

Director of  
Central  
Intelligence

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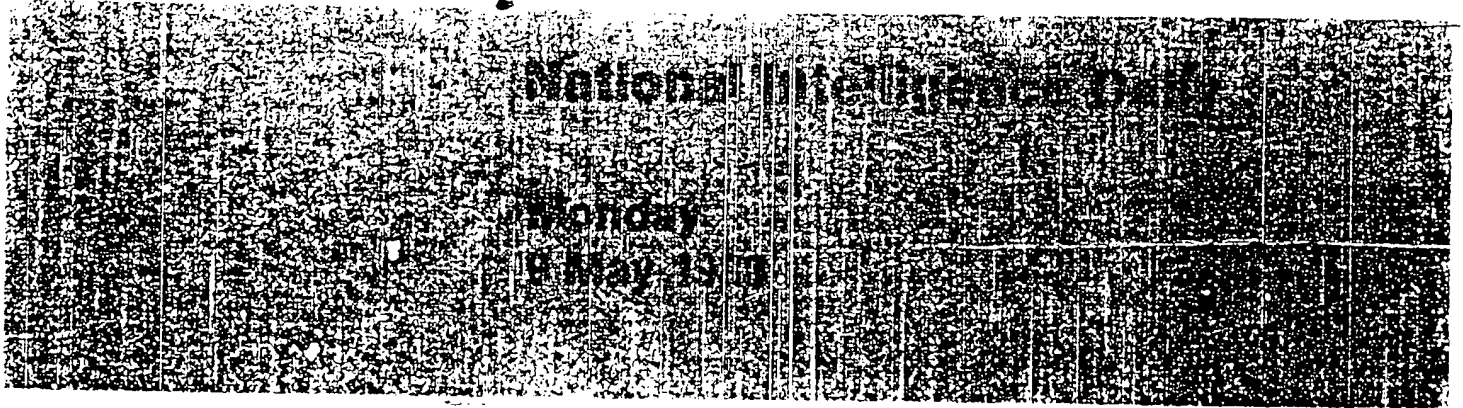
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Approved for Release  
Date JUN 1999

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PANAMA:

Situation Report

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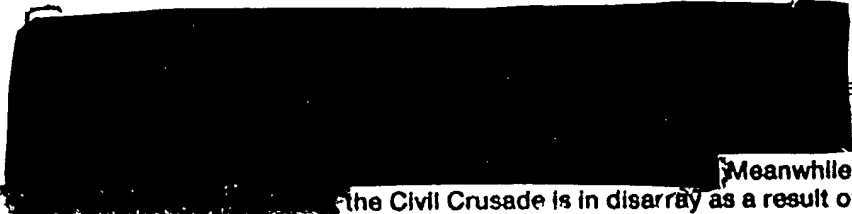
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**Draft Opposition Proposal**

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Meanwhile, the Civil Crusade is in disarray as a result of recent regime repression; more than half the Crusade's leadership reportedly has fled the country or gone into hiding. [redacted] B3

[redacted] Opposition efforts to achieve a consensus on how to resolve the political crisis are unlikely to succeed because fundamental internal divisions remain unresolved. Moreover, even if a specific agreement were reached, the opposition has almost no political clout with which to pressure the regime to accept its proposal. The opposition's past demands for military reform would cause the Defense Forces to reject any proposal that gives civilians authority over their activities. Any apparent softening of the opposition's position on Noriega being able to remain in Panama would be a significant concession. [redacted] B3

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**POLAND:**

**Confrontation Continues**

*The regime still refuses to legalize Solidarity but is trying to appear conciliatory by apologizing for using force at the Nowa Huta steel mill and by allowing church mediation of the shipyard workers' strike in Gdansk. Meanwhile, Lech Walesa and the besieged workers are sticking to their demands and to the course of confrontation with the authorities.* [REDACTED] b (3)

In a major bid to mend fences, the government on Saturday [REDACTED] apologized [REDACTED] for storming the Nowa Huta plant on Thursday before church mediation could begin. [REDACTED] b (3) [REDACTED] the regime also arranged for church mediation and promised not to use force against the Gdansk workers while talks continue there. That set of talks bogged down quickly, however, when officials said they would not consider recognizing Solidarity. The regime has also intensified divisive pressures on the strikers by announcing jail terms of up to three months for arrested Solidarity activists while offering pay hikes and no recriminations if workers quit the strike in Gdansk. But, [REDACTED] the regime withdrew the pay offer when the talks failed. [REDACTED] b (3)

b (3) [REDACTED] The apology acknowledges—but will not immediately offset—the political damage done to church-state relations by the Nowa Huta raid. Despite their bitterness, church leaders probably felt compelled to offer to mediate at Gdansk to forestall a potentially more violent attack. The regime, however, will probably not make the one concession that would appease the church and the political opposition—agreement on a serious dialogue with labor representatives even if not officially through Solidarity. [REDACTED] b (3)

