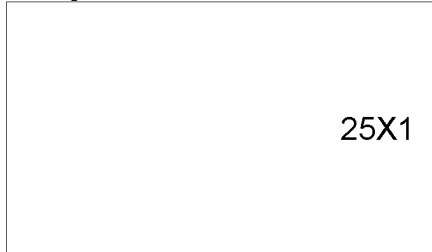




**Director of
Central
Intelligence**

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National Intelligence Daily

**Tuesday
6 January 1987**



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CPAS NID 87-004JX
6 January 1987

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Contents

USSR-Afghanistan: High-Level Visit 1



25X1

Syria: Assad Reins In His Lieutenants 3

Spain-NATO: Formula for Military Participation 4

Cyprus: Turks Resettling Greek Areas 5

Notes

Vietnam: Leadership Changes Delayed 6



25X1

France-West Germany: Meeting on European Defense 7

In Brief 8

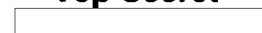
Special Analyses

Guatemala: Coping With Economic Problems 10

Tanzania: Mwinyi's First Year 12

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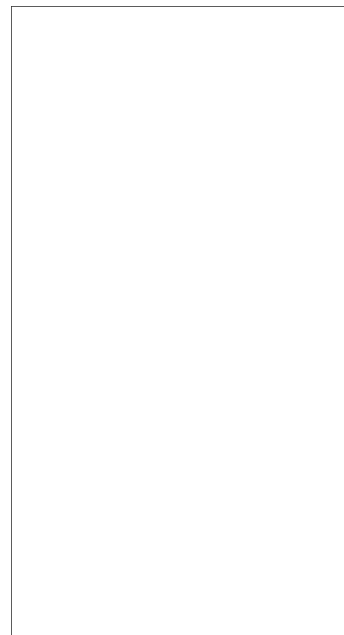
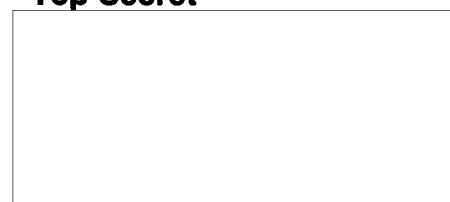
6 January 1987



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**USSR-
AFGHANISTAN:**

High-Level Visit



The visit to Kabul of Soviet Foreign Minister Shevardnadze and International Department Chief Dobrynin is intended to underline the seriousness of the national reconciliation policies just announced by Afghan leader Najib, but the two may also be there to ensure Afghan compliance with Moscow's new tactics and to assess the effectiveness of overall Soviet strategy.

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The visit follows the Afghan party plenum, at which a unilateral cease-fire and measures for achieving national reconciliation were announced.



Comment: This is the highest level Soviet delegation to visit since the invasion. The visit is undoubtedly intended to reinforce at home and abroad the impression of Soviet seriousness as Moscow prepares for UN-mediated peace talks in Geneva next month. The Soviets probably hope this visit and Najib's initiatives will put pressure on Pakistan to offer concessions while absolving the Soviet-Afghan side in advance of any failure in the negotiations.

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Shevardnadze and Dobrynin may also be charged with providing a firsthand assessment of the Afghan situation to the Soviet leadership.

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Moscow continues to insist on its original goals in Afghanistan, and Najib's speech at the plenum offered no departure from either continued ties to Moscow or the primacy of the Communist Party, although the Soviets are evidently using more flexible tactics for achieving these goals. Shevardnadze and Dobrynin are also likely to impress upon Afghan leaders Moscow's unwillingness to tolerate resistance to the expanded program bringing nonparty members into the government.

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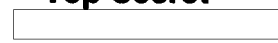
By suggesting that Soviet troops might leave, however, Moscow may actually reduce the stability of the Afghan regime. Morale in Kabul is low, and resistance leader Gulbuddin has offered amnesty to regime figures who seek his protection.

