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

National Intelligence Council

14 November 1988

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

1. Summary of Key Warning Issues:

USSR-Nationalities Policy

The Intelligence Community views the Soviet nationality policy in the Baltic as a risky experiment with potentially far-reaching implications for the Soviet Union, the region, and Gorbachev. Moscow's radical approach toward dealing with increasing pressures for change from within the Baltic appears designed to gain legitimacy for Soviet rule and serve as a test for perestroika in the formulation of a coherent nationality policy. To this end Moscow has:

- o Sanctioned creation of Popular Fronts encompassing a broad spectrum of political opinion.
- o Replaced Brezhnev era elites with officials much more willing to address local grievances and lead the reform effort.

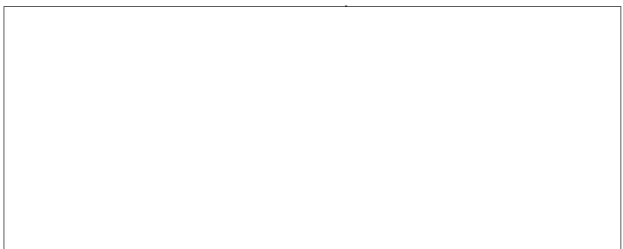
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Gorbachev clearly hopes that this increased latitude for local elites will encourage aggressive economic reforms in the Baltic, where the social and economic conditions are most favorable for such change, and will demonstrate the advantages of this course for the state and the Soviet people.

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This report 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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Nonetheless, these policies have encouraged forces in the region that will be difficult for the regime to manage locally or in Moscow, and that could easily get out of hand:

- o There is substantial risk that local authorities will be unable to control the Popular Fronts and that separatist elements will use them to legitimize their politically unacceptable demands.
- o Moscow is courting increased tensions between native populations and Russian immigrants that could potentially spark communal violence with much broader ramifications than the simmering conflict between Armenians and Azerbaijanis.
- o Permitting greater autonomy for Baltic peoples will encourage larger and politically more important minorities, such as the Ukrainians, to press Moscow for similar rights, something Moscow does not appear willing to tolerate. [REDACTED]

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The Baltic experience has already demonstrated how far things can go when Moscow loosens its hold on the leash; it is doubtful that the reforms can be halted in the Baltics or elsewhere in the USSR without a strong grip from Moscow. Considerable social, economic, and political turmoil is inevitable if Moscow stays on the present course. Gorbachev is gambling that positive results will tide him over the rough spots and that expectations of nationality groups can be kept within realistic bounds. Of all Gorbachev's gambles, this seems to be the greatest. However successful he is in packing the leadership, it is doubtful that he could ride out the storm if perestroika becomes identified with disorder and instability. [REDACTED]

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Soviet nationality policy has not been firmly set. The failure to hold a Central Committee plenum on the subject indicates that the leadership has yet to work out an acceptable approach, in part due to internal disagreements. Substantial changes are possible, especially as the impact in the Baltic becomes more apparent. Different policies are likely to be evident in different areas, with the regime using both concessions and repression as the situation warrants. For now, Gorbachev probably has the will and political muscle to manage the fallout as it comes. Down the road, however, this issue, perhaps more than any other, has the potential to create political conditions for his removal. [REDACTED]

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USSR/Third World and East-West Relations

The extent of change in Soviet policy in the Third World remains a matter of debate within the Intelligence Community, but there is substantial agreement on the following:

- o The Third World ranks relatively low in Gorbachev's priorities. Moscow acknowledges that its aggressiveness in the Third World harmed its broader interests with the West in the late 1970s and wants to avoid such a problem now.

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- o Under Gorbachev, Soviet Third World policy is more pragmatic and less encumbered by ideological blinders. Moscow will place more emphasis on newly industrializing countries (such as South Korea and Taiwan) and pro-Western states (such as Israel and Saudi Arabia), and less on potentially unstable and bankrupt leftist regimes.
- o The Soviets are not abandoning existing clients; the flow of assistance remains at high levels and Moscow will continue to provide what it believes is necessary to keep existing clients afloat.
- o Moscow will be more cautious than in the past about supporting military solutions to regional conflicts and more willing to back negotiated settlements.
- o Soviets will be more willing to exert pressure on their clients to change their domestic and foreign policies if doing so seems to serve larger Soviet interests. [REDACTED]