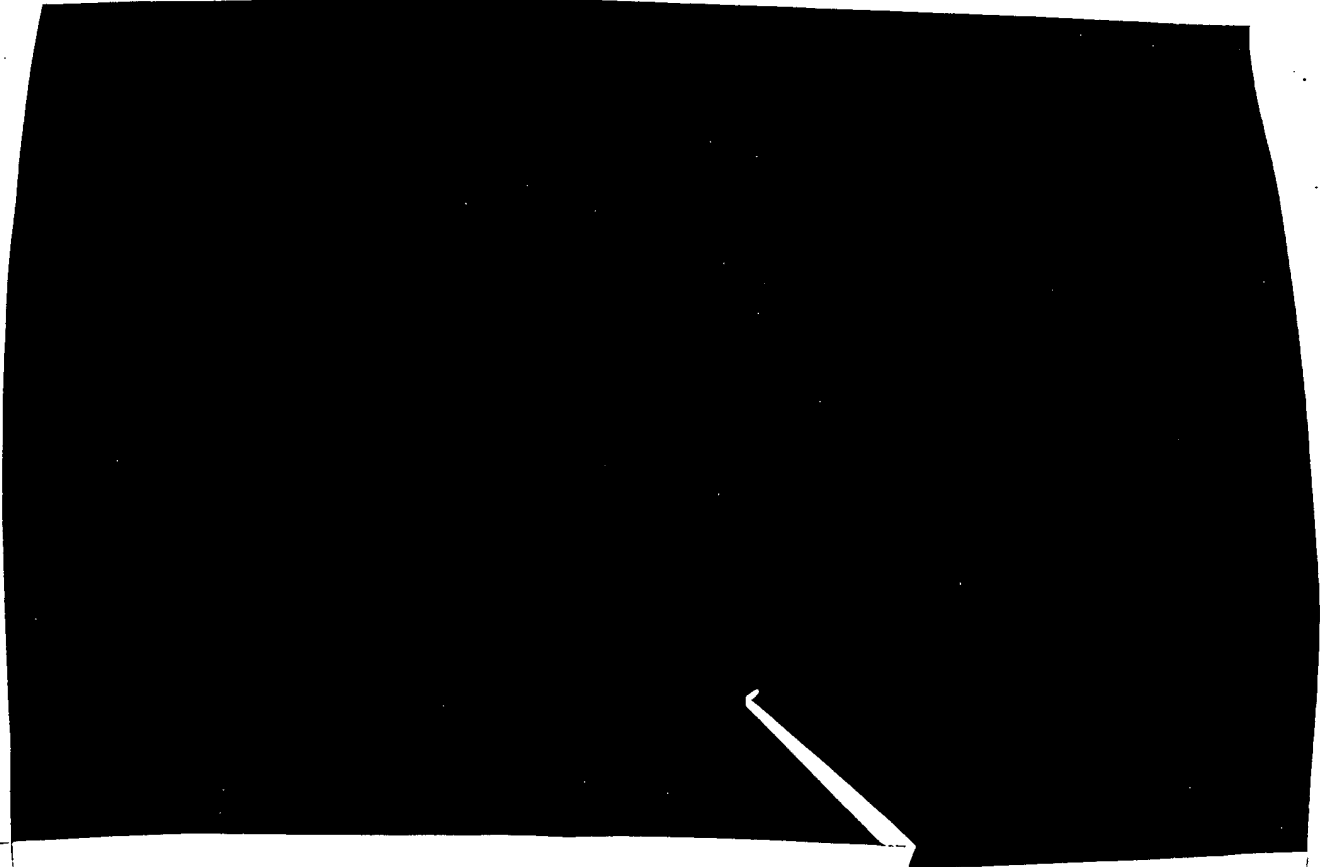
The regime, through its initial pay offer and by hammering at Walesa's "destructive" political ambitions, is desperately trying to portray him as intransigent and to build its case for more decisive action against the strikers. For his part, Walesa has apparently concluded that settling for pay hikes and clemency would be a more disastrous defeat than holding out for a compromise on the issue of a genuine political dialogue. [REDACTED] b (3)

Pressure is mounting on both sides, and it is not clear when the Gdansk talks will resume. Church mediators will probably work on Walesa to find some compromise short of violence; the regime in turn must cope with a determined adversary who has widespread domestic and international sympathy without creating an incident that would only further enhance his image as a "legitimate" national leader. [REDACTED] b (3)

