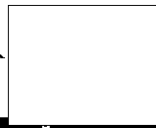
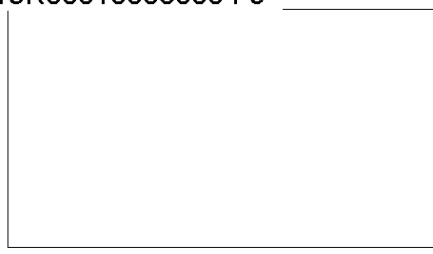


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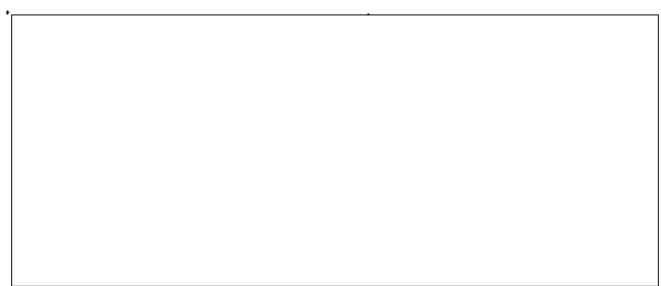


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National Intelligence Daily

**Monday
11 January 1988**



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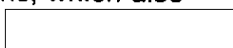


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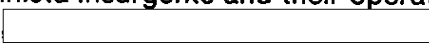

Verification Commission Visits Region

Initial reports suggest the democracies were put as much on the defensive as Nicaragua was during the International Verification Commission's visits to the region last week. 

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The 15-member Commission visited each country in the region to gather information for its report to the Central American summit Friday. The group met with the governments, individual opposition parties, and the National Reconciliation Commissions, which also have verification functions under the peace accord. 

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Mexico's member of the Verification Commission, in a move to help Nicaragua, accused Costa Rica of permitting reconnaissance and resupply flights by the anti-Sandinista insurgents and their operation of clandestine radio transmitters . Although rejecting the charges, San Jose is worried about its image and has opened an investigation. 



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The Honduran announcement on Friday that it would allow the inspection of any site on its territory without prior notification or preconditions startled the Verification Commission 

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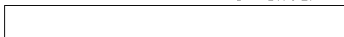


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 President Azcona told US officials the announcement was a public relations gesture to strengthen his position at the summit and that many details remain to be worked out. He said he might eventually permit some visits but would not allow inspections of the insurgents' resupply facility on Swan Island. 

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US Embassy reports indicate the Sandinistas came under sharp questioning by the UN member during the Verification Commission's visit to Managua, but Mexico and Peru defended Nicaragua's record. Managua is attempting to regain the offensive by publicizing the need for border-monitoring forces and by convoking the legislature today to ratify the proposal for a regional parliament. 

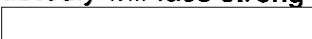
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Comment: The democracies gave priority to justifying their compliance with the peace plan to the Verification Commission rather than to organizing their four members on it to defend one another and accuse Nicaragua. The democracies' inaction   suggest the Commission's final report will not single out Managua for noncompliance. 

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The about-face by Honduras on inspections vastly improves the chances for preliminary approval of some border-monitoring scheme at the summit Friday because the other democracies are unlikely to press for delaying verification of the end of aid to externally based insurgents. Despite Azcona's intention to keep Swan Island off limits, Tegucigalpa undoubtedly will face strong pressure to allow inspections there. 

