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The Director of Central Intelligence  
Washington, D.C. 20505

17 August 1988

National Intelligence Council

MEMORANDUM FOR: See Distribution  
FROM: Charles E. Allen  
National Intelligence Officer for Warning  
SUBJECT: Monthly Warning Reports for July 1988

1. Summary of Key Warning Issues:

USSR

The decisions of the Soviet leadership on Armenian unrest on 19 July indicate that Moscow has decided it is time to crack down on the disturbances and to set clear limits on its willingness to redress the grievances of the USSR's myriad minority nationalities. The leadership is, however, taking a prudent middle course. Moscow has rejected demands for the transfer of Nagorno-Karabakh to Armenia and warned that it will take a firm hand in quelling local street protests and strikes. On the other hand, Moscow has criticized past neglect of the concerns of Nagorno-Karabakh's predominantly Armenian population and promised to enhance minority cultural and economic rights. The leadership noted that it will grant the region greater political autonomy.

This decision appears to be a stopgap measure. The growing unrest in the region forced Moscow to take action before internal deliberations on the subject were fully resolved. The unrest threatens Gorbachev and the momentum of his reform program; it also threatens to find resonance among several other minority nationalities who also have territorial grievances.

This review reflects consideration of inputs generated at warning meetings conducted by the National Intelligence Officers with Community representatives from all areas. As such, it represents a Community-wide review, but it is not a formally coordinated Community product.

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The Intelligence Community agrees that the ambiguous wording of the leadership's promises to give greater autonomy to national minorities disguises unresolved differences about nationalities policy. Those differences probably will sharpen as the fall Central Committee plenum on nationality issues approaches. The ultimate impact of the Nagorno-Karabakh decision will depend on how effectively Moscow moves to implement its rhetorical promises of greater autonomy and expanded rights for national minorities. There is a good chance that Gorbachev's effort to chart a middle ground course could work if the leadership in fact allows minorities significantly greater control over local political, economic, and cultural affairs.

In the opinion of the NIO for Warning, ethnic unrest in the Caucasus promises to simmer indefinitely, posing a continuing challenge to the leadership and diverting its attention from other pressing matters. In the meantime, deep dissatisfaction in the Caucasus again could turn violent with little warning. Dissident minorities in other regions, especially the Baltic states, will be watching eagerly the implications of Moscow's handling of the Armenian crisis for their own aspirations. Reactions to surprise verdicts in the ongoing trials of Azeris for murders of Armenians during riots earlier this year could be triggers. The leadership's management of the outbursts has been collective, insulating Gorbachev from personal responsibility. Gorbachev's position is not immediately threatened, but the unrest is damaging to him and could over time be used against him by conservative opponents, especially if violence again breaks out.

#### USSR/Eastern Europe

Reports of a possible withdrawal of Soviet troops from Hungary seem to be on the mark. Although the evidence is not conclusive, Community analysts believe there is an agreement in principle between Moscow and Budapest for the phased withdrawal of all Soviet forces from Hungary. Statements by Soviet and Hungarian officials seem to have ruled out a unilateral or unconditional withdrawal. From a Soviet perspective, withdrawal of the Southern Group of Forces from Hungary makes sense. It would:

- o Not greatly affect Warsaw Pact war-fighting capability.
- o Ease Moscow's economic burden and shift some of it to the Hungarians.
- o Send a powerful signal to the West and stimulate public pressure for reciprocal moves.

In addition, it would give a boost to the new, reform-minded Hungarian leadership.

#### Iraq/Iran

Over the next few weeks or months, Iraq and Iran will continue to struggle over the details and implementation of the ceasefire and U.N. Resolution 598. Iran's military and political situation deteriorated so much recently that Iranian leaders had to accept Resolution 598. Economic problems, fears of

Iraqi chemical attacks, Khomeini's failing health, and increasing anti-war opposition also pushed Iran to accept the resolution. The Community generally agrees that war-weariness in Iran will limit the ability of Tehran to use the ceasefire to rebuild its armed forces, a process that will take two or more years.