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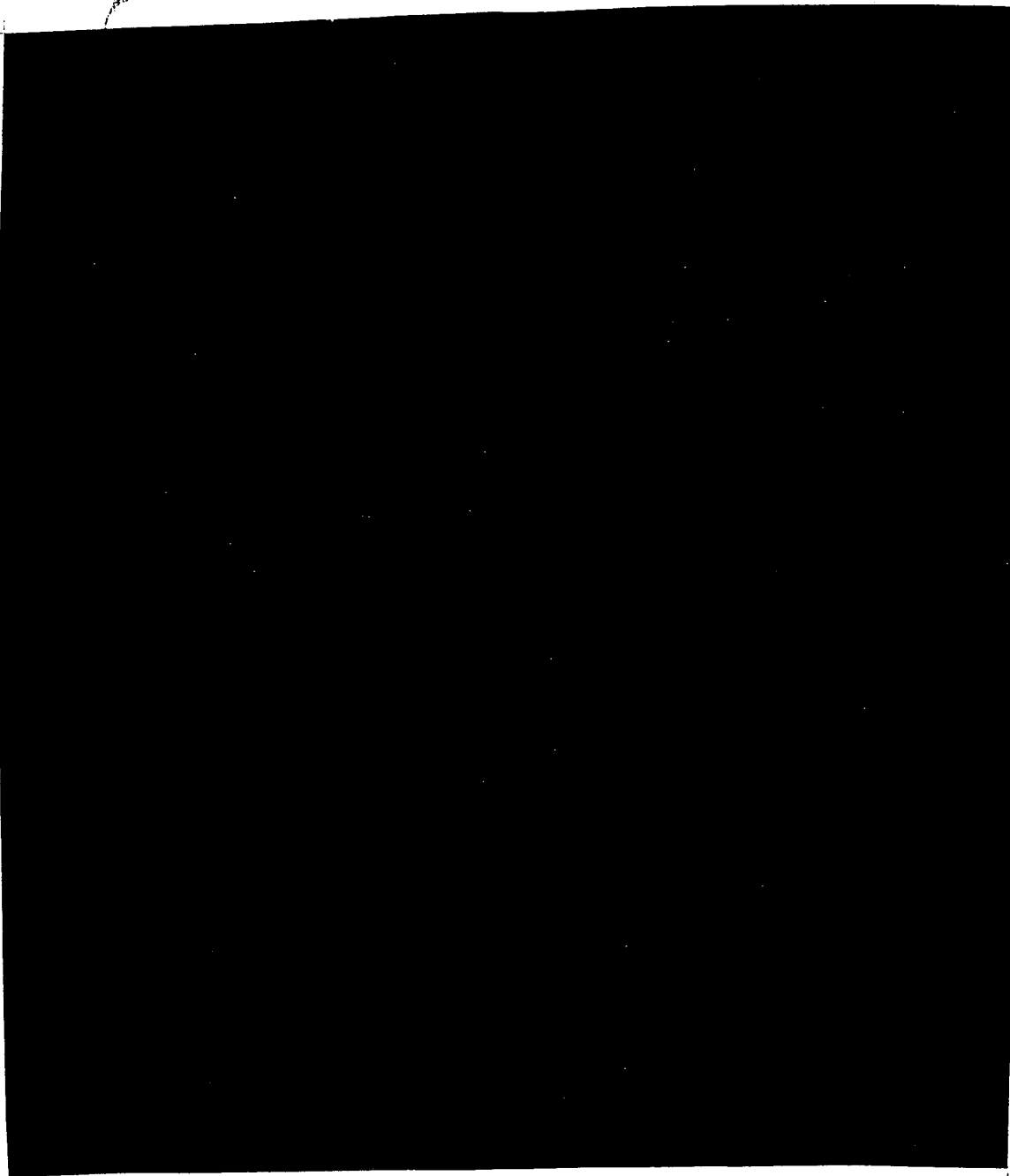
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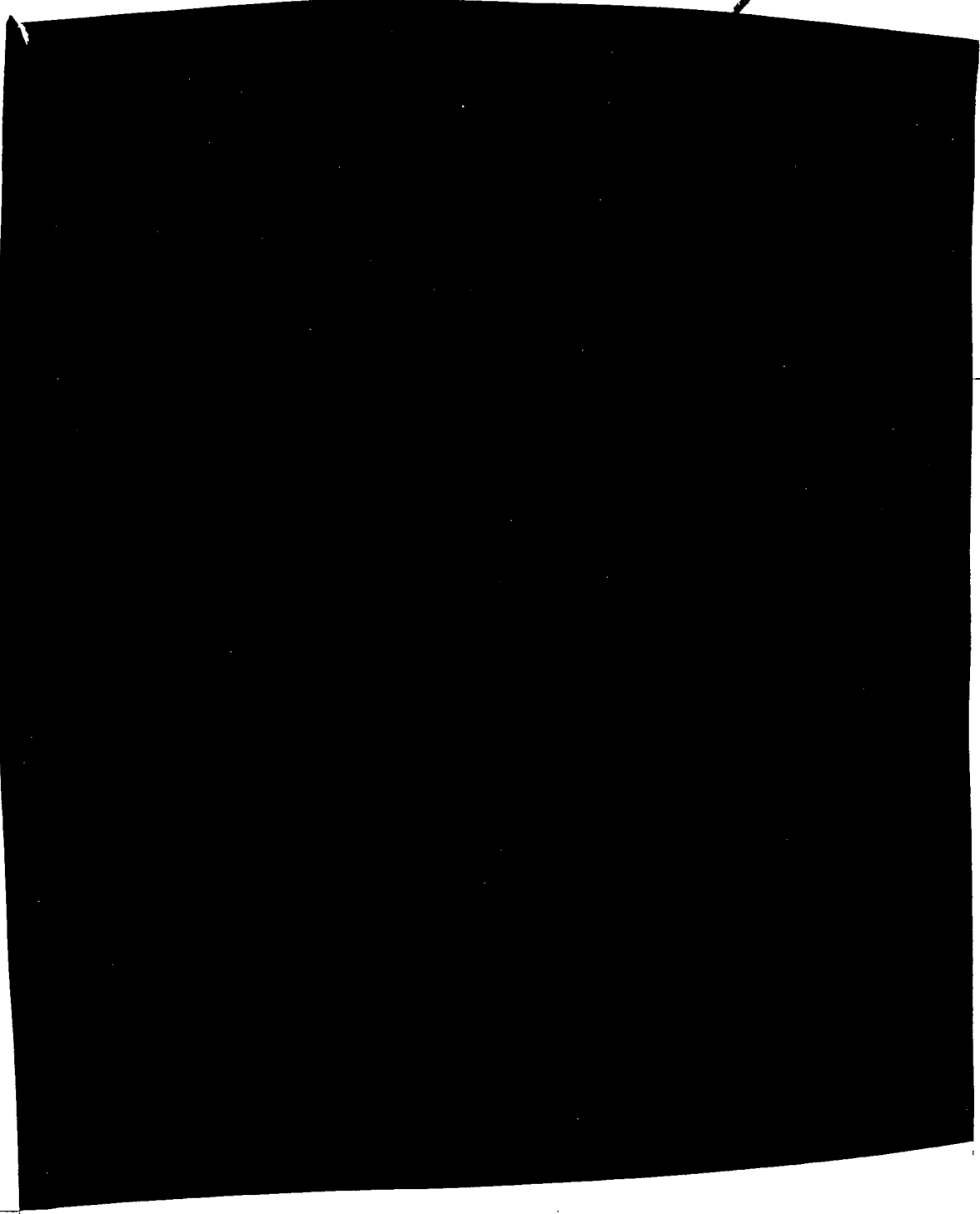
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EL SALVADOR:

**Party Politics Increasingly Polarized**

**Salvadoran political parties have begun discussions to decide a disputed seat in the National Assembly under military pressure to resolve the issue.** [REDACTED] b (3)

The newly elected National Assembly postponed its ceremonial opening on Thursday because of an increasingly bitter dispute over a seat that would give the rightwing National Republican Alliance—if successful—majority control of the legislature. The stalemate deteriorated, when the Alliance and President Duarte's Christian Democrats—together with a smaller party—met separately and elected Assembly leaders. [REDACTED] the Alliance is conducting talks with the smaller party, which holds the balance of power between the two major parties. [REDACTED] b (3)

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Duarte announced he will meet with the three parties on 15 May to discuss the Assembly impasse and a new proposal for talks with the Salvadoran rebels. [REDACTED] he favors a negotiated solution to the political controversy and that the Salvadoran Supreme Court should not have accepted the Alliance's appeal to decide the disputed seat. The Christian Democrats in the outgoing Assembly tried unsuccessfully to fire the Court justices recently. [REDACTED] b (3)

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The Salvadoran press is reporting coup rumors following recent military statements urging a prompt resolution of the legislative standoff. The Chief of the Joint Staff criticized the installation of rival Assemblies, saying that the guerrillas would take advantage of the turmoil if it persists. The Defense Minister [REDACTED] met separately with the political parties for seven hours on Wednesday. [REDACTED] b (3)

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[REDACTED] The postponement of the legislative session will avoid aggravating the dispute while the parties negotiate. Despite Duarte's offer to host talks, he has made no move to conciliate the two sides thus far and has supported his party's efforts to preserve its power in the new Assembly. His sudden offer of new discussions with the guerrillas—two weeks after he reiterated his refusal to do so—will complicate settlement of the dispute and fuel military concerns about his intentions. [REDACTED] b (3)

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A coup against Duarte is not likely because the military is emphasizing that it does not favor either party and wishes to remain apolitical. Nevertheless, a prolonged stalemate might provoke the military to attempt to impose a solution to the dispute. [REDACTED] b (3)

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**LEBANON: Amal-Hizballah Clashes in Beirut**

Fighting between pro-Syrian Amal militiamen and pro-Iranian Hizballah fighters continues in Beirut's southern suburbs despite efforts to arrange a cease-fire. According to Lebanese press reports, there have been more than 300 casualties in the fighting that began late last week.

