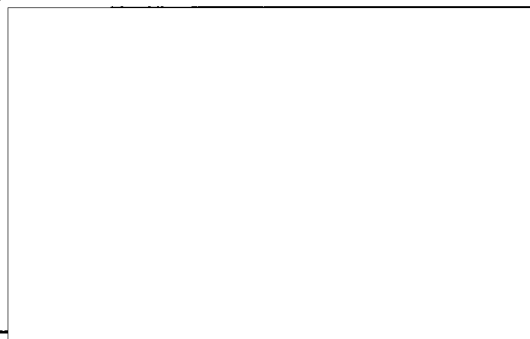


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**Director of
Central
Intelligence**

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National Intelligence Daily

**Saturday
7 November 1987**



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Late Item

TUNISIA:

President Bourguiba Ousted

Prime Minister Ben Ali deposed President Bourguiba early this morning but is likely to continue the pro-Western diplomatic course and the hard line against Islamic fundamentalists that characterized his predecessor's rule. [Redacted]

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In a nationwide broadcast early today, Prime Minister Zine el Abidine Ben Ali announced he had removed Bourguiba from office for health reasons. Ben Ali said that he undertook that step in accordance with the constitution's provisions for presidential disability and declared that he is assuming Bourguiba's office in accordance with that document's provisions on presidential succession. Western wire services report Tunis has remained calm during the transition of power. [Redacted]

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Comment: Bourguiba had grown more erratic and autocratic in recent years, and his increasing insecurity had led him in less than two years to remove two prime ministers. Ben Ali, however, had already established a reputation as a tough Army general and police official, and he had retained his positions as Interior Minister and senior security official when Bourguiba appointed him as prime minister five weeks ago. That strong power base helped him turn the tables on Bourguiba. [Redacted]

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Ben Ali reportedly favors strong ties with the US. He also has been a vigorous opponent of Islamic fundamentalism and almost certainly will take a hard line against that challenge to Tunisia's pro-Western political establishment. [Redacted]

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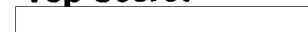
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PERSIAN GULF: Situation Report


Iranian Posturing

Iranian Prime Minister Musavi-Khamenei stated yesterday that Iran had declared a "readiness week," which began Thursday, to mobilize its forces to confront the US. Musavi also reaffirmed that Iran remains willing to discuss UN Security Council Resolution 598 calling for a cease-fire in the Iran-Iraq war. Musavi added, however, that Tehran does not "entertain any hope of resolving the war issue" through the UN. 

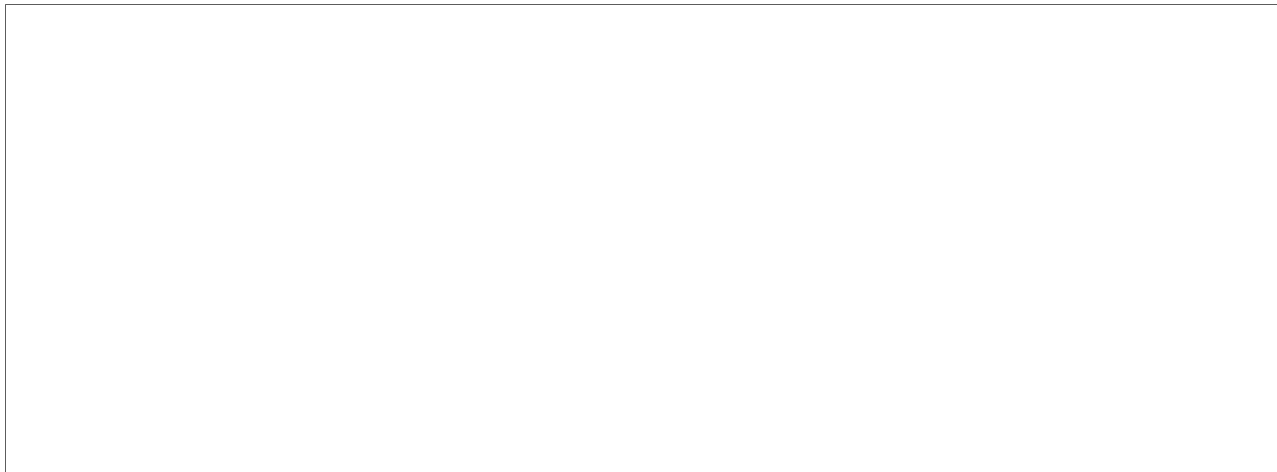
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Comment: Tehran is exploiting its confrontation with the US in the Persian Gulf to help recruit soldiers for its ground war against Iraq. The Iranians continue to make preparations for a large-scale offensive sometime this winter. 