Defense Intelligence Agency analysts note that Tehran might increase efforts to export its Islamic revolution--especially to the Gulf states--to offset Iran's military loss to Iraq. Other analysts judge that Iran would be reluctant to threaten the Gulf states, who would provide most of the money for reparations. Central Intelligence Agency analysts believe that radicals are still powerful in Iran and note that the ceasefire probably was not reached by consensus. The radicals might eventually voice strong recriminations against it. Channeling fervor into fomenting Islamic revolutions abroad might allow the current leaders in Tehran to deflect the radicals' criticism. Furthermore, war-related problems and the ceasefire controversy have increased the possibility of internal instability. When a ceasefire becomes established, pressure from the radicals will be reduced temporarily and Iranian Majlis Speaker Rafsanjani will have a better than 50 percent chance of remaining in power.

With regard to Iran's attitude toward the United States, State/INR analysts believe that while Khomeini is hostile to the US, other Iranian leaders are less antagonistic and some recognize the need for US help in rebuilding Iran. Some CIA analysts, however, believe that Tehran will not lessen its hostility toward the US and that any Iranian gesture will be designed to lessen US diplomatic, economic, and military pressure on Iran. Other CIA analysts opine that US-Iranian relations eventually will improve as trade increases and the US military presence in the Gulf declines. Community analysts concur that Iran will use the cease-fire to press the United States to reduce its forces in the Persian Gulf.

### Iraq

[redacted] suggests that Iraq could have a nuclear weapon as early as 1991. Previous estimates judged that Iraq would not have such weapons before the late 1990s. The estimates suffer from uncertainties because of wide gaps in data, but the acquisition of special metals, reprocessing activity, and the addition [redacted] to the Tuwaitha nuclear research site suggest disturbing trends. Although Community analysts have no information on an Iraqi program to design nuclear weapons, the most likely source of assistance with such a program is [redacted]

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### Nicaragua

The Sandinistas are likely to continue low-level operations against the insurgents and seek to blame the Resistance for any breakdown in the ceasefire. Insurgent infighting is likely to worsen in the wake of the Santo

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Domingo meeting, threatening anew the cohesion of the Resistance movement at a time when unity is critical to maintaining the insurgents' viability. The Sandinistas' decision to declare US Embassy personnel persona non grata and crack down on dissidents was an effort to preempt the opposition's plans to foment large-scale and widespread demonstrations. The gambit worked. Opposition momentum has slowed considerably and the arrests of key leaders--who remain in detention--have disrupted planning. The regime will continue to set tight limits on dissent, but will stop short of totally dismantling the opposition in order to deflect international criticism.

Although the Sandinistas unilaterally have extended the cease-fire through the end of August, clashes are increasing. There are differences among analysts over which side has been responsible for the increase; some believe both sides are at fault, while others argue the Sandinistas have adopted a more aggressive posture and that the insurgents remain in a defensive mode.

#### Panama

General Noriega is moving to consolidate his grip on power and will be able to remain in power for the foreseeable future in the absence of a reinvigorated opposition. The Washington Community agrees with USSOUTHCOM analysts that General Noriega can and will remain in power as long as he wishes and that he has taken steps to institutionalize his position. Noriega, for example, is preparing to alter the electoral code to bolster his run for the presidency in May 1989. The opposition, including the middle-class, seems resigned to this development and appears inclined to participate in the elections on Noriega's terms. Nonetheless, the Intelligence Community does not accept SOUTHCOM's notion that the trend toward consolidation of Noriega's power cannot be reversed. Most analysts believe that while the economy currently has stabilized, for example, Noriega still is vulnerable to a sharp downturn and remains widely unpopular. Moreover, a leftward drift could alarm some in the military and provide the now unfocused opposition with a rallying point.

The NIO for Warning has additional concerns about Panama. There is a chance that spontaneous violence--triggered by either Panamanians or Americans--quickly could escalate the crisis beyond the control of either government. Outbursts by US citizens could be most explosive. If, for example, Panamanian troops carry through on now-shelved threats to search the homes of the 1,130 American employees of the Panama Canal Commission for "contraband" goods from military exchanges, irate US citizens could respond with gunfire. SOUTHCOM has plans to protect US citizens which, if carried out, could lead to an unintended military confrontation. The continuing large number of US military personnel living off post make terrorist attacks on Americans easy. Continuing tensions will increase the chances of violence and make management of the crisis by US officials in Panama more difficult.