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The press reports Syrian military intelligence chief for Lebanon, Ghazi Kanan, met with Amal militia chief Nabih Barri yesterday.

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**Comment:** Neither side appears to have scored any decisive victories in the fighting so far, although Hizballah has generally had the upper hand. The intensity of the clashes indicates that the already deeply split Shia community will be further polarized. Damascus's role is critical. The Syrians probably want to prevent a major confrontation that could spread to the Syrian-occupied Bekaa Valley and complicate Syrian-Iranian ties. If Amal suffers serious losses or if the fighting continues indefinitely, however, Syria will probably feel compelled to provide at least indirect support for Amal. Damascus could step up logistic aid and encourage the Lebanese Army's predominantly Shia 6th Brigade to intervene on Amal's side forcefully. Syria will use its own military forces only as a last resort.

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**HUNGARY: Party To Decide Kadar's Fate**

Hungarian party leader Kadar, responding to the efforts of Premier Grosz to unseat him, claimed in a recent interview that he is willing to retire if the party so desires. Grosz has said publicly that tomorrow's Central Committee meeting will decide whether to replace Kadar at the party conference on 20 May. Other senior party officials say Kadar may take an honorary post.

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Kadar will retain his position, but five Politburo members and up to a third of the Central Committee will be replaced.

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Kadar probably is being disingenuous about retirement; he is working hard to pack the conference with supporters, and, if he is ousted, it will not be for lack of trying to retain power. He probably would step down gracefully if he loses his post, provided he is assured that his successor will not blame him for Hungary's deepening economic and social maladies or for events related to the revolution in 1956. Kadar almost certainly opposes the elevation of Grosz, who has publicly attacked his leadership abilities. Increasing pressures for more dynamic leadership are likely to result soon in the ouster of some of Kadar's "Old Guard" cronies.

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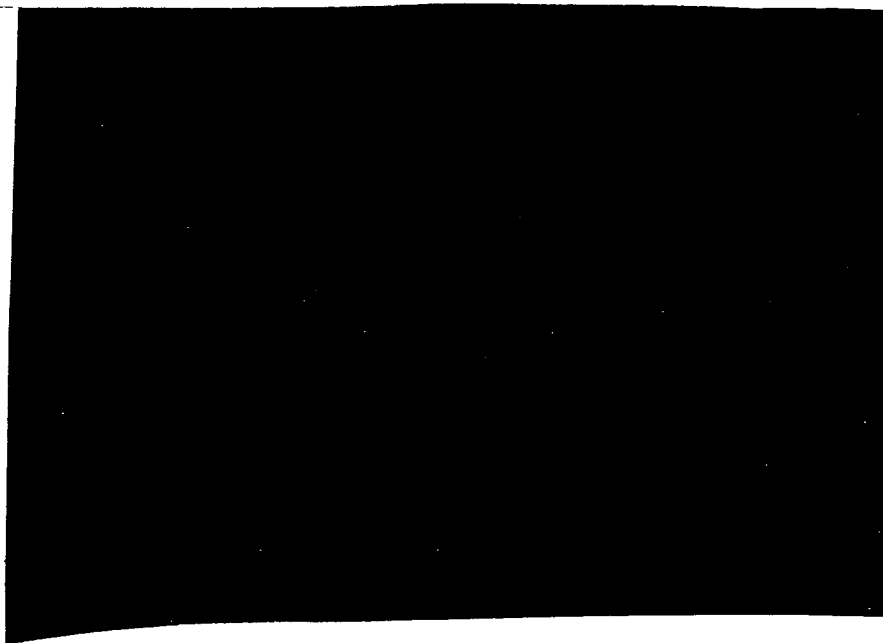
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**EAST GERMANY: Slow Growth Continues**

The East German economy—albeit the strongest in Eastern Europe—grew slowly in the first quarter, at about last year's 2-percent pace. According to official statistics, six of the 10 industrial sectors—including the key machine tools sector—fell short of plan targets. Industries producing consumer goods continue to lag behind plan goals, although retail sales figures were up sharply, probably in part because of price hikes. [REDACTED]

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*Comment:* First-quarter results indicate that the sluggish East German economic growth of the past three years has not been reversed. To accelerate growth, the regime must increase investment to overcome labor shortages, obsolescent technology, energy shortages, and declining export competitiveness. It is not likely, however, to divert many resources from consumption to investment because stable consumer supplies undergird its limited popular support. The current unrest in Poland also will reinforce the regime's rejection of both austerity and market-oriented reforms as economically unsound and politically destabilizing. Instead, the regime will probably continue to seek Western technology and more streamlined industrial organization to improve economic performance. [REDACTED]

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### USSR: Foreign Ministry Overhaul Predicted

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[REDACTED] a sweeping reform "modeled on the US State Department" will take place in the Soviet Foreign Ministry during the next two months to cut the massive bureaucracy [REDACTED] to make the Ministry smaller and more efficient many senior officers will be retired, sent overseas as ambassadors, or offered jobs elsewhere in the government.

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The changes probably involve organizing the Ministry along functional lines and will not be as sweeping as suggested because when Eduard Shevardnadze took over as Foreign Minister in 1985 he replaced much of the top-level leadership and made a number of organizational changes. Nevertheless, he described the results as "extremely modest" in a speech in May 1987 to the Ministry reviewing the changes and said that additional steps would be taken. None of them is likely to result in a significant shift in Soviet foreign policy, which is already being set by "new thinkers," but the elimination of deadwood at lower levels will help ensure that it is implemented more effectively.

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### INDONESIA: Taking Steps To Scotch Rumor Mill

Indonesian Minister for Politics and Security Sudomo last Thursday publicly denied widespread rumors that some Cabinet members have connections to the banned Indonesian Communist Party. He acknowledged that Communism remains a "latent danger" in Indonesia but suggested accusations of Communist ties be reported to security officials rather than to the press.

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[REDACTED] an anonymous letter charging that Vice President Sudharmono and other government officials have Communist backgrounds.