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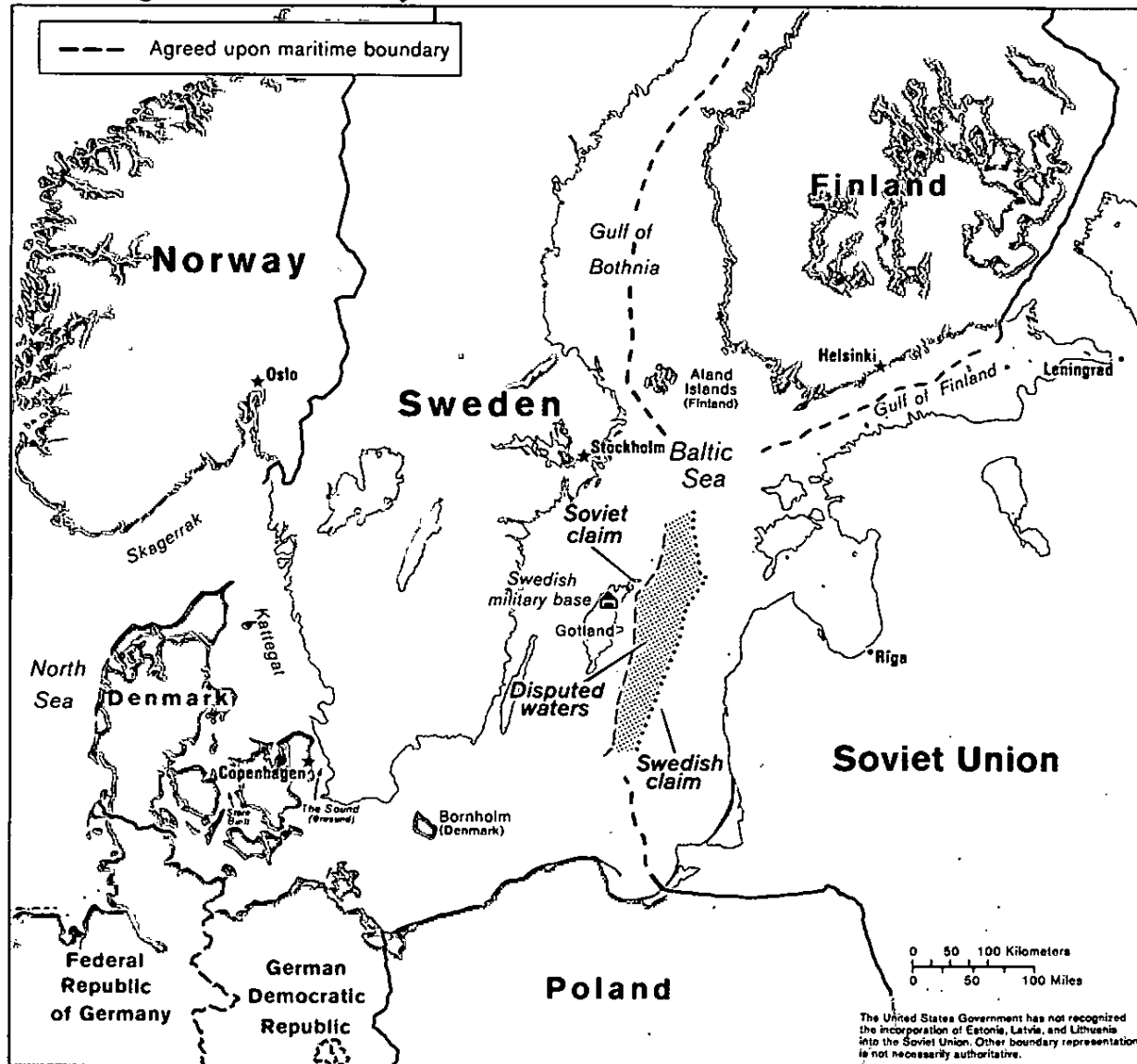


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Conflicting Maritime Boundary Claims in the Baltic Sea



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USSR-SWEDEN: Soviet Premier's Visit

Soviet Premier Ryzhkov arrives in Sweden today to discuss bilateral issues amid renewed controversy over violations of Swedish territorial waters by what are believed to be Soviet submarines. [redacted]

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A longstanding Baltic boundary dispute between Sweden and the USSR is on Ryzhkov's agenda in Stockholm. Negotiations that have gone on since 1969 have intensified in recent months, and, although Swedish negotiators returned from Moscow Friday without a resolution of the issue, both sides will attempt to reach an agreement in principle during Ryzhkov's visit. [redacted]

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Meanwhile, in an interview Ryzhkov gave to a Swedish newspaper, he strongly denied any intrusion of Swedish territorial waters by Soviet subs, reasserting that the grounding of a Soviet submarine in Swedish waters in 1981 was caused by navigational error. The submarine intrusion issue has become topical in Sweden again with the release of an official military report on the subject last month. [redacted]

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Comment: Despite domestic pressure on the Swedish Government to take a hard line on the alleged submarine intrusions, both sides probably will seek to demonstrate that a normalization of relations is continuing by displaying progress on the border dispute. Ryzhkov probably will also use the visit to reinforce the Nordic agenda that General Secretary Gorbachev outlined in his speech at Murmansk in October, hoping to focus Swedish attention on the potential for expanded cooperation on economic, security, and environmental issues. [redacted]

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Lingering domestic opposition in Sweden to giving the USSR even part of the disputed Baltic zones weighs against the two signing anything more than an agreement in principle. A full accord along the lines recently discussed might, for example, restrict Swedish fishing rights in the richer southern waters and might include long-term Soviet access to Sweden's share of the zone. Any such concession by Stockholm would set an unwelcome precedent for settling the Norwegian-Soviet border dispute in the Barents Sea, and Norwegian officials have become pessimistic in recent months about resolving Oslo's dispute with Moscow. [redacted]