## 2. Trend Commentary:

### Yugoslavia

Labor unrest will continue to escalate but is not likely to engulf the country as a whole. Strike activity has expanded dramatically, is better organized, and has increasingly acquired anti-government overtones. We eventually may see strikes embracing entire economic sectors. For the near term, however, central authorities have some maneuvering room to defuse labor unrest by retreating from austerity measures or resorting to coercion. The Mikulic government will be caught between public pressures for a relaxation of austerity measures and critics--particularly the Slovene and Croatian leaderships--calling for a resolute economic strategy. Should Mikulic falter and central authority erode further, military intervention will become a more plausible contingency. Direct intervention by the military is very unlikely in the near term, however; in any case, it would be preceded by clear warnings to the civilian leadership.

### Mexico

A certain amount of time will be needed before either the Mexicans or the Intelligence Community will be able to assess the full implications of the election results announced early in July. The final count gave President-elect Salinas and the ruling Institutional Revolutionary Party (PRI) 50.3 per cent of the tally. The PRI will have only a bare majority in the Chamber, or lower house; its loss of four of 64 seats in the Senate is unprecedented. The election marked a turning point from which there is probably no going back. Salinas' mandate is liquid; if he is skillful, he will be able to trade on being a courageous reformist who is rescuing a party and process that was suffering potentially destabilizing fatigue. To be successful, however, Salinas must clearly be seen to be in charge of the process of change and in charge of reinvigorating the party. Most believe the potential for major violence is still limited. The surprising election result pointed up, however, that there is still considerable margin for miscalculation in Mexico today. In terms of policy, the most immediate effect of the election is likely to be on debt negotiations; Salinas will almost certainly drive a tougher bargain and make a moratorium a more serious possibility.

### Palestine Liberation Organization

State Department analysts note that the "Abu Sharif document"--prepared by one of Yassir Arafat's chief subordinates and distributed at the Arab Summit in June--represents a significant contrast with past Palestine Liberation Organization (PLO) policy by calling for direct talks with Israel and recognizing Israeli statehood and security needs. The document has sparked criticism, even condemnation, within the PLO. Thus far, Arafat has neither

endorsed nor disavowed the document's contents; his official endorsement probably would cause a severe split in the PLO. The document probably represents the position Arafat would like the PLO to reach eventually. The PLO is unlikely to follow up the document with new policies that would meet US requirements and lead to progress in the Middle East peace process.

### AIDS

Although Soviet objectivity and cooperation on AIDS have improved over the last year, the echo of earlier disinformation is likely to persist, especially in the Third World. The nature and extent of potential US-Soviet cooperation on AIDS will become more clear in October at a regular bilateral meeting in the United States on health cooperation. The dimensions of the AIDS pandemic worldwide are not yet known. Regions such as the Caribbean have a strong prospect of experiencing Human Immunodeficiency Virus (HIV) prevalence on a scale comparable to that already seen in Africa. The social stigma of presumed HIV infection as the reason for rejection may discourage qualified applicants for International Military Exchange Training and other US-based training and education programs unless confidentiality can be better protected. Several countries are considering mandatory HIV testing as a requirement for receiving a visa. Although some reporting has suggested that countries or groups might consider ways to use AIDS as a biological weapon, there are no confirmed examples.

### South Africa

A South African cross-border attack on black insurgent African National Congress targets in neighboring states now is slightly more likely than usual because of recent ANC bombings against soft targets that caused civilian--including white--casualties. Pretoria may favor a covert operation, and also will continue to apply pressure on neighbors such as Botswana for better cooperation on security.

### Africa/Libya

Benin's recent moves against Libyan interests--including the expulsion of the Libyan ambassador--make retaliation by Colonel Qadhafi likely. Possible moves include the overthrow of President Kerekou by exploiting domestic discontent with his rule. Qadhafi's recent moderation and diplomatic initiatives toward other African states have met with success and soon could lead to restored relations with Senegal.

### Terrorism

CIA analysts believe Iran eventually will decide to retaliate for the accidental downing of IranAir Flight 655, but that Iranian leaders first will exhaust diplomatic efforts and then act in a way not to endanger initiatives to improve foreign relations. A decision to retaliate probably would be made

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by consensus of Iran's leaders--including Assembly Speaker Rafsanjani, the Prime Minister, the Intelligence and Interior Ministers, and the commander of the Iranian Revolutionary Guard Corps. Another concern is that Hizballah or Palestinian extremists may act on their own out of a growing sense of frustration over the IranAir incident, the Gulf military situation, and the assassination of Abu Jihad. The danger of "freelancing" is increasing and threats to US interests will continue at a high rate. The more likely incidents are hijackings or attacks against large numbers of US personnel, particularly in the Gulf states.