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The Soviets are not abandoning the Third World to the West. On the contrary they are more active than ever. They continue to see it as a region of varying degrees of rivalry and competition with the United States. A more pragmatic approach could mean increased willingness to participate in cooperative approaches to resolve regional conflicts and to more carefully take Western interests into account as they formulate their strategies. [REDACTED]

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Yugoslavia

The general consensus of the Intelligence Community is that Yugoslavia faces its greatest threat to stability since the 1940s. The federal system itself is being challenged by Serbian party leader Milosevic, who has mounted an aggressive campaign designed to assert Serbian dominance in the federation. Despite recent setbacks--and increasing opposition from other regional and federal leaders--Serbian nationalism remains a potentially explosive challenge to Yugoslav cohesion. While the Yugoslav federation will probably stagger through in weakened form, there is also a risk that heightened ethnic tensions will provoke widespread violence or increased separatist tendencies, raising the possibility of the country's dismemberment. [REDACTED]

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Milosevic aims at reasserting Serbian control over Serbia's multi-ethnic "autonomous provinces" of Kosovo and the Vojvodina. He also wants to increase Serbia's weight within Yugoslavia as a whole--by changing the balance of power within existing institutions, assuming power himself, or even altering the make-up of the federal system. Milosevic's methods are unconventional, not to say unconstitutional. Operating from a power base among local and county bosses in Serbia, he has seized control of the Serbian media and organized nationalist demonstrations directed against Albanians and other ethnic groups. Milosevic draws support mainly from within Serbia but also among Serbs in neighboring republics, where he is projecting himself as an

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alternative to the weak federal government and a way out of the deep economic crisis. Escalating labor unrest fuels the process by further undermining the federal government's authority. [REDACTED]

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Intelligence Community analysts generally agree that the year ahead could hold three scenarios, listed below from most to least likely:

- o The Federation Staggers Through. Under this scenario, Serbia would consolidate power within the Serbian Republic but not beyond. Other republics would continue largely to go their separate ways, albeit with wary eyes focused on Milosevic; jointly agreed reform programs would prove insufficient to reinvigorate the federal system.
- o Toward a more Genuine Federalism. There is now a small window of opportunity for this more hopeful scenario. Leaders in the key republics, shocked out of complacency by the Milosevic challenge, could take their federal responsibilities more seriously and work toward a more viable federation on the basis of decentralization and market reforms. The effort would require an accommodation of some Serbian demands but would not necessarily entail institutional change.
- o A Centralized, Serb-dominated Federation. This scenario would have Milosevic rebounding to force his will on the Kosovo and then the Montenegrin leaderships, and ultimately on the federation as a whole. Though not an inconceivable scenario, it is hard to see it evolving without major violence or toward anything but an authoritarian regime. [REDACTED]

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Some analysts also believe a fourth, alternative scenario is likely--widespread violence. Milosevic's active encouragement of Serbian nationalism has increased the danger of violent confrontation. Given Yugoslavia's volatile past, it is surprising that greater violence, or the emergence of domestic terrorism, has not occurred already. Although ethnic tensions seem to have abated for now, a spark could touch off a cycle of violence and repression that could overwhelm security forces, paving the way for widespread bloodshed and breakdowns in public order. [REDACTED]

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Algeria

Recent riots in Algeria were the most serious unrest since independence. At least 176 people were killed and police made 3,700 arrests. Continuing economic problems and recent water and food shortages sparked the riots. Islamic fundamentalist groups tried but failed to gain control of the riots. The Algerians believe the French and Soviets may have helped instigate the unrest. Algerian President Bendjedid's October 10 speech, promising election and other reforms, offered a "quick fix" that helped end the unrest. Such measures, however, will only gain the President a temporary respite. The unrest is likely to return in a few months if he fails to make significant improvements. Intelligence Community analysts question Bendjedid's ability and willingness to go through with reforms needed to reduce ethnic and social

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pressure. They believe that the riots have weakened Bendjedid and that he will not make changes or decisions quickly enough. Low oil revenues and a lack of foreign aid will hamper his ability to improve the economic situation. [REDACTED]

