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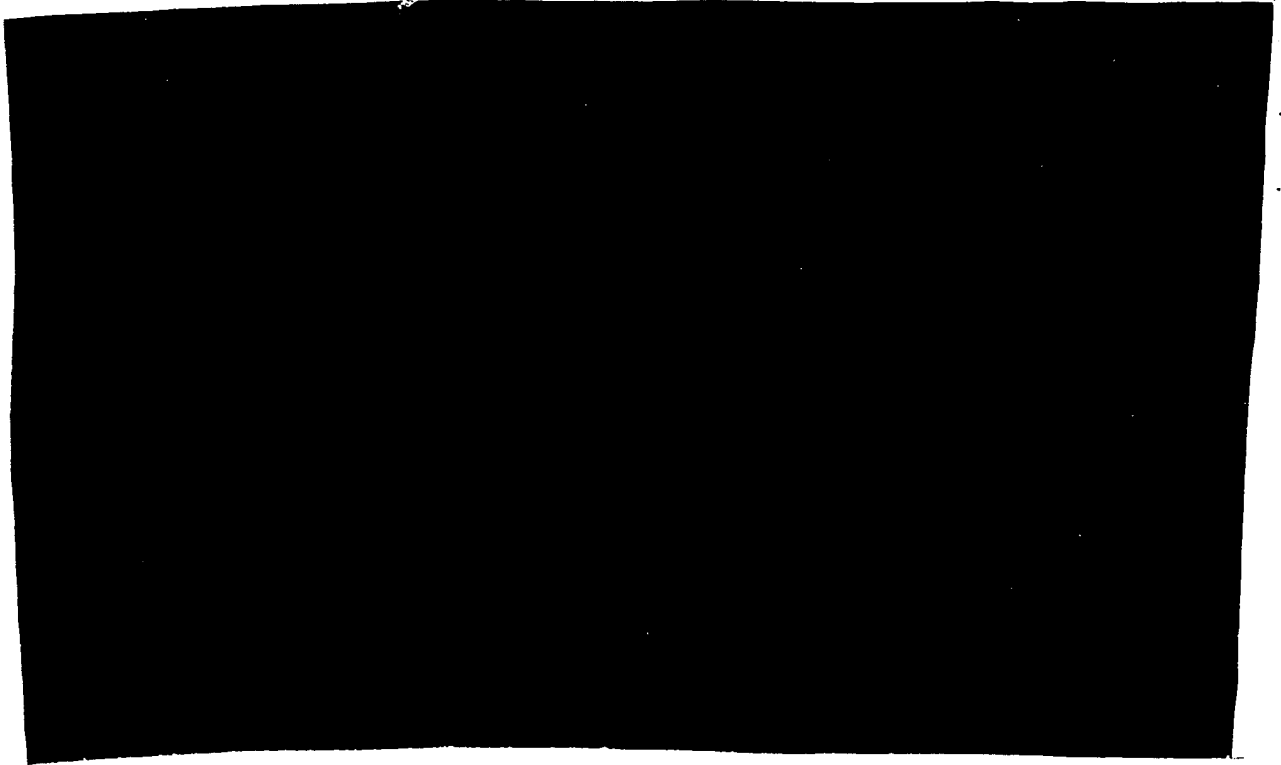
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LEBANON-IRAN: Situation Report

Fadlallah Offers Help With Hostages

The offer Hizballah spiritual guide Ayatollah Muhammad Husayn Fadlallah made yesterday to help free the Western hostages in Lebanon is probably meant to defuse the sense of crisis surrounding the hostage issue and to calm his followers during important Shia religious ceremonies this weekend. Fadlallah condemned the US but said, "We support the humanitarian cause of the [Arab and Western] hostages without discrimination." [Redacted] b3

Comment: Other Shia clerics and political leaders in Lebanon and Iran are likely to raise the hostage issue and the fate of Shaykh Ubayd, the cleric the Israelis took from southern Lebanon, in their sermons this weekend that commemorate the martyrdom of the grandson of the Prophet Muhammad—and in Shia eyes the only legitimate successor. The celebrations are marked by emotional sermons, a passion play, and ritual flagellations. [Redacted] b3