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Iran is unlikely to reject the UN cease-fire resolution as long as this strategem appears to be impeding US efforts to get the Security Council to invoke sanctions against Iran. Tehran insists that a cease-fire can commence only after Iraq has been labeled the aggressor and a tribunal to decide on the punishment for Iraqi President Saddam Husayn has been created. 

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JAPAN:

Takeshita's Cabinet

Prime Minister Takeshita yesterday named a Cabinet that reflects a careful balance among Liberal Democratic Party factions and includes potential rivals in key posts, ensuring they will share responsibility for his administration's policies. [Redacted]

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Takeshita announced the appointments after his election by a vote of the full Diet. The new lineup includes five members from his own faction, four each from the Nakasone, Abe, and Miyazawa groups, two from the smaller Komoto faction, and one unaffiliated LDP Dietman. Earlier in the week, Takeshita had filled the three top party positions with a similarly balanced team. [Redacted]

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The Prime Minister said that, with the exception of creating a new Diet committee to investigate skyrocketing land prices, he will continue the programs and policies of his predecessor, [Redacted]

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[Redacted] The US Embassy reports those programs range from tax reform to easing trade friction. [Redacted]

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Comment: The balanced Cabinet and Takeshita's skill at building consensus should encourage cooperation within the LDP and help the Prime Minister to conduct government business. Takeshita's public statements upon assuming office suggest no immediate departures from Tokyo's current domestic and foreign policies. [Redacted]

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The retention of Finance Minister Miyazawa and International Trade and Industry Minister Tamura leaves the new Cabinet in a good position to respond to developments in financial markets and on trade policy issues. The appointment of Sosuke Uno, a senior member of former Prime Minister Nakasone's faction, as Foreign Minister suggests Takeshita intends to draw on Nakasone's expertise on international affairs, [Redacted]

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[Redacted]

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While Takeshita has divided the spoils among the factions, he has also solidified his position. Naming his trusted lieutenant Keizo Obuchi as chief of staff allows him to keep a close watch on all Cabinet ministers. Takeshita is also likely to appoint his followers to key vice ministerial and Diet committee posts and eventually will put his own mark on policy directions and priorities. [Redacted]

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PHILIPPINES: Threats to Americans Increasing

The risk to Americans from the Communists as well as from other groups is growing in a Philippine environment that is turning increasingly violent. [Redacted]

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The Communist-affiliated National Democratic Front issued a statement yesterday warning that the US would pay a high price in lives and property if it continued to meddle in Philippine internal affairs. The statement also blamed the US for the government's recent crackdown on leftist organizations. Although US Embassy officials do not know whether the statement is genuine, they say Manila newspapers received it from regular Communist couriers.

[Redacted]

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Despite highly publicized police sweeps in Manila and around Clark Air Base, Philippine authorities have no leads in the killings of three Americans and a Filipino last week. Nor have the sweeps halted assassinations in Manila, which most recently included the brother of a leftist labor leader. [Redacted]

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Since the murders, two US Embassy officers have received telephone death threats, and one has noted surveillance of his residence. According to the Embassy, several US businesses have also been threatened. [Redacted]

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Comment: The Communist threat is probably intended to warn the US about supporting the Aquino government and to lay out a public justification for assassinating Americans. Some of the other threats may be attempts by criminals, political troublemakers, or rightist factions to take advantage of the tense atmosphere. [Redacted]

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Regardless of who is responsible for the murders and the subsequent spate of threats, however, press allegations of US ties to military coup plotters and to the rightwing opposition appear to have heightened the impression that US officials are directing Philippine politics. As a result, Americans are no longer exempt from political violence in the Philippines. [Redacted]

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ITALY:

Government Under Pressure

Prime Minister Gorla's shaky three-month-old coalition is struggling with growing political infighting between the Socialists and the Christian Democrats that is threatening the government's survival. [Redacted]