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SYRIA:

Assad Reins In His Lieutenants

Syrian President Assad is dealing cautiously with problems sparked by Syrian involvement in terrorism and with growing rivalries among his closest advisers. 

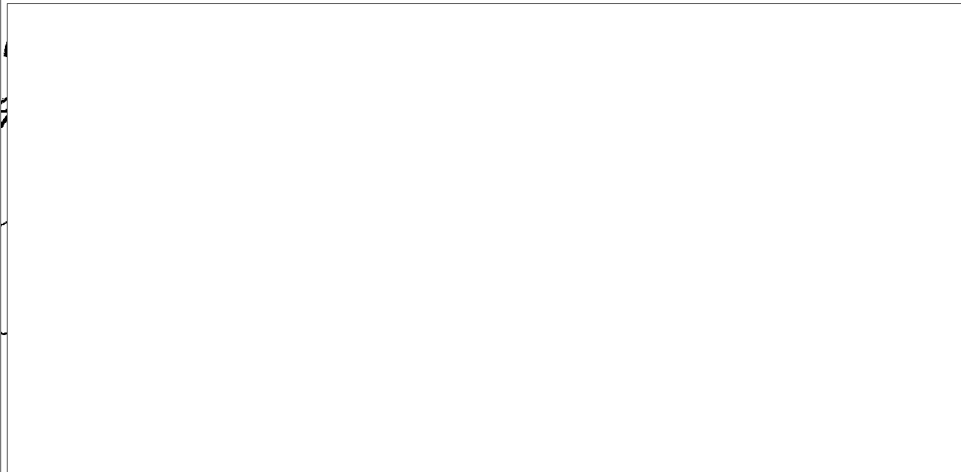
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~~A senior Syrian Foreign Ministry official told the US Embassy last week that~~ Assad apparently is delaying further changes in key security and military positions while he assesses the impact of recent reassignments. No promotions or reassignments have been announced since the ouster of two intelligence chiefs last month set off rumors that dramatic personnel shifts were imminent. 

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Assad may believe that the shock waves generated by his recent firing of the heads of the General Intelligence Directorate and the Political Security Office will be sufficient to reduce infighting for the time being. 

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[Redacted]

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SPAIN-NATO:

Formula for Military Participation

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Spain may be considering a formula for military participation in NATO—that would include acceptance of commitments beyond its borders—partially to improve its bargaining position in talks with the US. [Redacted]

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[Redacted]

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According to a newspaper in Madrid with close ties to the government, the plan would stop short of formal Spanish integration into the Alliance's military structure but would give NATO commanders operational control of some Spanish forces in wartime. Under the formula, US forces in Spain would be an element of Madrid's contribution to the Alliance. The US Embassy believes that the article in the press almost certainly originated with senior Spanish defense officials and probably represents an attempt to gauge the Spanish public's reaction to such a plan. In response to attacks by the opposition parties, Foreign Minister Ordonez subsequently denied publicly that Spanish troops might be stationed outside the country, but he avoided defining the nature of the military ties that Madrid plans to negotiate with NATO. [Redacted]

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Comment: The timing of the press report may be linked to the resumption of Spanish-US negotiations next month on the status of US bases in Spain. Madrid believes its membership in NATO should make possible a reduction in the US military presence in Spain. The Spaniards are almost certainly attempting to reinforce their bargaining position by suggesting that their forces will be closely tied to, although not formally a part of, the Alliance's military structure. Madrid may think that this formula would support its desire for a major maritime role in the area of the Strait of Gibraltar because it would imply that Spanish forces would be subordinated to major NATO naval commanders in wartime. [Redacted]