Fadlallah has religious authority but is not a key decisionmaker on the hostage issue. He has made similar offers before but usually distances himself from that issue. Fadlallah tells foreign visitors and members of hostages' families who seek his intercession that he has no direct knowledge of the hostages or their holders. He claimed, for example, to be unable to contact the hostage holders for the UN when its envoy, Marrack Goulding, recently tried to secure the body of Lieutenant Colonel Higgins. [Redacted] b3

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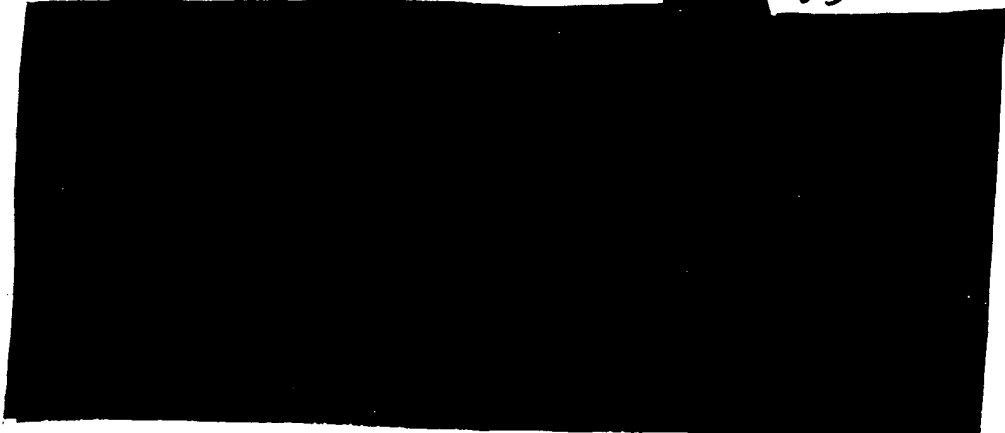
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LEBANON-
SYRIA-IRAN:

Stirring the Cauldron

Heavy artillery fire in Beirut, which has killed or wounded at least 150 people since Thursday and narrowly missed the US Embassy, is eroding support for Christian Prime Minister Awn. 63



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Comment: The marked increase in artillery shellings and the growing disarray in the Christian community notwithstanding, there is no indication a Syrian ground assault on the enclave is imminent. Damascus probably will try to coordinate Syrian and Iranian strategy in Lebanon at a proposed meeting between Presidents Assad and Rafsanjani—for which no date has been announced—before taking action. 63