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HAITI:

Duvalierist Candidates Disqualified Again

The disqualification of all but one Duvalierist presidential candidate increases the likelihood of rightist violence in the run up to next Sunday's election and may encourage President Namphy to retain power indefinitely. [Redacted]

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The new electoral commission, appointed by Namphy following the aborted election in late November, has barred the candidacies of eight of the nine Duvalierists who had reentered the race. The commission is allowing five moderates, five fringe candidates, and Jean Theogene—a relatively minor Duvalierist figure—to run. [Redacted]

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[Redacted]

[Redacted] Namphy is considering remaining in office indefinitely because of the confused political situation. [Redacted]

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Meanwhile, [Redacted] at least three attacks on soldiers have occurred in the past several days. [Redacted]

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[Redacted] to implement increased security measures throughout the country, beginning today. [Redacted]

Comment: The tactical alliance between the ruling council and the right that developed to derail the November election appears to have ended because the goals of the two camps have diverged. The military leadership wants continued political preeminence while the Duvalierists desire power for themselves. The disqualification of prominent Duvalierists from the race may well prompt another attempt by the right to sabotage the election with violence. [Redacted]

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Namphy may be hoping the right succeeds in sabotaging the election because it would facilitate his attempt to stay in power. Other military leaders, however, almost certainly view the installation of a malleable civilian president as the best possible outcome for the Army and the only way to secure the eventual restoration of US economic and military aid. Should Namphy misstep politically, other senior officers might move to oust him. [Redacted]

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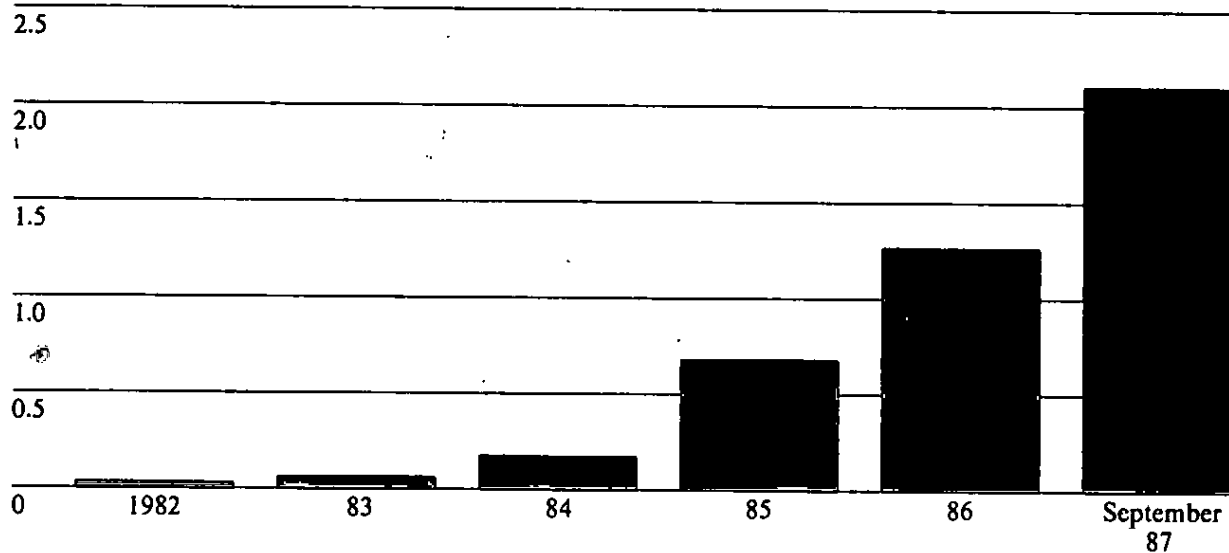
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Overdue Financial Obligations of Developing Countries to the IMF

Billion US \$



315508 1-88

LDCs Chronically Overdue to the IMF *(million US \$)*

	Total Overdue (as of 30 September)	Total Overdue and Future Repayments ^a
Cambodia	42	62
Guyana	93	152
Liberia	236	420
Peru	466	1,087
Sierra Leone ^b	27	143
Somalia ^b	12	211
Sudan	702	1,183
Vietnam	112	216
Zambia	402	1,208

^a Projected on the basis of IMF credit as of 30 September.

^b Still have access to IMF funds.