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The longstanding rumors of Communist connections among high-level government officials reflect the military's dissatisfaction with Sudharmono and several of his allies, to whom President Soeharto recently gave increased Cabinet rank. A continuing anti-Sudharmono drive may get out of hand and threaten Soeharto's authority. Sudomo's statement, certainly authorized by Soeharto, is probably the first step to keep the rumors in check.

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### CUBA-BRAZIL: Cultural Accord

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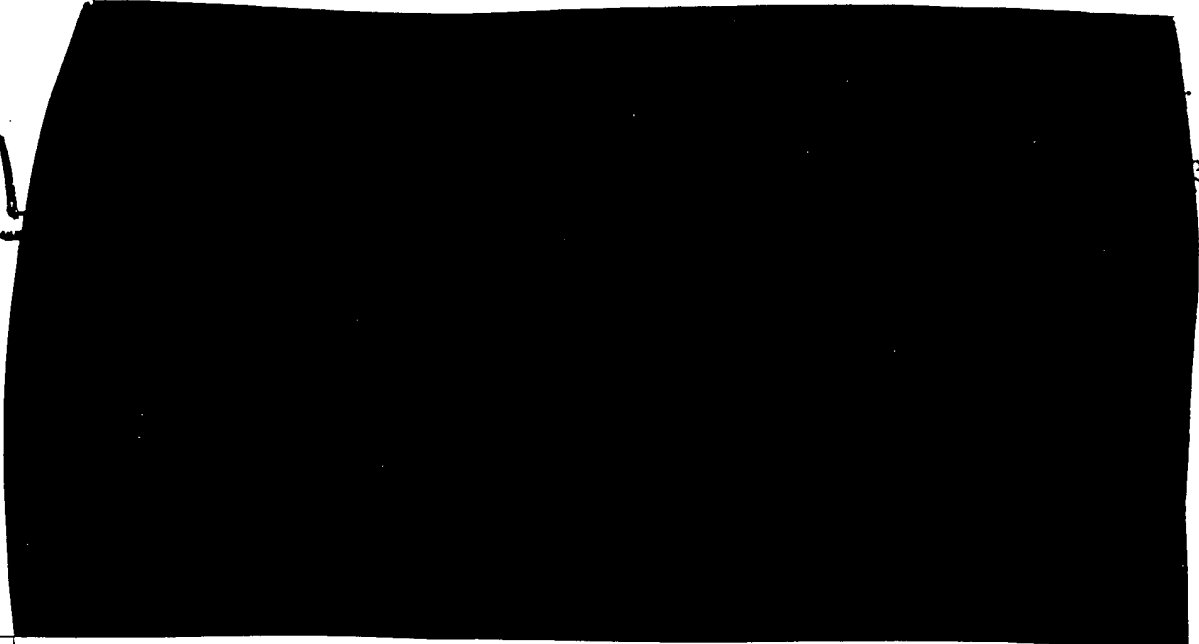
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Brazil and Cuba signed a cultural agreement during the recent official visit of Cuban Vice President Rodriguez, but [REDACTED] the visit was more a media than substantive success. The accord, the first since the two countries reestablished relations in 1986, covers the exchanges of graduate students, artists, writers, and athletes. [REDACTED] The Cubans failed to obtain credits to expand bilateral trade, and Rodriguez told the press that dates have yet to be set for the planned exchange of presidential visits. [REDACTED] b (3)

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[REDACTED] The visit is the second by a senior Cuban official this year—Foreign Minister Malmierca visited Brazil in January. Havana is eager to gain influence in the region through nonthreatening contacts, and Brazilian official and tourist travel to Cuba is growing. Brasilia, however, has little interest in increasing trade with Havana and probably will continue to stall on accepting a visit by President Castro. [REDACTED] b (3)

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**SUDAN: Military Disgusted by Political Disarray**

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Sudan's political disarray is contributing to military discontent. [redacted] the controversy over the formation of a new ruling coalition has left the government nearly in shambles. [redacted]

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[redacted] the National Islamic Front in the new government is likely to polarize differences between north and south and decrease prospects for an end to the southern insurgency. [redacted] growing public sentiment for the military to intervene and restore a semblance of order, although so far the military is disinclined to do so. [redacted]

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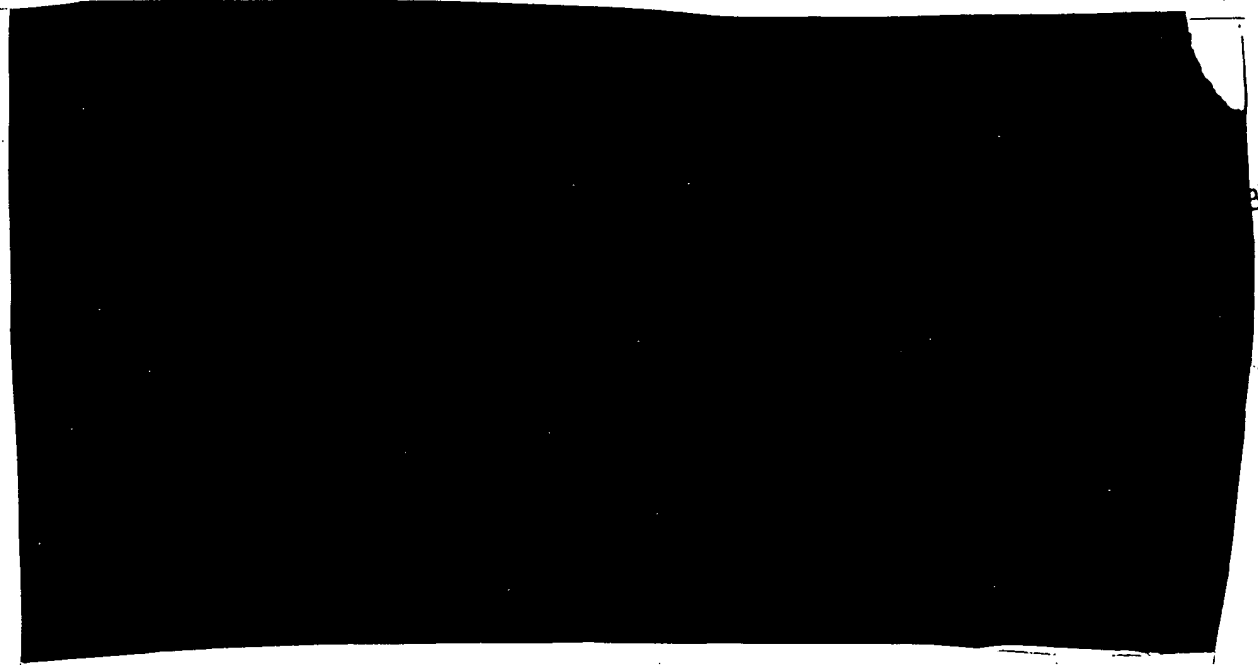
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b (3) [redacted] Military discontent with Prime Minister Sadiq is longstanding, but senior officers remain reluctant to take power and hence responsibility for Sudan's intractable problems. Civilian unrest stemming from basic commodity shortages or a series of crippling strikes, however, could prompt the military to move. Serious military setbacks against insurgents in the south—where the Army's morale is deteriorating—might also provoke the military to move against the civilian government. [redacted]