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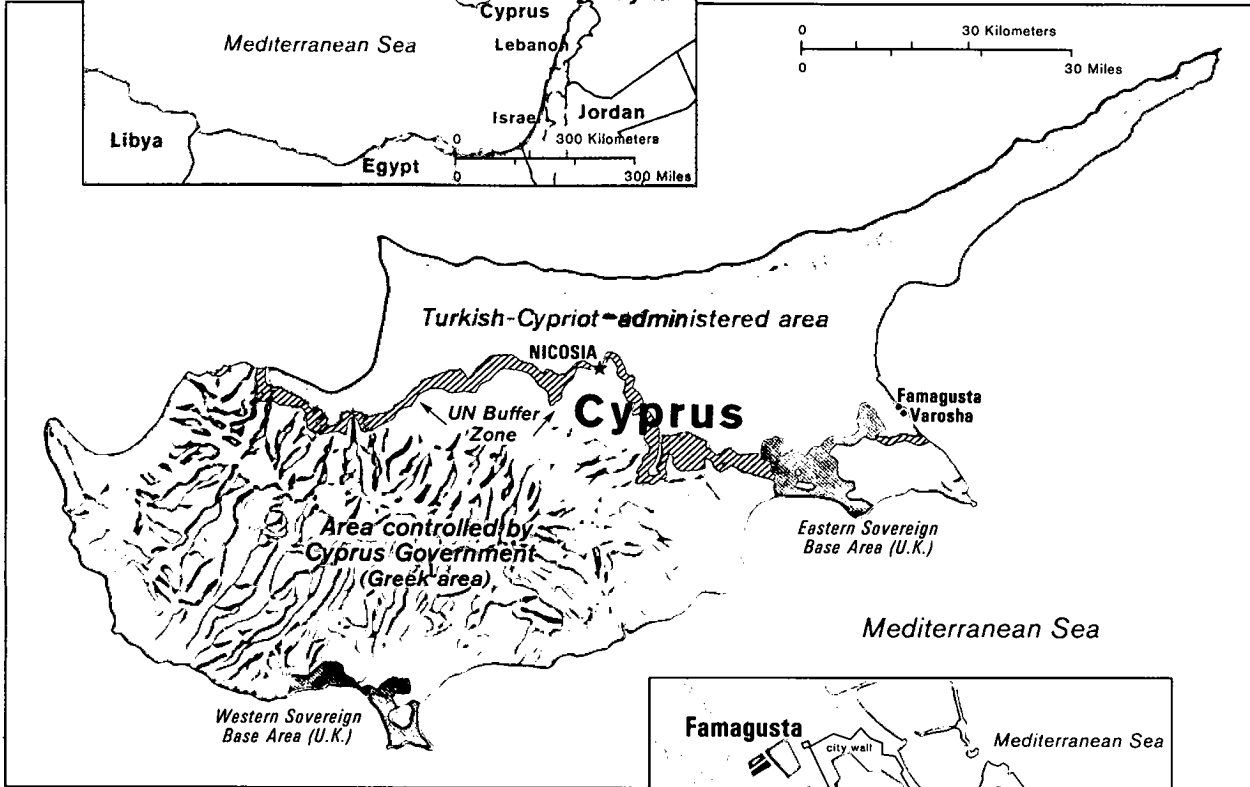
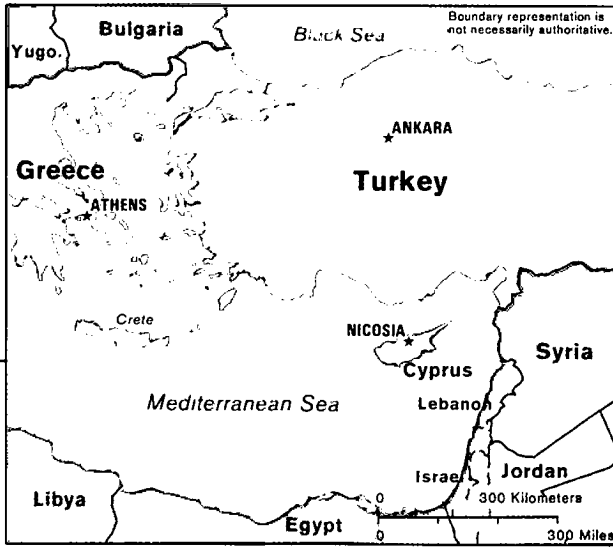
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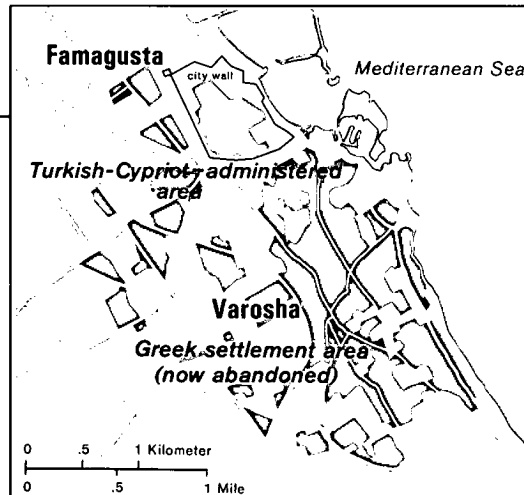
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6 January 1987