3. The NIO/Warning notes these additional areas of warning concern:

Saudi Arabia/US

The Saudi Government's statement last week that it reserves the right to buy weapons from anywhere "without restrictions or preconditions" if Washington does not meet its military needs is another sign that Riyadh gradually is moving toward a more independent posture and away from the United States.

Saudi unhappiness with the US--particularly objections to Congressional restrictions on weapons deliveries--are likely to lead to still more deals like the Chinese CSS-2 sale and Britain's recent \$30 billion long-term contract for Tornados and other hardware. We expect Riyadh to consider purchasing Soviet bloc military equipment--possibly soon; neighboring and conservative Kuwait long has bought bloc arms and Jordan recently evaluated a Soviet offer of sophisticated military aircraft. Over time, the Saudis may respond to Moscow's persistent diplomatic overtures, diversify arms purchases more, and become less pro-Western in orientation. Even some senior Israeli officials have expressed concern over the US's declining influence in the Arab world and have urged their American friends to compromise on restrictions on the F-18/Maverick missile package for Kuwait recently approved by Congress.

Ecuador

President Rodrigo Borja, who assumed office on 10 August, appears prepared to distance his country from its present close association with the United States. He intends to reestablish diplomatic relations with Nicaragua and to strengthen ties with Cuba, the Soviet Union and Eastern Europe. He is also likely to inaugurate a major shift away from outgoing President Febres-Cordero's free market economic policies. Borja may join with other regional leaders to announce a plan that ties debt repayments to export earnings.

Despite his swing leftward, Borja has signaled that he is aware of the fears of the military and business leaders concerning his political and economic views and has indicated that he will avoid radical policies such as the nationalization of banks or key industries. Moreover, despite his bias



against the United States, Borja has expressed a willingness to continue cooperation on some issues with the United States, particularly the narcotics area.

### Iran/Iraq

An end of the war between Iran and Iraq will bring major changes to the Gulf region and have significant implications reaching far beyond the Middle East. The extent of post-war changes remains unclear, but they will have both positive and negative consequences for US interests.

On the positive side, both regimes are likely to abandon some of their more radical positions, adopt more balanced foreign policies, and reintegrate themselves more fully into the world political order. Ayatollah Khomeini's retreat from his long-held position of bringing down the Saddam Hussein regime seems to have been a significant setback for radical elements. Iranian pragmatists increasingly appear to be in charge--as evidenced by recent improvements in ties to Britain, France, and Canada--with an accompanying opportunity for gradually improved US/Iranian relations, despite residual animosities. The Iraqis may loosen ties with their major arms supplier--the USSR--and diversify their foreign policy positions; they probably will also improve their political standing in the world community as the stigma of Baghdad's use of chemical weapons fades.

Peace will give both sides a chance to rebuild damaged industrial facilities and infrastructure and to improve the lot of their peoples--improving overall trade prospects and opportunities for billions of dollars worth of Western non-military sales; this need for investment also will incidentally increase opportunities to build political influence as well. US allies in Western Europe, as well as Japan and South Korea, probably will have better chances at making inroads than the US, particularly in Iran.

The US may be able to improve further relations with Gulf Arabs who have been reluctant--despite US convoy efforts--to forge ties too closely to the US for fear of Iranian retaliation. This possibility will continue to be offset by the growing perception in the region that the US is an unreliable arms supplier--and thereby friend--a view strengthened by Saudi Arabia's recent decision to turn to Britain for \$30 billion in military hardware, construction, and services.

On the negative side, there are a number of potentially serious adverse implications of "peace" for the US:

o Cessation of combat may allow Iraq, after a period of recuperation, to direct its battle hardened forces against other targets. Saddam Hussein may revive Iraqi irredentist claims on Kuwait to secure oil, territory, and port facilities directly on the Persian Gulf. Israel will be alert for hostile Iraqi intent and may be even more willing to strike

preemptively at Iraqi offensive capabilities such as its missiles and chemical munitions production plants to disrupt a possible joint Syrian/Iraqi attack--if Damascus and Baghdad can resolve their differences. The Israelis already are expressing publicly their concern. President Assad, however, presumably is wary that Iraq may turn on him for his lengthy support of Iran in the war. Israel is likely to do its best to foster Syrian/Iraqi discord.