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In Brief

Europe

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— New Belgian Cabinet announced . . . Tindemans remains Foreign Minister . . . Francophone Socialist Guy Coeme named Defense Minister . . . likely to follow pro-NATO views of Socialist leader Spitaels. [redacted]

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— EC blocking US request that GATT review EC oilseed subsidies . . . EC likely to counter by pushing its Uruguay Round proposal to end duty-free treatment of soybean imports . . . would affect \$2.5 billion of US exports to EC. [redacted]

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Americas

— Unofficial returns in Ecuadorian presidential election give victory to social democrat Borja . . . populist candidate Bucaram has conceded defeat . . . Bucaram's loss eliminates threat of military intervention over near term. [redacted]

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Middle East

— Syrian President Assad on Friday made first public appearance in 10 days, marking national holiday . . . security tighter in Damascus, but military activity throughout Syria normal. [redacted]

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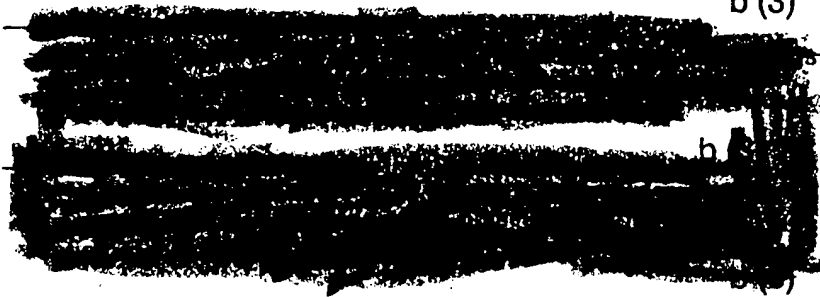
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— Colonel Shahbazi named Chief of Joint Staff of Iran's regular military forces . . . more supportive of war against Iraq and Revolutionary Guard than predecessor . . . suggests hardliners may be coming out on top despite loss of Al Faw. [redacted]

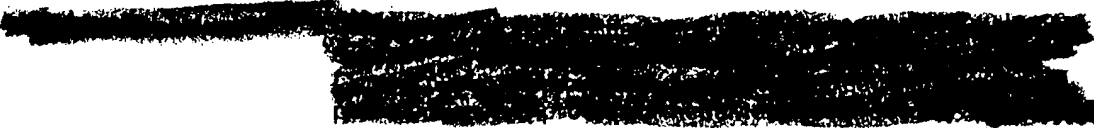
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### Special Analysis

#### DENMARK: Election Challenge to NATO Policies

*If Conservative Prime Minister Schlueter's minority government remains in office after the election tomorrow—as the polls suggest it will—he may be able to sway enough legislators to override the recent parliamentary resolution restricting visits by nuclear-capable ships. Even a Social Democratic-led government would be likely to look for an opportunity to "reinterpret" the ship-visit resolution in view of the strong Alliance reaction but would present NATO with problems on other security issues.* [REDACTED] b (3)

Schlueter has used the Allies' negative response to the 14 April resolution to cast the election as a referendum on Denmark's NATO membership and, to a lesser extent, on his government's economic policy successes. The Social Democrats are on the defensive and are attempting to deflect Schlueter's strategy by portraying the US and British reactions as interference in Denmark's internal affairs. [REDACTED] b (3)

Although the issue of the ship visits may be settled by a Schlueter victory, the election is unlikely to provide the new government with a mandate for change in either security or economic policy. In particular, a leftist majority—on security policy—will probably continue to constrain Denmark's contribution to NATO. The conventional force commitment Denmark has made to NATO is likely to deteriorate further, even if the Conservative-led coalition government wins a "pro-NATO" mandate. [REDACTED] b (3)

If the election permitted the Social Democrats to form a leftist coalition government, SDP leader Auken would probably try to reinterpret the ship-visit resolution in a way that he believed would be acceptable to the Allies. Auken would face strong pressure from the left not to offer any concessions, but continued admonitions from NATO that the resolution jeopardized Denmark's NATO membership might catalyze an SDP break from its leftist partners and an unraveling of the coalition. So long as an SDP-led government remained in power, however, it would implement a zero-growth defense budget and might be responsive to renewed leftist demands for inquiries into US military activities in Greenland. [REDACTED] b (3)