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CYPRUS:

Turks Resettling Greek Areas

Turkish Cypriot leader Rauf Denktash may move to strengthen the independent status of the "Turkish Republic of Northern Cyprus" by slowly resettling Varosha, the formerly Greek Cypriot resort area in Famagusta. [Redacted]

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[Redacted]

[Redacted] Denktash has long thought Greek intransigence toward UN-sponsored negotiations left him free to pursue his objectives, which included reopening Varosha and gaining international recognition for the "Turkish Republic of Northern Cyprus," without being criticized—even in the US. [Redacted]

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[Redacted]

Denktash has since 1974 repeatedly threatened to resettle Varosha. In recent months, Turkish Cypriot officials have contacted foreigners who owned property in Varosha apparently to urge them to register their claims or risk losing their property. In addition, [Redacted] as many as 200 students from the Turkish mainland have taken up residence in a newly restored hotel in Varosha. They may be military dependents of Turkish troops who have been using two other hotels there since 1975. [Redacted]

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Ankara has discouraged Denktash's aggressive moves, partly because it believes his acceptance of the latest UN proposal has given the Turks the diplomatic high ground, but it might tolerate a slow infiltration of Varosha. [Redacted]

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[Redacted]

Turkish opposition leaders have recently criticized the Ozal government for not standing up for Turkish rights abroad, especially after the EC's recent rejection of freedom of movement for Turkish labor. Since Turkey's recent border clash with Greece, Ankara may not be so inclined to restrain Denktash. [Redacted]

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Comment: Denktash may believe that the deadlock in the UN's efforts for a settlement provides an opportunity to give further legitimacy to the "Turkish Republic of Northern Cyprus." His current actions follow a pattern similar to that which preceded his unilateral declaration of independence, which he also threatened for years before acting in November 1983. [Redacted]

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Greece and Greek Cypriots have tacitly accepted a Turkish troop presence in the two hotels for years, but they are highly emotional about their rights in Varosha and would be likely to react vociferously to further settlement. In that event, they would probably turn to the international community for support and blame the US for not reining in the Turks. [Redacted]

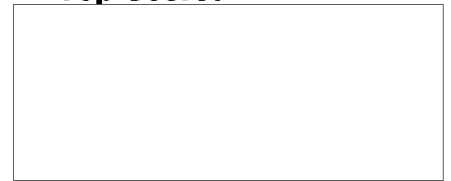
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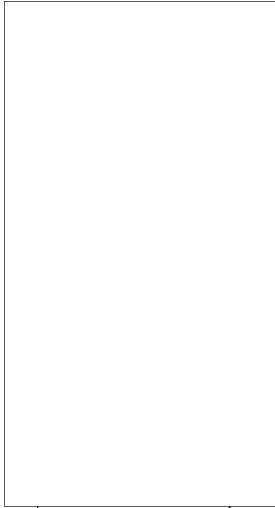
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VIETNAM: Leadership Changes Delayed



Hanoi announced Sunday that a nationwide election for a new National Assembly will be held in April. When it convenes in June, the new Assembly will choose successors to Truong Chinh, Chairman of the Council of State, and Pham Van Dong, Chairman of the Council of Ministers. Chinh and Dong, along with party elder Le Duc Tho, lost their Politburo positions at the party congress last month. The current National Assembly was expected to choose successors to Chinh and Dong at a session late last month.

