappearance of Ceausescu but probably fears the destabilizing effect on the rest of Eastern Europe, particularly of a popularly inspired ouster as in Poland in 1970 and 1980.
- In Bulgaria and Czechoslovakia, the leaderships appear shaky and changes, with all their perturbations that they bring are possible.
- In East Germany and Hungary the situations are better but the former faces economic and political troubles while the latter is being ever more closely involved with the Western economic system.
- Overall, ineffectiveness of all these ruling regimes--save that of Hungary--is creating ever greater doubts about the Soviet model and is likely to lead to a new explosion somewhere not necessarily in 1983 but almost certainly in this decade.
- Yugoslavia has grave economic and political problems. The Soviets will attempt to exploit them as best it can. Yugoslavia will get through 1983 without a major upheaval, but 1984 will be tougher.

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China

--The Sino-Soviet dialogue will continue and probably lead to better relations, particularly in commerce. The dialogue has already worsened the U.S. position in the USSR-PRC-US triangle but the damage is likely to be limited by persistent Sino-Soviet differences over Kampuchea, Afghanistan and probably the border arrangements.

Western World

--The Soviet leadership realizes that the Reagan administration will not make a grandiose international accommodation with the Soviet Union but also senses that it is vulnerable to domestic and international political pressures. Andropov's line of attack, therefore, will be to face the administration with the alternative of either risking further international and domestic estrangement or striking some explicit deal with Moscow. Moscow's main desiderata are arms control agreements advantageous to the USSR and renewed defacto Western economic assistance to the USSR.

--Andropov will therefore maneuver to set up a summit--perhaps in conjunction with an address to the UN General Assembly this Fall. But rather than make any great concessions to get one, he will count on and foster domestic and international pressures to push the US in the desired direction.

Western Europe

--The emphasis in 1983 will be on stopping INF deployment along the lines of Andropov's December declaration (zero for the U.S., quite a bit for the USSR).

--Barring unforeseeable clumsiness on the part of one or another NATO government, deployment will go forward. But the Soviets will not let the issue die; they are likely to take it up in START and continue the propaganda campaign.

--If deployment is derailed, Moscow will turn-up the gain as the peace offensive to help defray a backlash in West Europe. Their big concern will be a more prominent military role for West Germany.

--Andropov's propaganda campaign will be increasingly burdened by the unattractiveness of domestic repression and unsavory revelations about Bulgarian-KGB-Andropov destabilizing operations in Turkey and Italy and possible participation in the Papal assassination attempt.

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The Americas

- Andropov will not change Soviet support for Cuban or revolutionary forces in Central America. Interest in a summit meeting may cause the Soviets to counsel the Cubans to avoid high visibility actions, but even that is not assured.
- Both the U.S. and the populations of those countries are likely to be the losers as violence spreads and terror is used against the population and, to the extent that victorious Marxist movements adopt the Soviet model, the economies become impoverished.

Southwest Asia-Middle East

- The only two area trends which can be forecast with any certainty are that the region will remain beset with explosive issues and that the Soviet determination to remain involved will make the situation worse.
- Previous Soviet actions have already brought the USSR perilously close to direct confrontations with the U.S., when its clients suffered humiliating defeats. Now, as demonstrated by its recent SA-5 deployments in Syria, Moscow seems more intent than ever to play an active role in the region. And to take significant risks.
- The odds are better than even that the Israeli and Soviet forces will have fought each other by the end of 1983. The consequences are not knowable, but we are likely to have the USSR as a greater factor in the Middle East at the end of 1983 than it is at the beginning.
- In Afghanistan, the USSR is searching for a formula which would allow it to remain in control of the country's government without having to be actively engaged in fighting. Since the success of this approach depends largely on Mujahadin and Western acquiescence, it is unlikely to work, leaving the USSR with the option of intensifying its combat operations--something which it will probably do.



Stanley M. Moskowitz

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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #0418-83  
17 January 1983

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

THROUGH : Chairman, National Intelligence Council

FROM : Milton Kovner *M*  
National Intelligence Officer for Western Europe

SUBJECT : Western Europe in 1983

Western Europe in 1983 will be subjected to discordant impulses and pressures that will test the resiliency of national governments as well as intra-European cohesion and trans-Atlantic ties. Agreement within the Alliance on the need to counter the Soviet military buildup will mask considerable divergence about the nature of the Soviet threat and the strategies to deal with it. Europe's progress toward economic and political unity will be stalled by the imperatives of economic self-interest and complications posed by Portuguese and Spanish requests for accession to the Community. Allied cohesion will be strained by membership in the Alliance of governments, such as Greece and Spain, uncertain in their commitment to collective security. And internal consensus, on both domestic and international issues, will be tested by elections in the FRG, and probably in the UK and elsewhere. Hence, securing common objectives, both in the European theater and beyond it, will pose an increasing challenge to us; and the Soviet Union will be quick to exploit and exacerbate differences in approach to detente and East-West relations.