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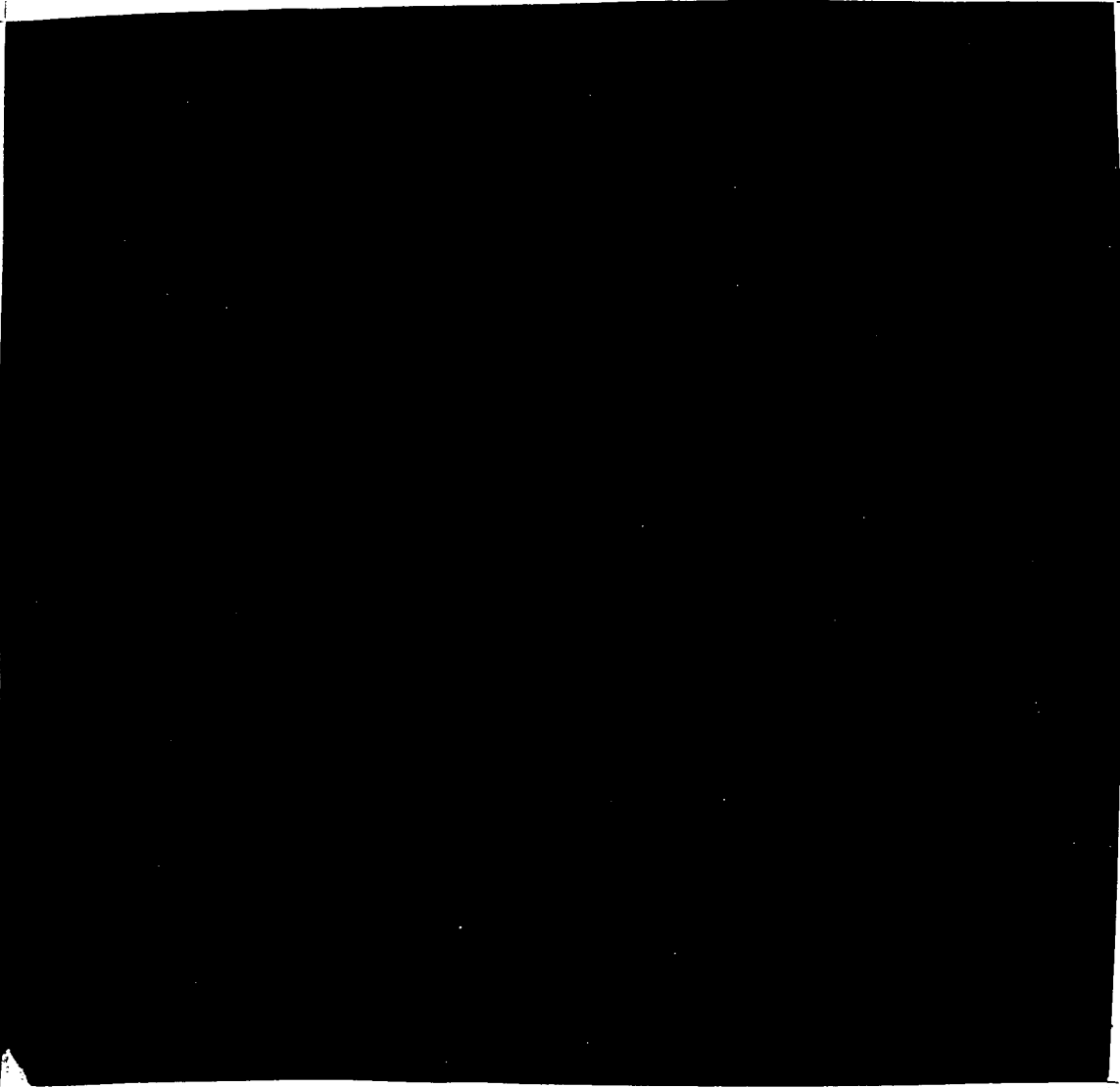
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## Special Analysis

### SOUTH KOREA: Postelection Politics Calm, So Far

**South Korean President Roh appears to be taking in stride the opposition's victory in winning a majority in the National Assembly last month. Roh's conservative postelection shuffle of party and Cabinet posts projects the image of a leader determined to keep his political agenda on course. More tests will come later this month when the opposition and ruling parties apportion the Assembly's leadership posts and set procedural rules.** [REDACTED] b (3)

Roh has publicly sought to put the best face on the election—encouraging the ruling party and calling on the opposition to use its victory responsibly. In addition, he has made clear that he has no plans to retreat from his promise of further reform. The President has continued to use his executive powers actively, including the creation of a committee to review the constitutionality of existing laws and rejuvenation of an advisory group on education. He also has moved quickly to avoid bureaucratic paralysis and uncertainty in the Army by quelling fears of a politically motivated purge of the senior government and military leadership. [REDACTED] b (3)

Roh appears ready to counter opposition plans to exploit the problems his administration inherited from former President Chun. On Saturday, Roh appointed a tough loyalist to the powerful post of Home Affairs Minister—supervision of police functions—and a politically conservative career jurist to become the intelligence chief as director of the National Security Planning Agency. Moreover, Roh's controversial choice for ruling-party Secretary General—Park Jun Byung, a former general who commanded the troops used to restore order in Kwangju City after the riots in 1980—seems to indicate that he will not be cowed by threatened parliamentary investigations into the incident. [REDACTED] b (3)

Roh's initial postelection efforts seem suited to keeping his political agenda on course. Reaching a working relationship with the opposition in the Assembly may have become more difficult, however, with Roh's appointment of known hardliners to sensitive posts. So far the three opposition parties have treated sensitive subjects carefully, offering to put off investigations of corruption under President Chun and election fraud until after the Olympics in September. The opposition's tone and tactics are likely to sharpen if interparty negotiations on procedural matters, such as dividing Assembly leadership posts, become sticky over the next month. The opposition also might use special sessions to review US-South Korean trade negotiations and security cost-sharing arrangements to put the Roh administration on the defensive. [REDACTED] b (3)