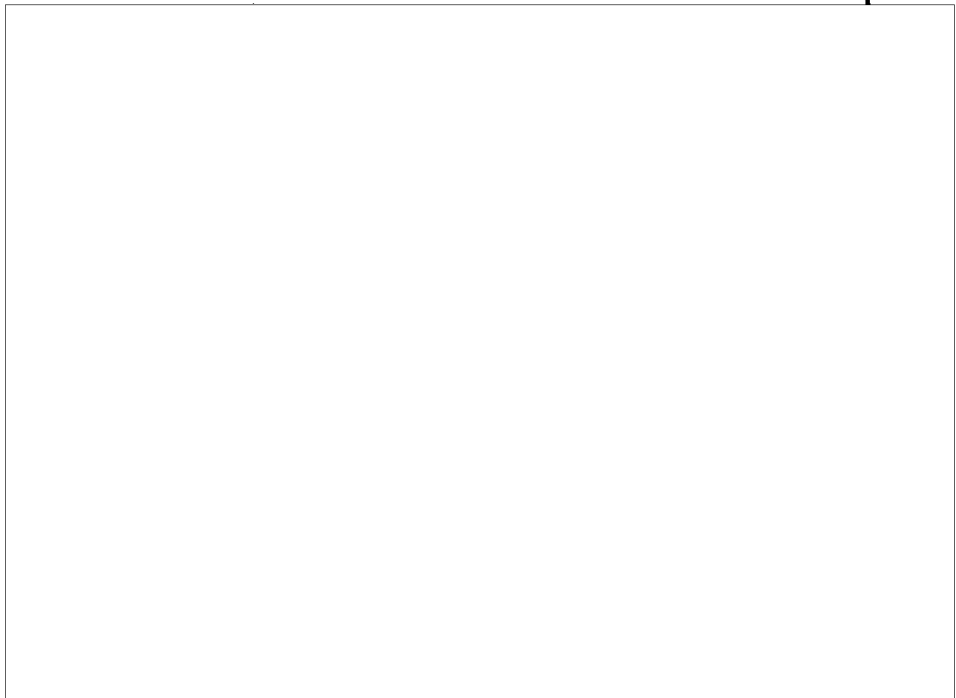


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Comment: The apparent success of the conservatives indicates they remain strong even after the party congress strengthened advocates of economic reform, led by new party chief Nguyen Van Linh, at the expense of traditionalists, led by Chinh. The delay creates an unprecedented situation in which the top government leaders do not sit on the Politburo and suggests that Linh will encounter strong opposition to his reform agenda.

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[Redacted]

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[Redacted]

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FRANCE-WEST GERMANY: Meeting on European Defense

[Redacted]

President Mitterrand has requested a meeting with former West German Chancellor Schmidt to discuss European defense, according to a US diplomatic source who thinks they will probably meet early next month. Mitterrand has rejected some of Schmidt's ideas in the past—including a proposal in 1984 for the formation of a 30-division Franco-German army that would ultimately reduce the need for US forces in Europe—and relations between the two have been cool.

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[Redacted]

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Comment: Mitterrand would be unlikely to endorse any new proposal for a Franco-German army, but both leaders may issue a statement emphasizing the need for greater European defense cooperation. They may also reiterate their view that such US initiatives as SDI and the proposal to eliminate all nuclear ballistic missiles are ill conceived. Mitterrand probably thinks that his meeting with the most prominent moderate West German Social Democrat would improve the fortunes of Schmidt's faction after the SPD's expected loss in the coming West German national election. He probably also believes that such a meeting will help him to reassert his role in French foreign policy—an area in which Prime Minister Chirac has grabbed the initiative. Mitterrand has no interest in undercutting the government of Chancellor Kohl, but he may believe that such a meeting would put pressure on Kohl to support French-sponsored bilateral defense projects that have become bogged down.