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Gorla will try next week to overcome objections from within the coalition and from the trade unions to a package of tax and spending changes aimed at curbing the country's enormous public-sector deficit. This follows Socialist leader Craxi's rejection last week of the government's original budget proposals on the grounds that they were insufficiently restrictive. [Redacted]

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The government must also iron out internal differences on legislation to control disruptive wildcat strike activity in the public sector. Last week, the Socialists embarrassed Gorla with a last-minute rejection of his proposal for regulating strikes. [Redacted]

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Meanwhile, Socialist-sponsored proposals designed to limit nuclear power plants and to strip judges of civil immunity appear headed for victory in national referendums tomorrow, according to press accounts. Although the Christian Democrats have reversed their earlier opposition to these proposals, they continue to favor nuclear power and judicial immunity and have publicly implied they will resist drastic changes. [Redacted]

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Comment: The Gorla government has been on thin ice since its inception. Both Craxi and Christian Democrat leader De Mita view it as only a temporary solution to the conflict over who should lead the coalition. Each undoubtedly recognizes, however, that he would have little chance to secure the prime-ministership so soon after their bitter disputes earlier this year, and both are likely to pull back from the brink of confrontation, at least until spring. At the same time, Craxi's politically motivated maneuverings—evidently designed to upstage the increasingly popular Gorla—and the emergence of difficult, controversial issues are increasing the chances of a political miscalculation that could produce another government crisis. [Redacted]

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USSR:

Moscow Plenum To Decide About Yel'tsin

The political fate of Moscow party leader Boris Yel'tsin may be announced at a meeting of the city party organization reportedly scheduled for Monday and may provide further insight into the extent of limits on General Secretary Gorbachev's reform program. [Redacted]

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Yel'tsin has been reprimanded publicly by two Politburo members since he criticized Secretary Ligachev and other conservatives at the Central Committee plenum on 21 October for putting the brakes on reform. Secretary Lukyanov said Yel'tsin's speech at the plenum "contained a number of assessments with which members of the Central Committee did not agree." Secretary Yakovlev, in response to a question about Yel'tsin, said, "We have our internal party affairs" and "if someone breaks the rules, he must leave." [Redacted]

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Gorbachev indirectly chastised Yel'tsin in his speech on Monday by criticizing not only those who drag their feet on reform but also those "who express dissatisfaction with the slow—in their view—pace of change." Gorbachev is unhappy about Yel'tsin's behavior but does not want him removed, according to the US Embassy in Moscow.

[Redacted]

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Comment: It appears entirely possible that Yel'tsin will be removed from his Moscow job and later dropped from his position as candidate Politburo member. He evidently violated Politburo discipline by carrying a leadership dispute over the course of reform into the arena of the Central Committee. Under this circumstance, it is difficult even for those who have been his allies—including Yakovlev and Gorbachev—to defend him, and Gorbachev may not want to use his political capital to fight this particular battle. [Redacted]

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Yel'tsin might be able to save his job, however, by bowing to criticism and engaging in self-criticism when the Moscow party meets. His survival would signal Gorbachev's continuing strength, but his fall from grace would deprive reformers of a vigorous advocate in the leadership. [Redacted]

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**WESTERN
EUROPE-US:**

Space Agency Council Meeting

Next week's meeting of the European Space Council is not likely to endorse previously planned increases in spending on space, and it may decide to reduce Europe's level of participation with the US in the joint space station project. [Redacted]

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The Director General of the European Space Agency Raimar Luest has said he will ask the Council to increase the Agency's annual budget from \$1.7 billion to \$3 billion by 1993. Most of the immediate increase would cover projected \$2 billion cost overruns on the French-led Hermes spaceplane and the ESA Columbus module for the US-led space station, [Redacted] Most of ESA's 13 member governments have been asked to double or even triple contributions. French leaders and Italian and Swiss space officials have voiced their commitment to increase spending, but several members—including West Germany, the UK, and Belgium—have signaled their intent to cut funding for some projects. [Redacted]