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2. Trend Commentary

Pakistan

Community analysts believe that Pakistan will not be interested in any diplomatic attempt by Vorontsov, the new Soviet Ambassador to Kabul, to alter the pattern of Pakistani support to the Afghan mujahedin. Islamabad and the Afghan insurgents judge they have already won the war and do not need to make a deal. Analysts believe that even if Islamabad had the desire, it could not force a deal on the insurgents. [REDACTED]

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Concerning the elections, analysts believe that the pro-government Pakistani Muslim League (PML) will get a plurality of seats in the election on November 16 and will form a new government. Former Prime Minister Junejo believes he should lead the PML and become the new Prime Minister. President Ghulam Ishaq, however, is unlikely to agree to this and probably will look for a compromise candidate in the PML. Violence has declined in Sind Province, but hatred between local people and Pakistanis who were born in India runs deep. Further violence is likely, especially after the elections. We have no evidence that India was involved in fomenting unrest in Sind. [REDACTED]

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With regard to Pakistani nuclear weapons development, Community analysts agree that nuclear weapons are a key goal for Islamabad. Pakistani leaders will not halt or slow down their development programs in response to US threats to cut off aid. The Pakistanis, however, will not do anything deliberate--such as test a weapon--to cause US sanctions. They will continue to try to acquire delivery systems for nuclear weapons. [REDACTED]

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Iraq

President Husayn appears to have more power now than ever before. The power of the Ba'th party has declined and a military coup is unlikely because of the effectiveness of Saddam's security services. Iraq will not violate the ceasefire unless Iran does or unless the peace talks fail. Iraq wants an end to the war, but on its terms. The threat of renewed conflict with Iran will limit Iraq's willingness to threaten neighboring countries militarily. Husayn, however, will seek revenge against Syria by supporting anti-Syrian elements in Lebanon. He also will give low-level support to pro-Iraqi Ba'thist parties in the region. Community analysts do not believe Iraq will go to war with either Syria or Israel in the near or medium term. Iraq, however, probably has enough personnel and opportunities to foment subversion and terrorism in Syria. Baghdad will avoid becoming too involved with Syria until after settling the war with Iran. [REDACTED]

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If the US Congress were to enact sanctions against Iraq for using chemical weapons, analysts believe Iraq probably would react in a low-key way. Iraq wants access to US technology. [redacted]

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Lebanon

Change or improvement is very unlikely in Lebanon over the next three months. The trends in the country are still toward partition, especially with the continuing failure to elect a new president and with the establishment of rival Moslem and Christian governments. The Lebanese, moreover, believe that others, especially the United States, should solve Lebanon's problems; they are slow to understand the limits of US effectiveness in the area. Christian warlord Ja Ja is opposed to any president, unless personally selected by him; he will, moreover, block any candidate proposed by Syria. Ja Ja does not want a united Lebanon but hopes to set up a Christian dominated "mini-state." He is likely to absorb the Christian Phalange Party and is in a strong position to consolidate control over a large area. [redacted]

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Nicaragua

Damage wrought by Hurricane Joan will probably force a delay in large-scale Sandinista counterinsurgency operations in south-central Nicaragua for at least 30 days. The hurricane will also complicate efforts of the insurgents still inside Nicaragua--now estimated at a total of no more than 2,500, including 1,500 Resistance Army of the North combatants--to live off the local economy. Meanwhile, in keeping with Sandinista military plans as [redacted]

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some decline in Soviet military deliveries to Nicaragua is likely. Under the plan, deliveries will level off during a period of consolidation and then pick up in 1991, when a new round of deliveries will be aimed at significant enhancements of Nicaragua's military capabilities. [redacted]

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Panama

Financial pressures on Panama's government mount as the regime continues to build substantial monthly deficits and delays payments to creditors. Should such practices as running arrearages with suppliers and issuing government checks falter, a quick economic collapse would result. There is little likelihood, however, that the downturn will prompt large-scale unrest in the near term. [redacted]

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The political opposition still seems inclined to participate in the May 1989 elections, should they take place. Analysts agree, however, that the opposition would have to win by a margin of at least 30,000 votes to overcome electoral fraud by the regime. In terms of managing the elections issue, Noriega has several options. He could:

- o Decide to hold elections, putting himself or a surrogate forward as the government's candidate and using the time before the vote to undermine the opposition and develop mechanisms for manipulating the outcome.