[Redacted]

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[Redacted]

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In Brief

East Asia

— **South Korean** Defense Ministry preparing letter accepting SDI participation, according to US Embassy . . . likely to hedge for fear **Soviets** will threaten boycott of 1988 Olympics . . . bureaucratic infighting under way over which agencies will participate.

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— About 400 **Chinese** students burned party newspapers ~~yesterday~~ at Beijing University to protest press distortions of demonstrations . . . students quiet elsewhere . . . authorities expediting students' trips home for semester break to defuse further activity.

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— **China's** coal exports grew by 30 percent last year to almost 10 million tons, or \$400 million . . . Beijing hopes to reach 16 million tons this year . . . may cut into US market in East Asia.

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Middle East

— **Iran** named former Revolutionary Guardsman Ambassador to **Lebanon** . . . recall of last envoy demanded in 1983 for meddling in domestic affairs . . . reflects Iran's desire to better monitor increased radical Shia in Beirut and southern Lebanon.

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— **Lebanese** Army clashed with security units loyal to President ~~yesterday~~ in Christian enclave east of Beirut, says

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. . . likely to aggravate violence among Christians.

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Europe

— **French** Government resisting union demands for wage increases . . . facing demonstrations and brief shutdowns of public services today . . . still smarting from defeat on university reform, likely to hold firm unless protests widespread.

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— Leaders of major Protestant parties in **Northern Ireland** appealing to Queen for referendum on Anglo-Irish Accord . . . **UK** will probably refuse . . . parties may use refusal to justify support for civil disobedience.

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6 January 1987

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Americas

— Major gas find in southeastern **Peru** . . . if estimates accurate, would boost reserves from lowest to third highest in South America . . . may offset impact of dwindling oil reserves. [Redacted]

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— Torrential rains in western **Cuba** damaged, destroyed estimated 25 percent of tobacco crop . . . may lose \$13 million in hard currency exports to West . . . rains provide limited relief from current drought. [Redacted]

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[Redacted]

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South Asia

[Redacted]

— Liberation Tigers, the most powerful **Sri Lankan** Tamil guerrilla group, announced control of civil administration in north on 1 January . . . formed new political party, probably to woo northern civilians . . . Colombo cutting fuel shipments in retaliation. [Redacted]

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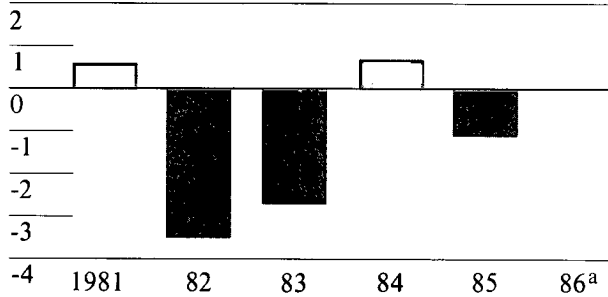
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Guatemala: Economic Indicators, 1981-86