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INTERNATIONAL: IMF Debt Arrears Rising

Third World arrears to the International Monetary Fund ballooned to \$2.1 billion last year, a rise of 60 percent from yearend 1986 and a problem that will add to the pressures on IMF members to increase their contributions. The bulk of overdue obligations stem from nine debtors—seven remain cut off from additional Fund resources. Particularly troublesome are Peru, Sudan, and Zambia, which together account for 75 percent of total arrears and are scheduled to repay another \$1 billion over the next two years. Despite moves by the Fund to increase its reserves, overdue obligations have jumped from less than 3 percent of reserves in the early 1980s to more than 118 percent now. [REDACTED]

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Comment: Several other Third World nations are experiencing declining reserves and anemic economies and probably will have increasing difficulties in meeting their repayments to the Fund over the next two years. The mounting arrears will continue to deplete the IMF's revolving stock of credit and inhibit its ability to increase lending to troubled debtors. Declining resources in turn will increase pressure on IMF member states to approve a quota increase this year to raise capital. To ease its serious financial condition, the Fund may consider raising the interest rate it charges debtors, a move sure to aggravate relations with Third World debtors. [REDACTED]

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WESTERN EUROPE: Integrated Command for Persian Gulf

Dutch and Belgian naval ships in the Gulf area will soon operate with the Royal Navy under a single British command. [REDACTED]

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[REDACTED] Pending London's approval, the military expects the new plan to take effect early next month. The British reportedly hope to persuade the Dutch to send a destroyer or frigate to the Gulf to assist with escort duties. The French, however, indicated at a Western European Union meeting last week they would not become involved in closer multilateral cooperation in Gulf operations, and the Italians would agree to closer cooperation if it did not require a ministerial-level endorsement. [REDACTED]

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Comment: The new command will consolidate the already close operational ties between the three navies—in November 1987 their mine-clearing forces searched for mines together in the central Gulf. London probably views the joint command as a way of preventing unilateral Belgian or Dutch decisions to withdraw their forces. Formation of a new government in Brussels may yet lead to the termination of the Belgian deployment, which the Martens government extended shortly before resigning last month. [REDACTED]

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CHINA: Controversial Enterprise Law Approved

China's Politburo on Saturday endorsed the draft of an enterprise law that will curtail involvement of party officials in factory operations and clear the way for implementation of bankruptcy regulations applicable to state factories. According to Chinese media, the law will protect enterprises from interference by upper-level economic bureaucracies and spell out the legal rights of factory directors to manage state enterprises—including appointments of key personnel. Enactment of the enterprise law has been blocked for more than a year by conservative officials who control the National People's Congress Standing Committee, the highest deliberative body in China's government. This stance has also stalled the bankruptcy regulations slated to go into effect three months after the enterprise law is passed by the NPC. [REDACTED]

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Comment: The Politburo's unusual public endorsement probably is an effort by General Secretary Zhao Ziyang to break the logjam and build the momentum for reform leading to the crucial NPC session scheduled for March. It also will signal recalcitrant officials that the time has come to move ahead with the enterprise law. Chinese media, however, report that party officials in some factories have ordered managers to swap jobs with them, indicating that efforts to relax party control over economic decision making will continue to face strong local opposition even after the law is passed. Moreover, Beijing probably will be unable to reduce bureaucratic interference in factory operations until it expands labor, capital, and raw materials markets, thereby allowing managers to procure these inputs without having to turn to their supervisory bureaus. [REDACTED]

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In Brief

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Middle East

[Redacted]

— Gulf Cooperation Council sent envoy to **Iran** yesterday to begin talks on easing tensions in the region, according to press . . . decision to start dialogue taken at GCC summit last month . . . major change in current policies unlikely. [Redacted]

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East Asia

— **South Korea** certain **North Korea** culpable for downing of KAL 858 . . . now debating tone of public disclosure . . . announcement almost certainly will not be made before next Sunday, deadline for commitments to attend Olympic games. [Redacted]

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South Asia

— In **Pakistan**, two killed and 27 injured Saturday in clashes between Pushtuns and Mohajirs who were celebrating their election victories . . . Islamabad gives Friday as deadline for "unparalleled crackdown," but low-level violence likely to continue. [Redacted]