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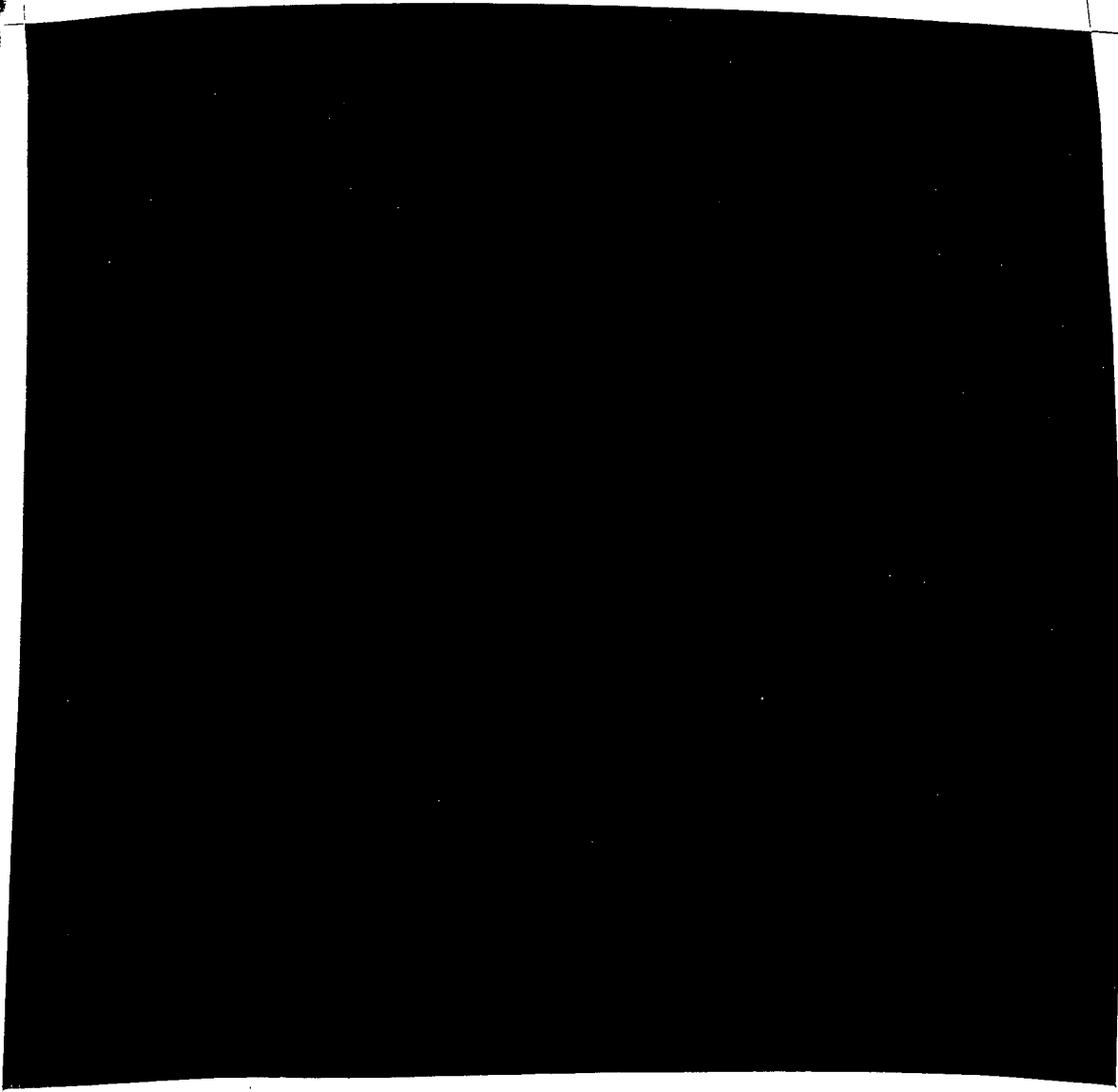
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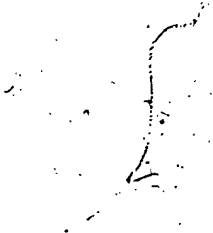
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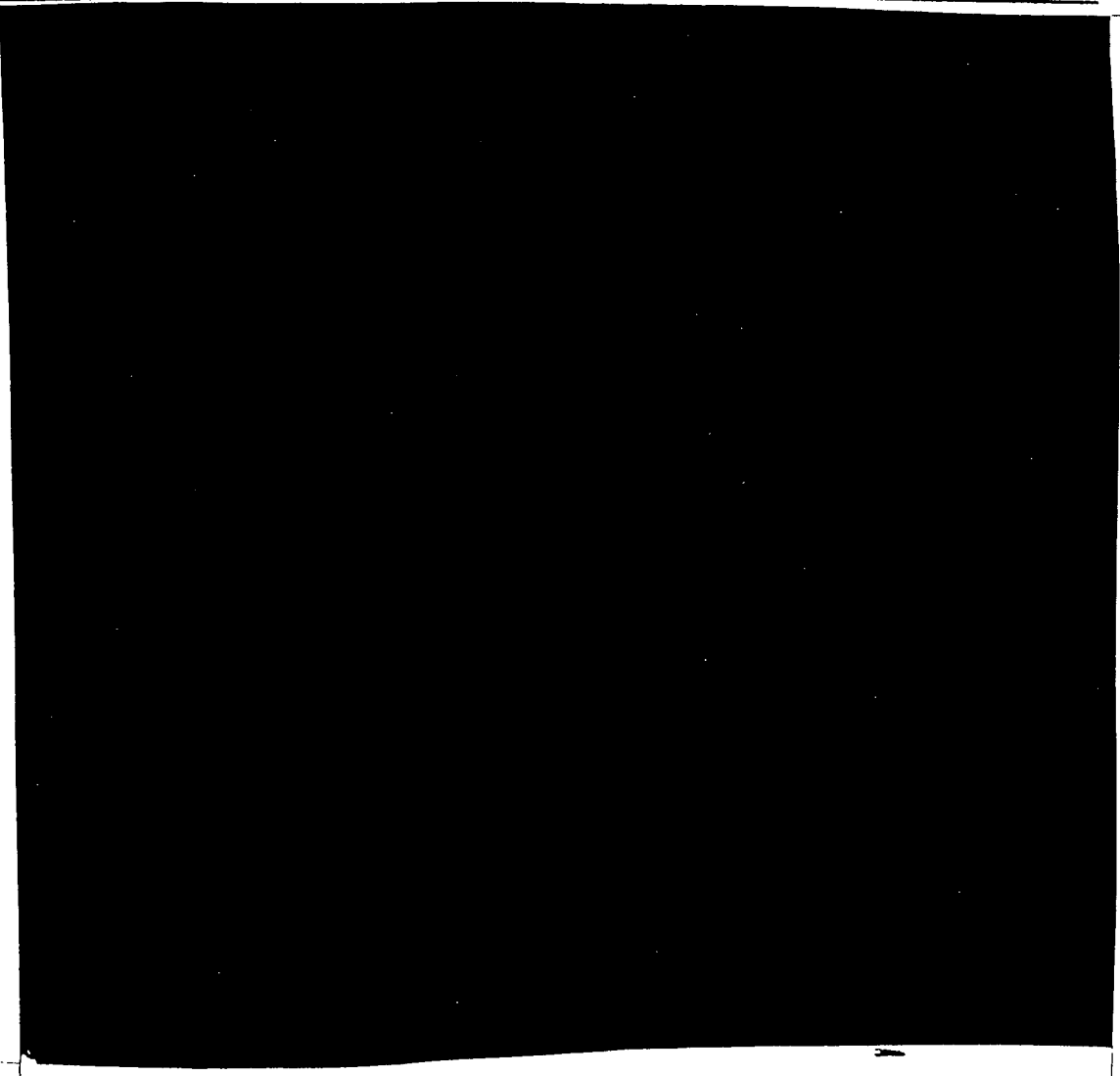
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Special Analysis



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