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- o Opt for a plebiscite that could take a variety of forms ranging from whether the term of Acting President Solis Palma should be extended until 1992 or whether to postpone the elections, capitalizing on sentiments among several factions that perceive the rapidly approaching May date working against their interests.

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Haiti

Community analysts believe that without economic assistance, President Avril's chances of holding power are substantially diminished. His lack of economic resources continues to limit his maneuvering room within the military, where he faces continued pressure. Some leftist sentiment exists in the military,

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Nonetheless, the left is likely to make only slow progress, especially if foreign aid is restored. Indeed, the leftists are so internally divided, they have attracted virtually no attention from either the Cubans or Nicaraguans. The far right is still reeling from the coup against Namphy and does not have the support necessary to remove Avril.

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The National Intelligence Officer for Warning adds the following analysis on Haiti: The reduction of Western aid in the wake of last November's aborted election and two military coups this year has worsened Haiti's already gloomy prospects. Haiti, the poorest nation in the Western Hemisphere, is in a vicious no-win cycle. The weak Avril regime cannot address the country's fundamental problems without external assistance, which donors from Europe and North America have cut significantly because of the lack of movement toward democracy. The donors at the same time say they want on progress toward constitutional government--itself dependent on social and economic stability--before resuming aid deliveries.

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Haiti's intractable problems have some negative implications for the United States. Chronic poverty will encourage more illegal emigration to the United States; US officials monthly turn away several hundred Haitians attempting to enter the United States illegally. Haiti's cash shortage will encourage yet more corruption and may drive the government to look for support from narcotraffickers, who already use Haitian airspace as one avenue for deliveries to the United States. The extreme poverty also may, over time, provide fertile ground for leftist insurgents. In addition, periodically savage outbursts of violence--likely as conditions continue to deteriorate--will remain a threat to Americans in the country.

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Chile

The Chilean political landscape remains fluid in the wake of the government defeat in the 5 October plebiscite as both sides assess the results and map out longer-term strategies. The moderate political parties will probably lose ground to the far left--prompting an increase in violence--if President Pinochet refuses to show flexibility on political reform. The

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Intelligence Community agrees that if the opposition can remain unified, no regime candidate will be able to win the December 1989 presidential election. Community analysts are divided, however, over whether Pinochet will be able to hold firm to his position not to enter into a dialogue with the opposition on constitutional reforms, such as holding the presidential election sooner than December 1989. Pinochet is still considering running as the government candidate, although there is growing sentiment against him within the ruling military Junta. Nevertheless, the Junta will probably not ask Pinochet to resign either the presidency or his command of the Army, at least until after the December 1989 election. [redacted]

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Chad/Libya

There is little likelihood of renewed fighting between Chad and Libya in the Aozou region of northern Chad during the next 90 days. An increase in Chadian military readiness by late December, however, may increase slightly the chances that Chad would initiate fighting then. Chadian President Habre does not appear to face any significant domestic opposition or insurmountable discontent within the military. [redacted]

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Uganda

The security situation in northern Uganda remains problematic. Although rebels have the upper hand in much of the countryside, they do not threaten the regime of Ugandan President Museveni, which appears committed to a military rather than political solution to the country's serious ethnic tensions. [redacted]

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Angola

Operations by the Angolan army against rebels of the pro-Western Union for the Total Independence of Angola (UNITA) may become larger in the central region of the country and will not necessarily be inhibited by the onset of the rainy season. The intentions of President Dos Santos regarding reconciliation with the rebels remain unclear. Regional leaders plan to hold talks in an effort to encourage the government and the rebels to reconcile, and this initiative may help move forward the currently stalled negotiations between Angola and South Africa. [redacted]

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The National Intelligence Officer for Warning adds the following assessment of Angola: UNITA is prepared to continue to fight if diplomatic efforts fail to achieve a ceasefire and a dialogue on power sharing. UNITA leader Savimbi is seeking direct talks with the Luanda regime while international attention is focused on the US-mediated negotiations among Angola, Cuba, and South Africa. UNITA has distanced itself from those negotiations because of diminishing confidence that the United States will support its interests, concern about the lack of progress toward national reconciliation, and fear that a deal will be cut at its expense. [redacted]