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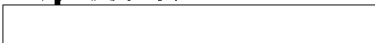
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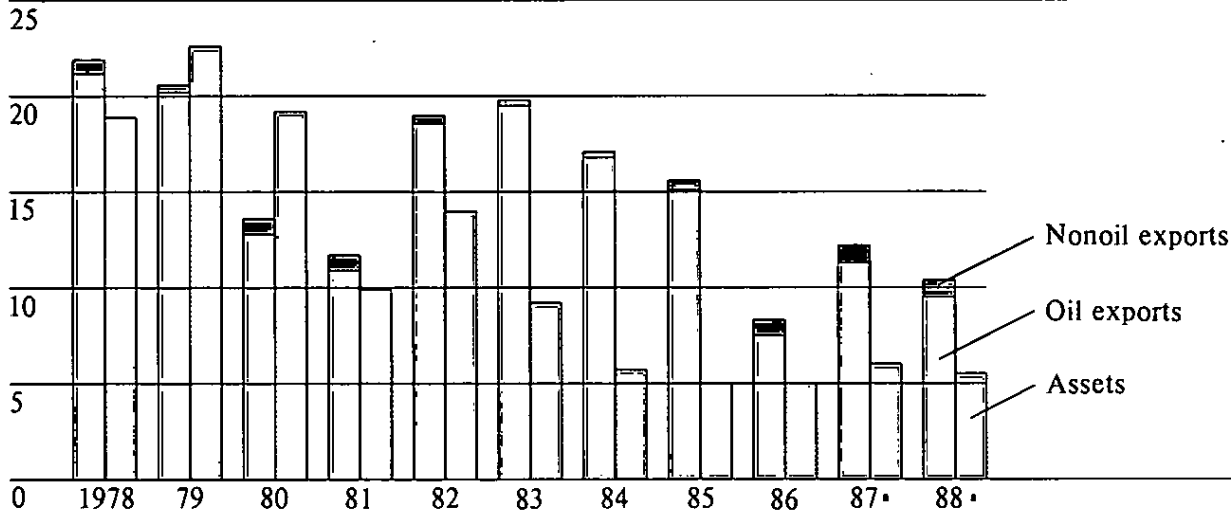
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Iran: Export Revenues and Official Assets

Billion US \$



* Estimate.



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Special Analysis**IRAN:****Economy Rings In Another Lean Year**

The Iranian economy will do little more than mark time this year after making only small gains in 1987. Although oil revenues last year rose considerably above depressed levels in 1986 and no doubt buoyed the regime's will to continue the war, they did little for the economy. The expected soft oil market and the weak dollar will cut into Iran's purchasing power this year but is unlikely to deter its war effort.

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Oil export earnings provided Tehran more than \$11 billion last year after bottoming out in 1986 at around \$7.5 billion. Higher oil prices last year—spot prices doubled between the summer of 1986 and early 1987—account for much of the increase. In addition, tensions in the Persian Gulf last summer increased Iranian oil sales by motivating buyers to make precautionary purchases against any disruption in Gulf oil supplies.

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Tehran made efforts last year to expand nonoil earnings as well, and those endeavors also helped improve export revenues. Nonoil exports—primarily carpets and pistachios—increased 12 percent to around \$1 billion.

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Despite better results for the year as a whole, Iran suffered setbacks in the fourth quarter. Export earnings slipped because of the softening oil market and the fall of the dollar, particularly against the West German mark and the yen. Oil sales are usually transacted in dollars, and about 25 percent of Iran's imports last year were from West Germany and Japan.

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Few Real Benefits

Not much of the increase in earnings reached the average Iranian. Imports of food and consumer goods grew somewhat, according to press reporting, but there are few signs of any significant improvement in the quality of life in Iran. Iranians continued to face shortages, high inflation, and high unemployment—about 35 percent.

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Tehran responded to higher oil revenues in part by reducing domestic borrowing.

Economic hardship has not posed a threat to the regime in the past, but Iran's rapidly expanding population—which rose by about 2 million last year—and the growing costs of neglecting the

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[redacted]

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civilian economy will become more serious concerns for a post-Khomeini government. [redacted]

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Iran has maintained its large resource commitment to the war with Iraq, which continues to hobble the economy. The country's economic underpinnings—including the oil industry—eroded further last year as Tehran again held development spending to the bare minimum. Low imports of raw materials, machinery, and replacement parts kept Iran's industrial output at about a third of capacity. [redacted]

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Prospects for 1988

Oil revenues and domestic economic performance will remain adequate to support the war effort this year. The cost will be the continuation of already austere domestic government spending and no easing of the tight circumstances facing most Iranians. [redacted]

The weaker oil market expected this year probably will push Iranian oil revenues down about \$1-2 billion below last year's level. Earnings nonetheless will exceed the \$7.5 billion Iran received in 1986. Tehran probably will avoid having to dig deep into its foreign exchange reserves or other liquid assets—worth about six months of civilian and military imports—unless oil prices fall sharply below \$15 a barrel and remain there for several months. [redacted]

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