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The Council will reportedly consider ways to break the impasse with the US on issues concerning the management and use of the proposed space station. Well-placed observers appear pessimistic about prospects for agreement. The West German space minister reportedly said after October's midmonth negotiating round that the parties are farther apart than ever, and last week's round left ESA's members with no clear-cut strategy on the space station. [Redacted]

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Comment: Council members are unlikely to offer major funding increases, leaving some ESA projects vulnerable to significant cutbacks. The Council is likely—with West German prodding—to delay a decision on Hermes and to scale down participation in the space station, perhaps by redefining or delaying one or more components of the ESA package. [Redacted]

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Scaled-down participation because of budgetary constraints may induce the Council to soften its demands that the US agree to arbitration of disputes and accept an autonomous European module. The Council may also back away from its insistence that the US drop language permitting national security use of the station. But states that favor a more autonomous European space program—such as the European neutrals—may still scuttle any agreement that does not conform to their concept of a "genuine partnership." [Redacted]

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ARGENTINA: Debt Moratorium Averted

Buenos Aires has negotiated an agreement with the IMF that averts radical debt action for now, but continuing financial and domestic political pressures make further confrontations likely. The move will allow the release of a \$210 million loan to Buenos Aires despite missed performance targets, according to a US Government official. It will also trigger a \$290 million bridge loan and a \$500 million loan from international banks, bringing Argentina's disposable reserves up to about \$1.5 billion by the end of this month, enough to cover more than three months of imports.

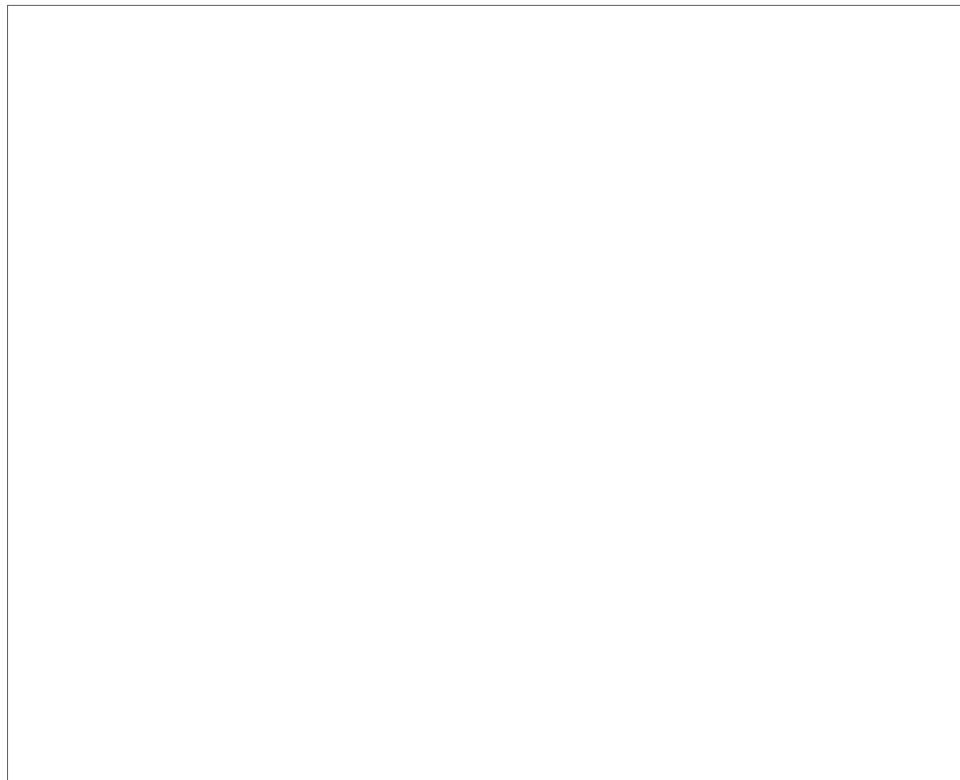


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Comment: The agreement staves off a liquidity crisis for the rest of the year, but Argentina's relations with the Fund—which President Alfonsin views as increasingly unsympathetic—will remain tense. Moreover, Buenos Aires's need to raise at least another \$1.6 billion next year to cover its projected \$4 billion current account deficit may readily provoke conflict with other members of the international financial community. Alfonsin has come under increasing domestic pressure to take a tougher stand on debt ever since the Peronist victory in recent off year elections. He is now less likely to accept international creditor demands for unpopular economic reforms. Moreover, the role being played by Minister of Foreign Affairs Caputo on debt issues also signifies a shift to a more confrontational approach toward creditors.