Note scale changes

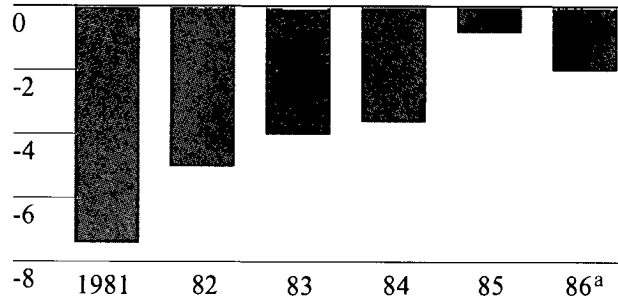
Real GDP Growth

Percent



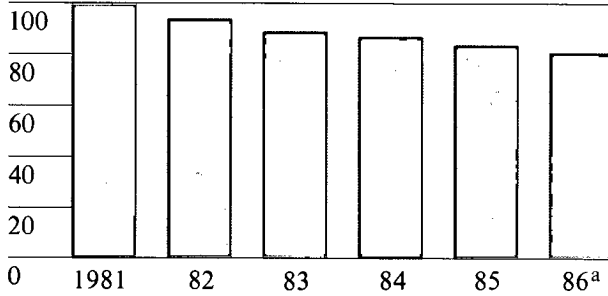
Budget Deficit as a Share of GDP

Percent



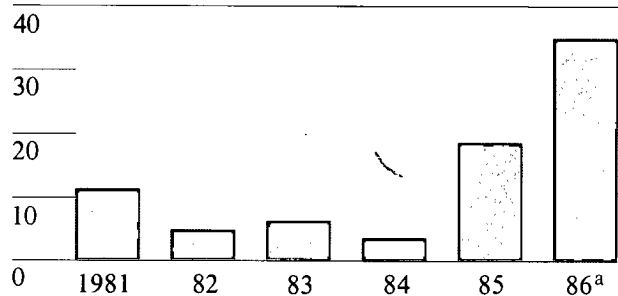
Real GDP Per Capita

Index: 1981=100



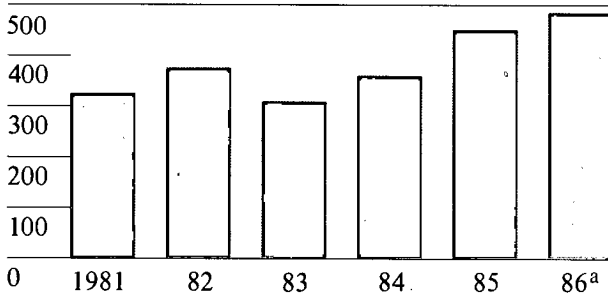
Inflation

Percent



Coffee Export Earnings

Million US \$



^a Estimated.

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[Redacted]

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Special Analysis

GUATEMALA:

Coping With Economic Problems

[Redacted]

Despite an improved financial situation and progress in restraining inflation, the fundamental problems of Guatemala's economy remain unsolved. The prospects for growth this year are limited, and uncertainties about exports, budget problems, and private investment will probably lead to a further decline in living standards that will undercut President Cerezo's popularity.

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[Redacted]

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The government has been able to reduce its fiscal deficit and stabilize and strengthen the national currency, ~~according to the US Embassy.~~ Since July, the rate of inflation has fallen considerably, although inflation averaged 35 percent for the year—nearly double the rate in 1985. The economy failed to grow last year, however, and per capita income has fallen 20 percent since 1981.

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Successful negotiations with private banks cut Guatemala's debt service by more than one-third last year. Cerezo failed to secure an accord with the IMF, however, because of disagreement over the timing of tax reform and the establishment of a new, unified exchange rate, ~~according to US Embassy reporting.~~ The scheduled debt service of \$500 million this year will swallow 20 percent of the government's budget and strain the economy further.

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Political Repercussions

These policies have provoked neither strong criticism nor public unrest, largely because Cerezo has enjoyed a honeymoon as Guatemala's first civilian President in nearly 20 years. The return to democracy helped him win promises of more than \$300 million in development assistance and trade credits during a five-nation European tour in October, ~~according to US Embassy reporting.~~

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By emphasizing consensus and compromise, Cerezo has partially allayed concerns that he would embark on a more radical course.