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To focus attention on the need for a political settlement within Angola, Savimbi, with US support, is trying to get African national leaders to pressure Dos Santos into direct talks with UNITA. While some 15 leaders reportedly are supportive, there has been little coordinated effort to press Luanda. To show good faith, Savimbi says he is willing to recognize the Luanda regime and go into exile temporarily to facilitate talks. Dos Santos, however, appears confident that he is gaining the upper hand as South Africa disengages from Angola and--if a regional settlement is reached--from Namibia; he has refused to negotiate with UNITA, although he has acknowledged the need to talk eventually. [REDACTED]

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If UNITA fails to win a political settlement, it will continue its military struggle. Savimbi recognizes that his military position is weakened at least temporarily by South Africa's withdrawal. He anticipates less support from South Africa, is unsure of US aid, and expects Cuban-backed Angolan forces to try to crush UNITA militarily. If necessary, UNITA will revert from semi-conventional warfare to guerrilla tactics but retain its political objectives. We expect UNITA to survive even a determined assault and to continue to battle Luanda. [REDACTED]

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Counterterrorism--Europe, Algeria, Lebanon

Two forthcoming events in 1989 may provoke the pro-Iranian, Lebanese Shia Hizballah group to renew terrorism in Europe. These events are the end of the trial in West Germany of two brothers in the Hizballah organization for possessing explosives, and the trials of a group that carried out the Paris bombings in 1986. [REDACTED]

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Support provided by Algeria facilitates the operations of international terrorist groups. Largely because of its traditional leftist orientation and sympathy for national liberation movements, Algeria maintains relations with several radical groups. Such activity also provides the regime some influence over these groups. Algeria provides almost unrestricted safehaven to a number of Palestinian groups, almost certainly including the Palestinian Front for the Liberation of Palestine - Special Command, the Palestine Liberation Front, and Fatah's Force 17. Algeria also allows Abu Nidal to headquarter his organization in the country, and recent developments suggest that this contingent is deeply involved in operational activities worldwide. In the wake of renewed terrorist activity by Abu Nidal and international publicity about the group's use of Algeria to facilitate its operations, Algiers may reduce its support for the group. [REDACTED]

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The release of Mithileshawr Singh from captivity does not necessarily portend the early release of the remaining western hostages in Lebanon. CIA analysts believe Singh was released because he is not an American citizen, and that the release was probably encouraged by Iran. [REDACTED]

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Counternarcotics--The Caribbean, Europe, Worldwide Heroin

The Panamanian crisis has prompted narcotraffickers to find alternate locations for money laundering operations. For the present they appear to be [REDACTED]

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focusing on The Caymans and the Bahamas. Their basic approach, however, may be to wait out the Panamanian difficulty until the political and economic climate is more favorable to their interests, at which time they will return to Panama. [redacted]

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The National Intelligence Officer for Counternarcotics made the following observations after attending the conference of European Narcotics Coordinators, sponsored by the Department of State's Bureau for International Narcotics Matters:

- o Europe is ill-prepared philosophically, socially, and institutionally to deal with what is bound to become a major cocaine explosion over the next few years.
- o The European drug enforcement infrastructure has been and is currently aimed at confronting a heroin trafficking problem. In the cocaine trade, the players and the trafficking networks are all different.
- o Watching the United States develop its drug policies, Europe is not sure that our current approach is very effective, and is quick at this point to question critically US drug enforcement and prevention methods.
- o With national customs barriers ending by 1992, Europe will face a significant challenge to the enforcement process. [redacted]

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The worldwide heroin trade is growing increasingly complex and difficult to police despite numerous drug control initiatives over the past two decades. The effectiveness of opium production control strategies is increasingly limited by the growing sophistication of current trafficking networks and the expansion of markets. Crop eradication efforts are fragmenting the trade by causing traffickers to turn to alternate source areas, such as Afghanistan and Laos, generating an increasingly complex web of routes, methods, and networks. [redacted]

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

Poland

Although the agreement by the Warsaw regime and Solidarity leader Walesa to discuss long contentious issues is a positive sign, major differences remain: The parties postponed the beginning of "roundtable" talks in mid-October. Poland may have entered a highly uncertain period that could harden the regime's impasse with Solidarity and the Church, thereby sharply increasing the chances of a new wave of strikes and breakdowns in public order in the next six months. Such events could have a major impact on Soviet politics and policies, as well as on the balance of forces in other East European countries. Soviet leader Gorbachev has identified himself so closely with General Jaruzelski that any conspicuous failures by the Polish leader in