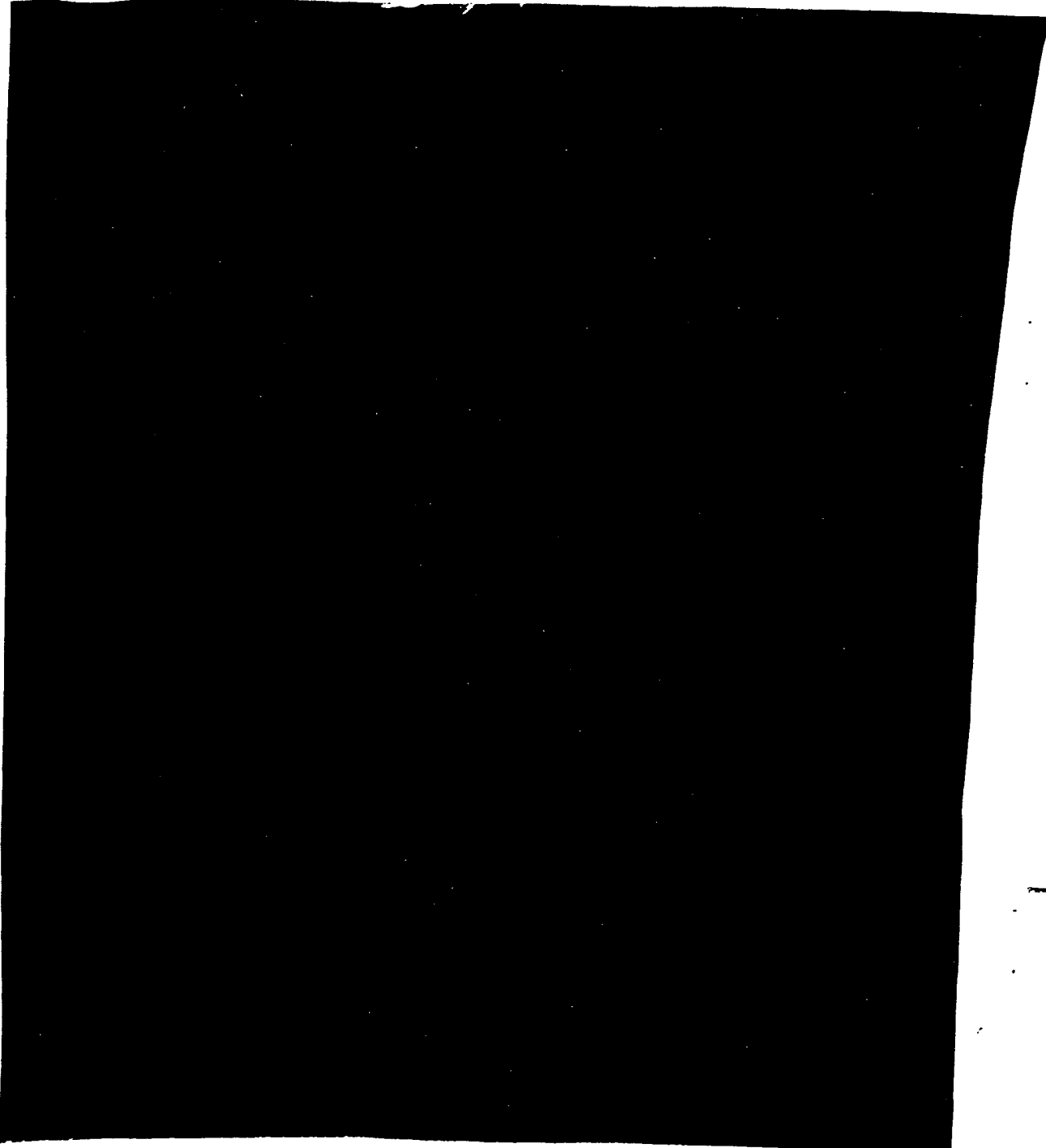
Tehran sees some opportunity in the Beirut fighting to demonstrate its support for Damascus, forge closer cooperation between Hizballah and Amal, and increase Iranian influence in Lebanon. But operations by Amal and Hizballah last week were little more than token actions; both groups remain reluctant to play a larger role in the confrontation with the Christians. The longstanding, deep-seated rivalries between the two Shia groups will undercut the effectiveness of military cooperation, regardless of Iranian and Syrian efforts. 63