o "Peace" probably will give the Soviets openings to improve ties with Tehran at US expense. Deputy Foreign Minister Vorontsov has been in the region recently, including Tehran. Moscow already has offered to mediate a definitive peace agreement in a Central Asian city. The Soviets also may use additional economic offers to boost entree to Iran.

o World oil markets probably will be volatile for some time. Traders will be watching to see whether Iran and Iraq will work more harmoniously to ensure OPEC production discipline--driving up prices--or whether the reopening of Iraqi sea lanes and the end to air attacks on production facilities will encourage greater exports and lead to a price collapse. Lower prices will increase the strain on oil exporting Third World countries and the international banking system, while higher prices will tend, among other things, to rekindle inflation and cut economic growth in consuming countries.

o Weapons suppliers who have profited from the war since 1980 will seek other markets to maintain earnings. North Korea, Brazil, China, and Eastern Europe all have major hard currency shortages that have been ameliorated in recent years by munitions sales to both sides. Reduced earnings would increase economic troubles domestically and payments problems could negatively affect international banks. A new push by suppliers would accelerate arms races in the Third World, especially, increasing the chances of regional conflicts and diverting resources from domestic programs.

o Iraq will no longer use so much of its chemical weapons production capacity on its battlefields. It may decide to sell some output to raise cash or help friends, accelerating the proliferation of chemical weapons. The Iraqis also, perhaps more likely, might provide technical assistance to Third World states wanting to develop their own chemical warfare programs.

o Kurdish rebels in both Iran and Iraq are likely to be punished by both sides for their actions during the war in support of a Kurdish nation. The Kurds could suffer heavily and may ask the US for help. Conflict could spill into southeastern Turkey, exacerbating the difficult situation there.

Either or both sides may use the truce or even a peace agreement to rest and recuperate prior to another round of fighting. Iran--tired and bloodied but with the larger resource base--has more to gain by a respite. Tehran may actively plan to resume the war when it is stronger; recognition of this possibility is a major factor driving Iraq's suspicion of Iran's acceptance of Resolution 598. Iraqi territorial predations would virtually ensure Iranian intent to resume the war eventually. Iraqi recognition of this possibility, however, will continue to preoccupy Baghdad and curtail its adventures elsewhere.

### International

The steady growth of production of toxic wastes in the industrialized world, combined with steadily diminishing abilities to handle the materials, is causing Western governments and corporations to look increasingly to the Third World for disposal sites. Transportation to less developed countries offers some advantages, but runs the risk of alienating host governments and reviving memories of colonialism. Western countries almost uniformly have not addressed the political ramifications of this growing problem of waste disposal.

Western interest in Third World disposal sites is fueled by the disappearance of suitable landfill sites, growing regulation borne of environmental concerns, and the rapidly rising costs of disposal that have reached \$2500 per ton. Already, major US cities like New York and Philadelphia have sought to export waste with varying degrees of success. The problem is complicated further when toxic and nuclear wastes are involved. In such a climate, the vast expanses of uninhabited, largely unregulated areas of the Third World--such as the desert of northwest Africa, for example--increasingly appear attractive as disposal sites.

Disposal in these remote areas, if handled well, could offer significant advantages:

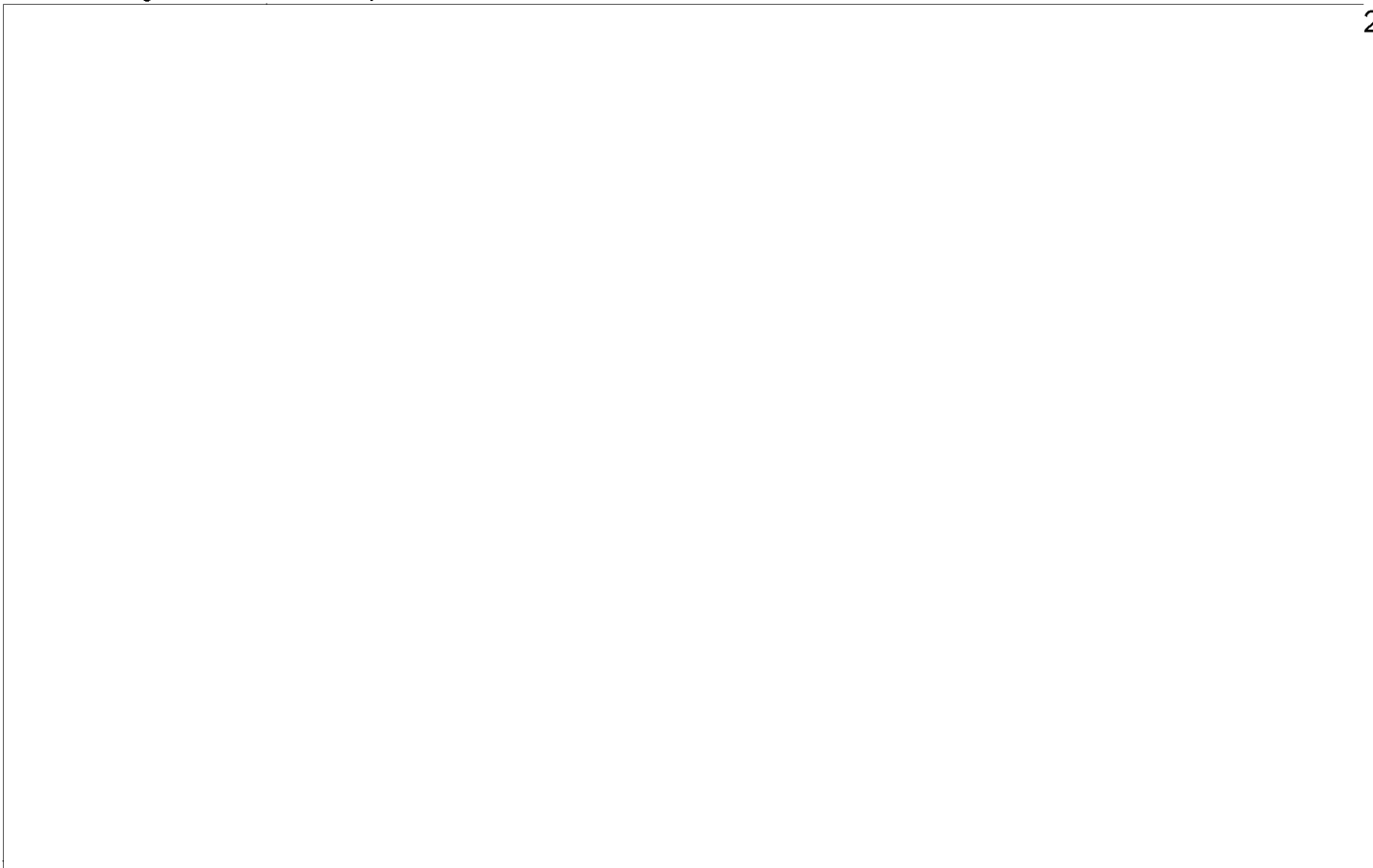
- o The industrialized economies get rid of their wastes.
- o Third World countries receive significant earnings--in some cases hundreds of millions of dollars per year are possible--that can reduce debt burdens and spur economic development.
- o The process of safely handling wastes could create jobs and generate needs for technical skills that, once owned by Third World personnel, could be employed elsewhere in their economies.

Many such waste disposal activities to date, however, have been irresponsible and have generated considerable animosity, particularly in Africa. Several European firms have been caught dumping untreated toxic wastes in West Africa and an Italian company improperly disposed of some 3,500 tons of waste in Nigeria, for example. Africans in some cases were bribed to permit the dumping. The Organization of African Unity in May discussed the

issue, attesting to its growing concern. Worries include:

- o The fact that many of the wastes are very toxic, creating major environmental risks.
- o The appearance that the West, after exploiting the Third World's minerals, wants to return them as waste, adding insult to the injury of colonialism. Opponents of the West increasingly may play this propaganda theme.
- o Concern that people who revere the land for cultural and religious reasons resent pollution for more than the environmental reasons common in the West.

The United States thus far has largely escaped political recriminations for dumping hazardous waste--and won some kudos for helping to clean up--but the potential for unpleasant incidents seems certain to rise as waste problems mount and the amounts of money involved continue to grow. The issue already is spreading, as evidenced by a recent Kuwaiti recommendation to Nigeria that it take legal action against Italy for its dumping, and is likely to continue to attract attention. Western governments' failure to act quickly could generate a backlash in Africa that might indefinitely preclude mutually advantageous waste disposal.



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