INF and European Security

Although many Western European governments harbor hopes that tangible progress in negotiations will make INF deployment unnecessary, and some will seek to postpone final decisions in anticipation of achieving it, absent agreement in Geneva we believe basing countries will remain firm in their commitment to NATO's dual decision, and even those currently

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most equivocal about actual deployment -- Belgium and the Netherlands -- will ultimately agree to installation if the FRG, as seems likely under a Kohl government, adheres to deployment schedules. Certainly prior to the German elections, and probably well beyond it, the issue will remain fluid, with many of our allies hedging or shifting their positions in response to public pressures. While most Western governments prefer the zero option and will continue to hold it out as the ideal solution, many increasingly will argue that at least the appearance of US flexibility in Geneva will be tactically necessary to mitigate the political costs of deployment; and the US will be under growing pressure to consider "interim" solutions while preserving the zero option as a longer term objective. Should the Soviet Union add convincing substance to their INF proposals, pressures could increase in some quarters for delay in deployment lest installation of the missiles preclude chances of ultimate accommodation in Geneva.

Nevertheless, we believe the odds favor installation of the missiles and maintenance of a visible "coupling" between US and European defense -- absent agreement in Geneva and barring political shifts in the FRG or Italy, for example, not to deploy. However, the issue of assuring Europe's defense will be the subject of intensive debate well beyond the "Year of the Missile," fueled by such questions as the proper mix of conventional vs. nuclear forces, the capacity and roles of the French and British deterrents, growing French-German defense cooperation, and Europe's willingness to make up for US forces targeted for out-of-area contingencies.

#### European Community

Forecasts are pessimistic about West Europe's economic prospects in 1983, with predictions of continued low growth and high unemployment feeding an already evident loss of confidence in Europe's ability quickly to reverse the trend. Pressures will increase within Europe for protectionist measures, and although a counter-move to eliminate internal trade barriers may take hold within the European Community, this may come at the expense of greater "vigilance" -- promoted notably by France -- at the Community's external borders.

The EC's major challenges -- advancing beyond the customs union and a common agricultural policy, finding formulas for more equitable burden sharing, preparing for another enlargement, and preventing mutually damaging trade conflicts with its international partners -- will not be new, but will be even more difficult to meet in the anticipated climate of low economic growth. The possibility of elections during the year in Britain will put both London and its EC partners under the additional strain of weighing EC budget reform and each new proposal against the resurgent debate in the UK over Community membership and the possibility of boosting the prospects of the anti-EC Labor Party. France, meanwhile,

will threaten national protectionism in the hope of selling more of it to the Community as a whole — and it is less than certain that either Germany or Britain, themselves under similar pressures, will resist very strongly or take the initiative to push instead for EC-wide structural adjustment. Despite pressures from Portugal and Spain to complete negotiations for their membership in the community, early progress is unlikely, hung up as it is over the fears of France, Italy, and others that they would largely be the ones to pay for the EC absorbing the output of the new members' heavily agricultural economies.

### West Germany

The new year will be a troubled one for the Federal Republic. Whatever government emerges from the elections on March 6 will be faced, on the one hand, with growing unemployment and difficult budget choices and, on the other, with intense opposition to carrying through with INF deployment. The elections could leave the country polarized on both sets of issues and vulnerable to Soviet seduction or threat, particularly on INF. The most stabilizing result would be a CDU/CSU majority, or, depending on FDP fortunes, continuation of the present centrist CDU/CSU-FDP coalition. Barring an SPD victory, which at this moment seems less likely, other possible alternatives — a coalition between the SPD and the Greens, should the latter surpass the five percent threshold, or a "grand coalition" between the SPD and the CDU/SDU should neither major party win a majority -- will prove inherently unstable, short-lived and paralyzing for West German policy-making. If, as we believe, the CDU/CSU coalition will achieve a majority, prospects for INF deployment and a cooperative attitude generally with the US will be improved; but the new government would also seek a balance through greater attention to Europe-centered policies.