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AFGHANISTAN: Masood Overruns Regime Garrison

Insurgent forces under Ahmad Shah Masood overran the Afghan Government garrison at Koran va Monjan in southern Badakhshan Province on 29 October, according to US Embassy sources.

Masood's force—approximately 500 guerrillas from his Jamiat-i-Islami and Abdul Rasul Sayyaf's Islamic Union for the Liberation of Afghanistan—killed 30 government troops, captured some 250 more, and seized a large stock of arms and equipment, including howitzers, mortars, anti-aircraft guns, assault rifles, and radios.

[Redacted] US Embassy sources indicate Masood drew units from Badkhan, Takhar, and Badakhshan Provinces.

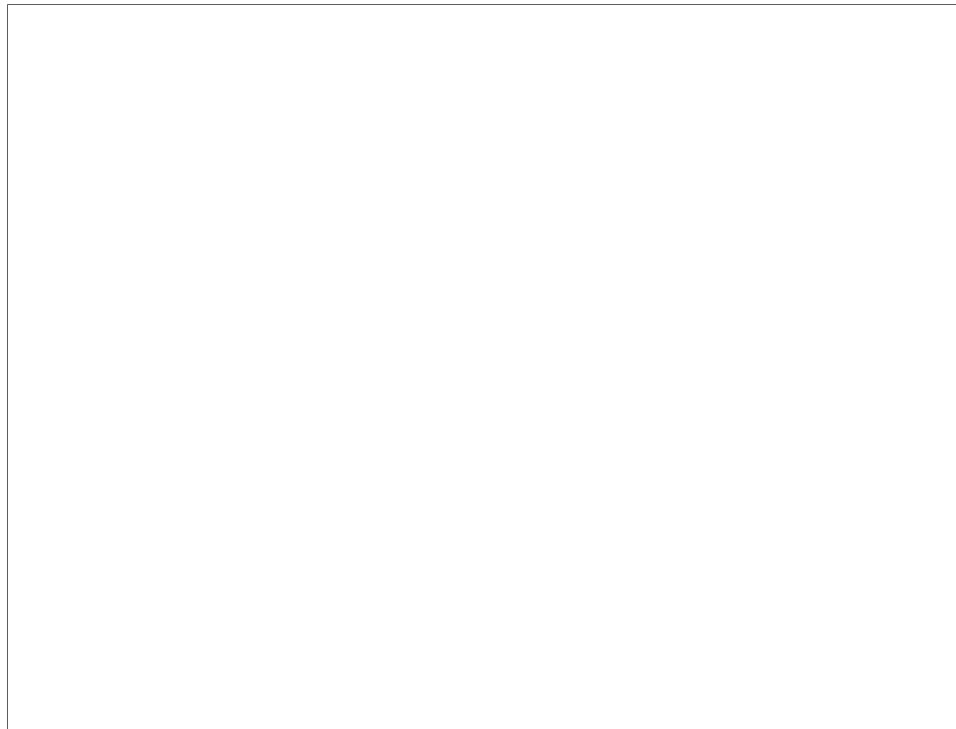
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Comment: Koran va Monjan has long been one of Masood's objectives because it sits astride a major insurgent supply route from Chitral in Pakistan to the Panjsher Valley. The capture of Koran va Monjan and the recent withdrawal of the understrength Afghan infantry regiment at Peshghowr will strengthen Masood's control of the Panjsher Valley. The windfall of arms, equipment, and ammunition will help Masood equip his rapidly expanding organization.

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In Brief

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Europe

— **Yugoslav** Navy received six **Soviet** Helix A helicopters, [Redacted] state-of-art helicopter augments 22 older Soviet-made models for antisubmarine warfare . . . with purchase of MIG-29s, will reduce trade surplus with USSR. [Redacted]

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Anticipated Summit Results

Iran-Iraq War

- Criticism of Iranian attacks on Gulf Arab states' interests and call for an end to the conflict; no explicit call for sanctions against Iran.
- Encouragement of greater international diplomatic effort to end war.