[Redacted]

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Businessmen also believe that higher taxes on exports last year and increased scrutiny of foreign trade transactions portend greater government interference in the economy, ~~according to Embassy reporting.~~

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[Redacted]

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Cerezo has yet to face substantial opposition from an increasingly active labor sector. The government's failure to ensure that both public- and private-sector workers will get salary increases early this year could lead, however, to labor unrest. [Redacted]

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Outlook

Trade and budget problems, together with declining investor confidence in the private sector, will probably limit economic growth this year to 1 percent; and foreign exchange pressures that had eased in 1986 are likely to start rising again. Embassy reporting suggests that a projected fall in coffee receipts, which account for one-half of the country's export earnings, will intensify balance-of-payments problems. Declining tax revenues, which will probably result this year from lower export earnings and the phasing out of certain taxes, will leave the government's budget seriously underfunded. Moreover, foreign exchange shortages are likely to reduce imports and make debt servicing more difficult. [Redacted]

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A continued decline in living standards and the increased risk of popular unrest will tempt Cerezo to turn to populist policies and expanded social programs to placate the lower classes and maintain order. His failure to take tough stabilization measures, however, could lead to even more acute economic problems and weaken his standing with all segments of Guatemalan society. [Redacted]

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In the best case, stable coffee prices and continued success in debt rescheduling might allow Cerezo to enact new economic reforms or policies to stimulate business activity. Then, in the absence of severe foreign exchange shortages or budgetary shortfalls, the government might be able to maintain its progress in combating inflation. In that event, economic growth this year could be as high as 2 percent. [Redacted]

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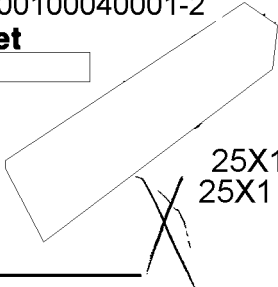
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Special Analysis

TANZANIA:

Mwinyi's First Year

President Ali Hassan Mwinyi has taken some initial steps to reform Tanzania's stricken socialist economy during his first year in office. He must yet contend with his still-influential predecessor, Julius Nyerere, who is obstructing any effort to move away from his socialist system. Mwinyi's decision to intervene in Mozambique's civil war and endemic government infighting also threaten to undermine his efforts to proceed with economic reform. [Redacted]

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Since taking office in November 1985, Mwinyi has negotiated an accord with the IMF, rescheduled international debts, and enacted a realistic five-year economic recovery plan. Nyerere, who retains the party chairmanship, has resisted these economic reforms because he sees them as undermining his cherished socialist legacy. [Redacted]

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The Mozambican Morass

In November, pressure from the Frontline States and from Nyerere apparently pushed Mwinyi to agree to send troops to Mozambique to help fight the South African-backed RENAMO rebels. The President is mindful of Nyerere's economically disastrous military intervention in Uganda to oust dictator Idi Amin in 1978-79. He also reportedly fears the costs of intervention in Mozambique will lead to abrogation of the IMF agreement, linchpin of his economic reform program. [Redacted]

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The Domestic Scene

The pragmatic Mwinyi [Redacted] wrung the concessions on economic reform from his former mentor. Mwinyi's

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efforts have provoked controversy between like-minded pragmatists and Nyerere's loyalists in the government and party, which has slowed implementation of reform measures

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As a result, there is growing disappointment among those who expected that new economic policies and fresh aid infusions would bring about a quick and dramatic rise in living standards.

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Mwinyi has not followed up his popular campaign to eliminate corruption by prosecuting implicated government officials, largely because many suspects have direct links to Nyerere. The decision has cost Mwinyi some domestic support in recent months. He is compensating by taking up several less volatile issues, including wildlife poaching, according to the US Embassy.

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Outlook

If Tanzanian troops become bogged down in a long and inconclusive struggle in Mozambique, the costs, coupled with Nyerere's obstructionism on economic affairs, may jeopardize Dar es Salaam's ability to meet IMF standards for review of the standby agreement early this year. And when the decision to send troops to Mozambique becomes widely known, it is likely to be unpopular with most Tanzanians who believe deep-seated economic problems must be solved first.

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Nyerere almost certainly will continue to slow the dissolution of socialist structures, even if he makes good on his promise to resign the party chairmanship this year. In any case, Mwinyi probably will not regain the political momentum he enjoyed last summer at the height of his anticorruption drive.

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6 January 1987

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