### France

Elections this spring in France will also mark a watershed, even though the results of the local contests will not change party representation in the Socialist-dominated parliament. Some falling-off of support for the Socialist-Communist coalition will be evident, and a large deterioration in the left's vote will encourage calls for a return to Socialist fundamentalism. We doubt, however, that Mitterrand will be deterred from pursuing relatively austere economic policies. While Mitterrand will prefer the Communists to remain in the government, we think there are limits to what he will be willing to pay to prevent them

from leaving. Should they leave, we would expect government encouragement of a return to proportional representation -- which would eventually permit the development of a center-left coalition. We expect little change in French foreign policies, which will continue to emphasize national freedom of action to protect France's interests and magnify its leverage within the European Community and the Alliance. Despite initial misgivings with respect to both the substance and direction of the effort, France will cooperate in the series of studies designed to examine the links between East-West trade and Alliance security. The exercise will represent a delicate problem in Alliance management, however, since the need for coordination will have to be balanced against the demands of France and others to minimize the appearance of "direction" from NATO or other fora on East-West economic policies.

### Italy

None of the three governments formed from the parliament elected in 1979 has been able to make much progress towards alleviating Italy's most pressing problems -- bringing prices and costs under control, reducing the very large budget deficit, or significantly improving Italy's fragile external payments position. Expectations of a government "crisis" that would force early elections -- the parliament would normally run until 1984 -- has made unpopular economic decisions even less likely; yet the edginess of politicians about facing new elections may in fact prolong the stalemate. It is impossible to forecast with any confidence that this situation will produce a definitive break with the practice of center or center-left governments in Italy and movement toward either the "left alternative" of collaboration between the Socialists and Communists or an arrangement between the Christian Democrats and the Communists. But an increasingly critical political atmosphere is likely in 1983, in which the PCI may more and more be seen as the key to effective decision-making. This will be especially true if elections do occur this year and fail to produce a significant increase in the 9.8% share the Socialists won in 1979. In the meantime, the PCI will eschew extreme positions either on foreign affairs; for example, the Communists will not take the lead in mounting all-out opposition to INF.

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Southern Europe

EC membership is the most important item on the foreign policy agenda of Spain's new Socialist government, which gives higher priority to gaining "European" credentials than to moving towards early military integration with NATO. While we think it unlikely, it cannot be excluded that Madrid may ultimately seek a French-style membership in the Alliance. Prime Minister Gonzalez' domestic power base is relatively secure for the moment, but he will need evidence of progress towards the popular goal of Community membership to offset divisiveness that could emerge at home as the government begins to deal with the difficult issues of a stagnant economy, persistent terrorism, the demands of Basque and Catalan nationalism, and educational reform. The desire to avoid domestic polarization will probably continue to incline the government away from any early redemption of the Socialists' campaign pledge to call a referendum on NATO membership.

While Madrid will try to keep separate the questions of Spanish relations to NATO and ratification of the US-Spanish bases agreement in order to get the latter approved in parliament, a new US agreement with Portugal extending and expanding our facilities there will be difficult -- but attainable -- because of political turbulence within the ruling center-right coalition that could lead to early elections. Portugal's Socialist Party led by Mario Soares is well positioned to return to government in a new election. The principal immediate effect of the political crisis will be to leave Portugal's mounting economic problems unresolved.

The Aegean will almost certainly remain an area of political confrontation between Greece and Turkey with the complex of unresolved issues and resultant tensions intermittently threatening overt hostilities. While each side will shrink from precipitating a crisis, domestic instabilities, more so in Athens than in Ankara, risk making each less flexible and less inclined to compromise. Public confidence in the Papandreou government will almost certainly wane as it fails to stem, let alone reverse, Greece's economic slide, and the government may seek new elections -- or foreign adventures -- to strengthen its mandate. Turkey's scheduled return to civilian rule toward year's end could make the military regime more rigorous in defending the country's perceived equities in the Aegean. Greek-Turkish frictions, however, will make Athens reluctant to sever its NATO or US connection. Greece will remain in the Alliance, although unresolved command and control arrangements in the Aegean will inhibit closer cooperation within the integrated command, and it will distance itself from Allied consensus on many issues of concern to us in its pursuit of a more independent foreign policy. US-Greek relations will become increasingly tense, particularly over the base negotiations, and we believe some restriction of our military [redacted] [redacted] assets in Greece highly likely.

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