Arab-Israeli Conflict

- Renewed endorsement of fundamental Arab League positions on terms for an Arab-Israeli settlement.
- Reaffirmation of the PLO as sole representative of Palestinian people.
- Condemnation of continued Israeli occupation of Arab lands and unwillingness to participate in international peace conference.
- Call for greater US and Soviet activity in the search for peace.

Renewal of Baghdad Pact Aid

- Deferral of decision on formal renewal of Baghdad Pact aid to Syria, Jordan, and the PLO until regular summit in Riyadh, probably next year.
- General pledge by Saudi Arabia, Kuwait, and the UAE that aid flows will continue at or near current levels.

Egypt's Reintegration

- Continued Egyptian suspension from League.
- Allowance for individual states to decide on renewal of bilateral ties to Cairo.
- Appreciation for Egypt's contribution to collective Arab security.

Lebanon

- Support for Syrian efforts to maintain Lebanese stability.
- Condemnation of Israeli presence in southern Lebanon.
- Call for a halt to the camps war and for the safety of Palestinian refugees.

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Special Analysis**ARAB STATES: Prospects for Amman Summit**

Saudi King Fahd's decision not to attend tomorrow's Arab League summit in Amman has dampened moderate Arab hopes of forging a united position critical of Iran and will be interpreted as Saudi unwillingness to push forcefully on key issues. The gathering will do little to narrow differences on the Iran-Iraq war, Lebanon, and the Arab-Israeli conflict, but Arab leaders probably will be able to reach at least some common ground on major issues. Syria is probably prepared to endorse some criticism of Iran in exchange for pledges of financial assistance from the Gulf Arabs, support for Syrian policy on Lebanon, and Egypt's continued suspension from the League. The meeting will probably reinforce King Hussein's role as leading spokesman for the moderates and mediator among the Arabs, but the gathering will also allow Syria to thwart strong united Arab action against Iran, permit PLO leader Arafat to return to Amman,

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Hussein and most of his fellow Arab leaders have limited objectives for the summit and probably expect no major breakthroughs. In addition to Fahd, Libya's Qadhafi and possibly Morocco's King Hassan plan to send high-level representatives. The meeting will last only one or two days. The large ceremonial gatherings will be less important than the side meetings where most candid discussions among leaders will occur.

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The Moderate Agenda . . .

Despite the setback because of Fahd's absence, moderate Arabs will work hard to prevent a collapse of the meeting, which would give Iran a propaganda windfall. Iraq, Jordan, and Gulf Arab states will focus on forging a consensus critical of Iranian unwillingness to respond positively to the UN Security Council's call for a cease-fire. They believe full Arab League support would greatly increase chances for UN sanctions against Iran.

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The moderates also will try to enlist Syria in broad condemnation of Iranian attacks against Kuwait and neutral shipping in the Persian Gulf. Iraq and Kuwait will push—probably unsuccessfully—for full League endorsement of the Western naval presence in the Gulf, and the possibility of a UN peacekeeping role may be raised.

The moderates realize they will have to pay a price for even minimal Syrian cooperation on the Iran-Iraq war. Saudi Arabia and some other Gulf Arabs probably are prepared to make general pledges to continue providing economic aid to Syria—and to Jordan and the

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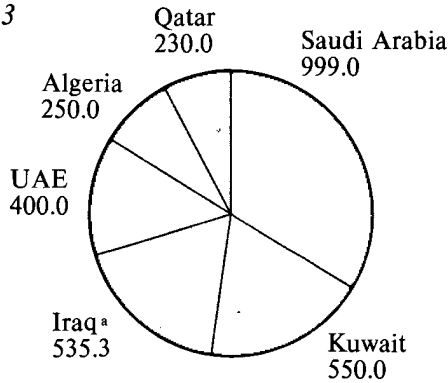
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Total Baghdad Pact Payments by Donors