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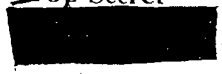
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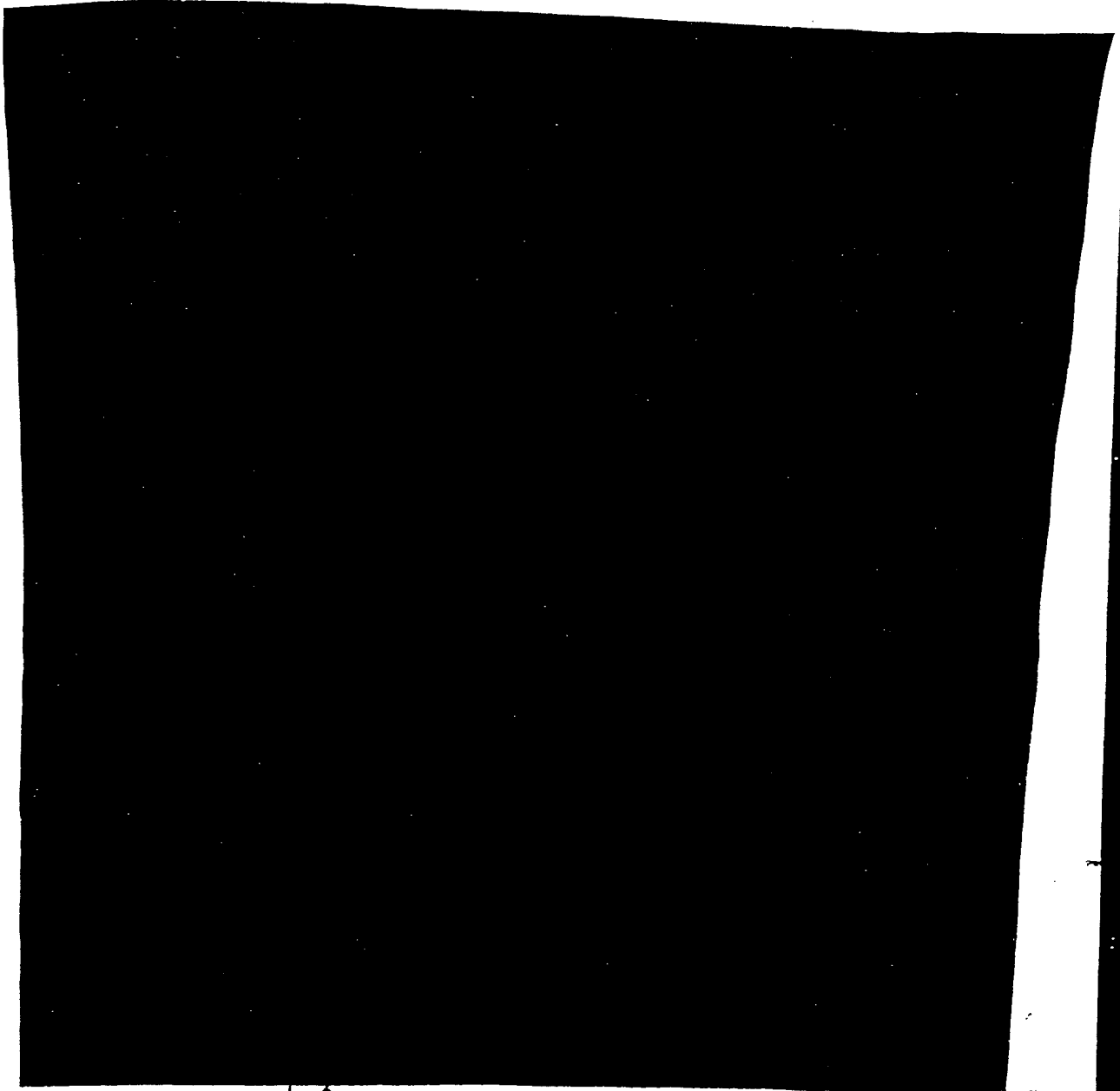
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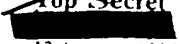


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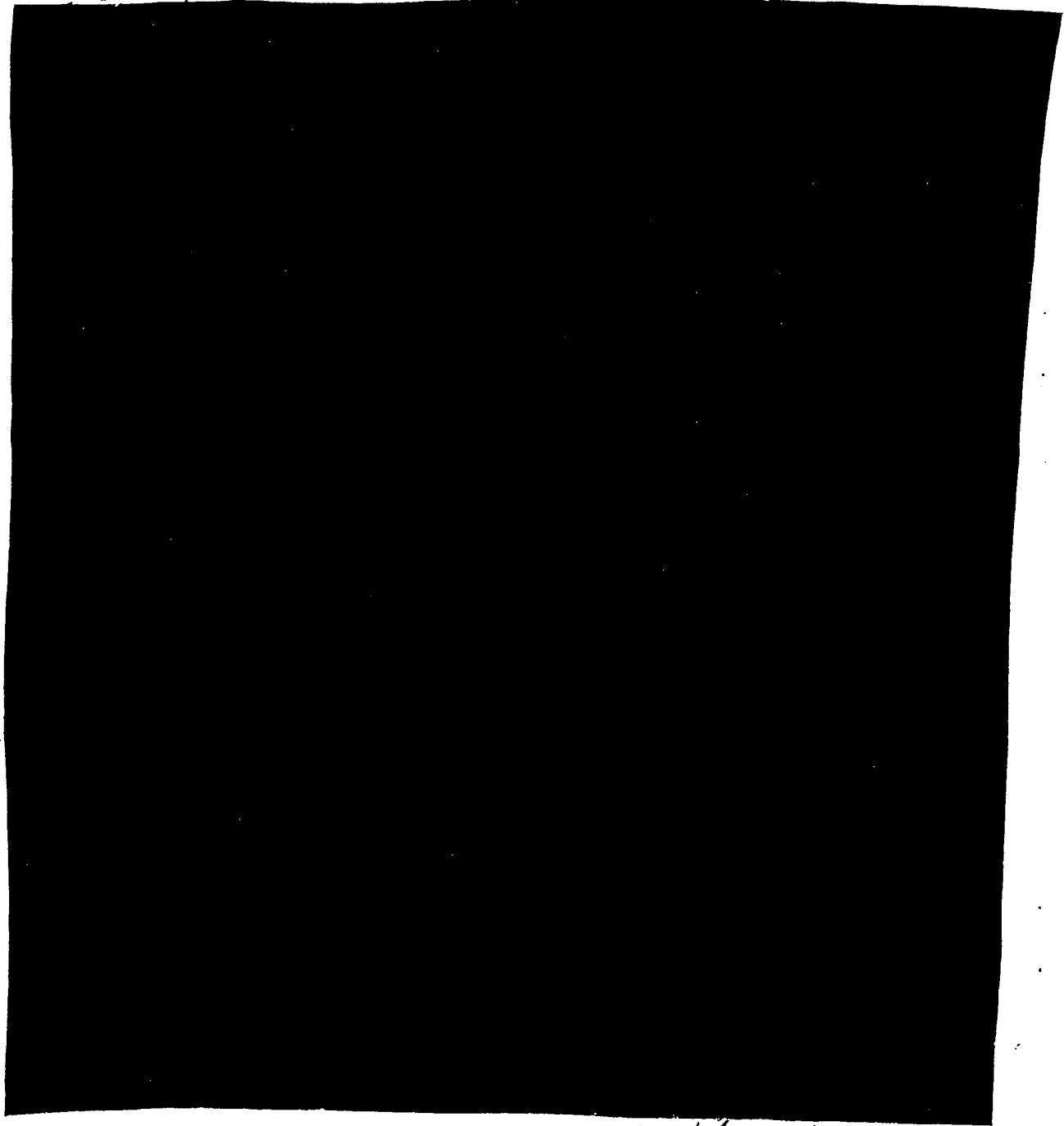