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handling the explosive contest with Solidarity could damage the Soviet leader's authority at home and abroad. [REDACTED]

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The Warsaw regime has been shaken by the strikes in ports, shipyards, steel mills, and coal mines in April, May, and August which inflicted heavy losses on the already chaotic economy. Jaruzelski, however, cannot satisfy Solidarity and Church demands for genuine political and trade union pluralism without risking the loss of the Communist party's monopoly of power. The party, moreover, is deeply divided; hardliners oppose meaningful reforms and concessions, particularly the reinstatement of Solidarity as an independent national trade union. [REDACTED]

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This unyielding stance will collide with Walesa's insistence that the key issue is legalization of the union, with Solidarity's warning that legalization "is not negotiable," and with more radical workers' demands for democratization. The outlook, therefore, is for a lengthy impasse over this potentially explosive issue. [REDACTED]

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The regime's reluctant agreement merely to open talks with Solidarity leaders carries high risks of stimulating growing public expectations of genuine political and economic reforms. If expectations are frustrated again, there could be a powerful backlash against the regime. This--along with worsening living standards--would end the apathy and passivity that has characterized the Polish population since 1981; Poland would face a long winter of strikes, confrontations, and accelerated economic decline. [REDACTED]

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Middle East

Many of the Middle East countries that have chemical weapons programs are also developing biological weapons (BW). They apparently perceive that biological weapons/agents have military advantages and are working on traditional types of BW agents such as anthrax, botulism, and ricin. [REDACTED]

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The decisions of these countries to develop BW capabilities--despite an international agreement banning BW--indicate that perceived military advantages of such weapons have won out over political drawbacks. BW agents can be produced cheaply, secretly, and on relatively short notice; they can, moreover, threaten civilian populations as well as military forces. [REDACTED]

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We are concerned about the possibility of terrorist groups obtaining these agents in sufficient amounts to permit limited, surreptitious use. US interests in the Middle East and elsewhere are at risk to BW agents; we currently have no detection capability and are likely to have little warning of an attack. [REDACTED]

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Somalia

President Siad's inability to quell the rebel offensive in northern Somalia has resulted in an increased threat to US facilities at Berbera. [REDACTED]

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Meanwhile, worsening tribal rivalries and public opposition to the regime's war mobilization effort have increased the likelihood of a coup attempt or a decision by Siad to step down. [REDACTED]

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[REDACTED]

Siad's insistence on a military solution to the insurgency has thwarted Western efforts to encourage him to negotiate. In his search for military support, Siad has even sought rapprochement with Libya. Disappointed with the levels of military assistance from the US and the West, Siad has accepted small arms ammunition, howitzers, and other materiel from Tripoli since late August. [REDACTED]

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The Siad regime appears particularly vulnerable to military coup plotting, principally because acts of favoritism by Siad for his family and clan over the past year have narrowed the political base of his regime. Adding to Siad's problems, the Somali people are increasingly distressed by the government's drastic war mobilization efforts such as impressment of youth from the streets for military service. Urban disturbances in the south have added to the military's burdens. Frequent rumors in Mogadishu also point to a possible military takeover. [REDACTED]

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Argentina

Argentina's staggering foreign debt of \$52 billion, of which \$8.6 billion is owed to US banks, has become a major focus in the campaign of Peronist party candidate Carlos Menem, who is likely to win the May 1989 presidential election. If elected, the populist, charismatic Menem plans to call for a negotiated five-year moratorium on interest payments, which could prompt other countries to adopt confrontational stances on debt service payments and endanger major US banks. [REDACTED]

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Menem's stance on the debt issue is largely an appeal for domestic support. In order to broaden his power base beyond his traditional popularity with the working class, Menem has played on deep middle class discontent with President Alfonsin's failure to stem inflation--currently heading toward 500 per cent annually--and a corresponding decline in real wages. Menem has also attempted to assuage military suspicions of his populist policies with promises to raise officer and enlisted salaries and to increase the military budget. [REDACTED]

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If Argentina declares a moratorium, the US Federal Reserve could force US banks to write off the credits. Such an event would have serious implications

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for the US banking industry, already weakened by billions of dollars worth of bad foreign loans. [redacted]

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