Million US \$

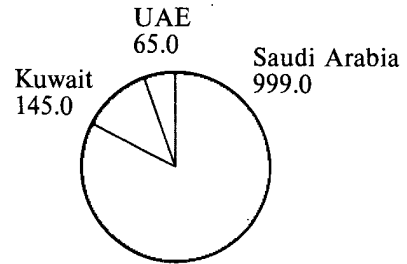
1980

Total: 2,964.3



1986

Total: 1,209.0



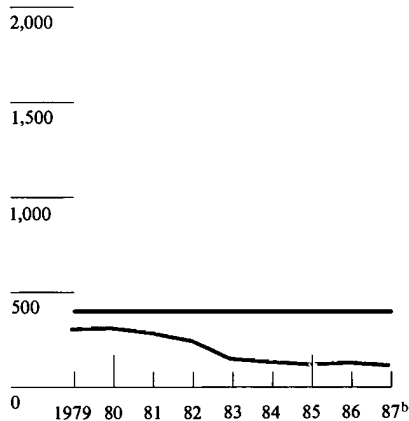
^a Includes additional contribution to cover Libya's nonpayment in 1979.

The Baghdad Pact aid commitments, agreed to during an Arab League summit in November 1978, were intended to strengthen—economically and militarily—the confrontation states still officially at war with Israel and to discourage other Arab states from joining Egypt in recognizing Israel. Annual payments of \$3.5 billion in three equal installments were to continue for 10 years.

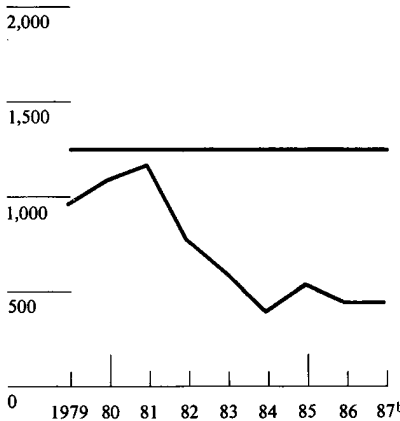
Baghdad Aid: Commitments and Payments by Recipient, 1979-86

Million US \$

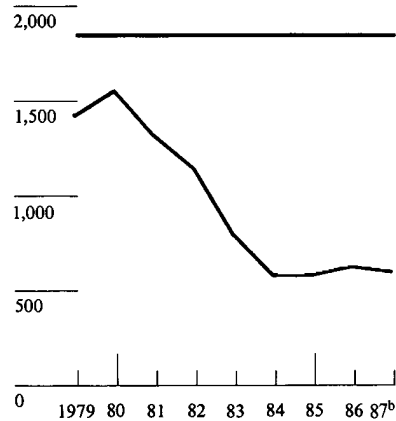
PLO



Jordan



Syria



^b Estimated / projected.

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PLO—after the Baghdad Pact subventions expire next year, but they probably will resist a formal renewal of the allotments. Saudi Arabia, Kuwait, and the UAE will try to control the timing and size of aid payments, hoping to link them more directly to recipient—particularly Syrian—policies on regional issues. [redacted]

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Jordan and the Gulf Arabs probably realize that Syrian and radical Arab opposition will block Egypt's readmission to the League. Hussein probably sees very little chance of winning endorsement of his formula for an international conference on the Arab-Israeli conflict, and he will concentrate on preventing any action that might further tie his hands on the peace process. The moderates will probably join in criticizing the US decision to close the PLO Information Office in Washington and US Congressional efforts to close the office of the PLO's UN Mission. [redacted]

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. . . and the Syrian Bridle

Syria considers its participation in the summit essential to secure needed financial aid from Gulf Arab states, and President Assad probably is prepared to go along with some criticism of Iran in exchange for promises of financial assistance. But Fahd's absence will make Assad wary of any Saudi commitment, and the Syrian leader will probably push to have the issue of Baghdad Pact payments put on the agenda for the long-delayed regular Arab League summit scheduled for Riyadh. It is highly unlikely Assad will take any step that would signal a shift in Syrian policy on the Iran-Iraq war. [redacted]

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[redacted]

In exchange for minimum Syrian cooperation on the Gulf war, Assad probably will win endorsement for his policy on Lebanon. Assad might also agree to a resolution that would give individual Arab states the opportunity to renew bilateral ties to Egypt. Assad may see limited Egyptian rehabilitation as helping deter Iranian belligerence against Gulf Arab states, reducing Arab pressure on Syria and countering growing Iraqi influence among moderate Arab states. [redacted]

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Possible Surprises

As host of the summit and a major proponent of Arab unity, Hussein probably will strive to prevent a public display of the deep antipathy between several leaders—for example, between Assad and Arafat and between Assad and Iraqi President Saddam Husayn. The right of individual Arab leaders to raise any issue of their choosing leaves open the possibility the meeting might become contentious and widen differences. A major flareup in the Gulf or in the camps war in Lebanon, for example, would heighten emotions and animosity and might even lead to collapse of the conclave. [redacted]

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Special Analysis

PANAMA-US:

Noriega's Options

The Panamanian regime is prepared to endure further deteriorating relations with the US—including a complete aid cutoff—rather than make significant concessions to the opposition. Many of the alternatives to US aid that Panama is considering probably are intended to be costly to US foreign policy objectives. [Redacted]

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The regime continues to reject US calls for the military to withdraw from politics despite concern about US legislation that could permanently cut off economic and military aid. The General Staff fears that Panama's military relationship with the US has suffered irreparable damage from the political crisis. [Redacted]

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[Redacted] The government, believing Washington is supporting the opposition, is continuing its anti-US criticism. [Redacted]

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Regime leaders may be considering attempts to strengthen the financial position of the banking system by exploiting the military's longstanding tolerance of drug money laundering in Panama. [Redacted]

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[Redacted]

Noriega is also threatening to turn to Moscow for military aid and to grant it increased commercial access to Panama—a longstanding Soviet goal. According to the US defense attache, Panama's limited, but positive, experience with East European equipment and its need for flexible financing are leading the Defense Forces to consider requesting Soviet materiel should US military aid cease. The US Embassy reports Noriega has softened his opposition to granting Aeroflot landing rights, a move that potentially would offer Moscow a toehold in Panama and provide financial benefits to the regime. [Redacted]

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Panamanian diplomatic maneuvering is sure to increase if legislation halting US aid appears imminent. The first move probably would be to place greater limits on the activities of US military and diplomatic officials, particularly their contacts with the opposition. In a more serious case, the regime might expel midlevel US personnel on charges of participation in opposition activities. The regime might expel the Ambassador or break relations if there is a total US aid cutoff and anti-Noriega opposition in Washington intensifies. [Redacted]

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Special Analysis

**WESTERN
EUROPE-US:**

Concerns About Falling Dollar

West European leaders are worried more about the damage a falling US dollar can do to their economies than about the effect of last month's stock market plunge and have begun to lower interest rates. They are likely to link other reactive measures to moves by Washington to trim its deficit and to cooperative efforts by the Group of Seven to prevent the dollar from falling further.

[Redacted]

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[Redacted] the stock market decline does not by itself pose a serious threat to West European economies. The effect on West European economic growth will probably be less than in the US, where stocks account for a larger share of household wealth. [Redacted]

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West European leaders now fear a sharply weaker dollar will dampen their exports, and they are increasing cooperation among themselves to protect their economies. Bonn and London have lowered key interest rates, while Paris has raised its rates to stabilize the European Monetary System. [Redacted]

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Since the market dropped, the dollar has fallen 8 percent against the deutsche mark. [Redacted] a decline of the dollar by as much as 20 percent would reduce West European growth next year from 2.3 percent to about 1.5 percent. Such a dollar decline might slow West German growth even more sharply, forcing Bonn to reexamine its policies. If negotiations in the US to reduce the budget deficit prove unsatisfactory to the market, rising US interest rates might accompany the falling dollar and aggravate the situation for Western Europe. [Redacted]

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West European governments would accept a further decline of the dollar to help solve global trade imbalances, but they undoubtedly prefer a gradual, limited fall to minimize harm to their exports. If the dollar continues to slide, the West German Bundesbank may be willing to offer a small cut in its discount rate in the context of an agreement among the Group of Seven countries to stabilize the dollar. West European leaders would want such an agreement to include a commitment by Washington to cut its deficit beyond the currently mandated \$23 billion. They also would want a pledge of coordinated intervention to promote a gradual slide to agreed levels rather than risk a free-fall of the dollar. [Redacted]

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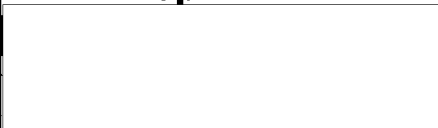
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