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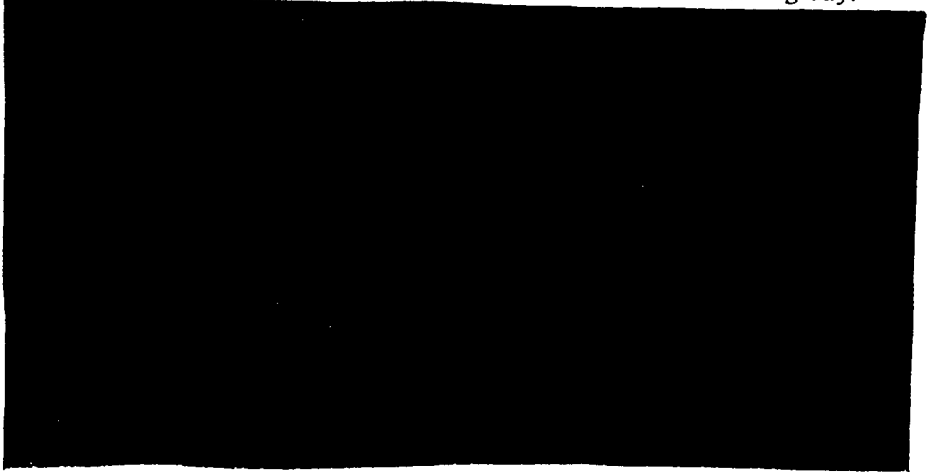
SOMALIA:

Siad Still Pursuing Military Options

President Siad, still shunning negotiations in favor of repression to ensure his regime's survival, is pursuing alternatives to Western military aid as fighting spreads throughout Somalia.

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Siad's son, armed forces commander General Moslah was in Tripoli on Wednesday and began talks in Moscow the following day.



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Meanwhile, government control of the countryside continues to slip.



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Siad would have to adopt a more anti-Western agenda to interest Libya in providing substantially more aid. He may believe he can obtain arms from Moscow, but the Soviets are not likely to offer such assistance, given their ties to Ethiopia and their attempts to promote peaceful settlements in the region.

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Mogadishu may have written off Western military aid but probably hopes to placate economic donors by easing its stance on making arrests—most dissident leaders are already in jail—and launching a showpiece investigation of abuses. But Siad is not likely to allow an investigation to implicate senior military officials, including his son, who may have ordered the executions.

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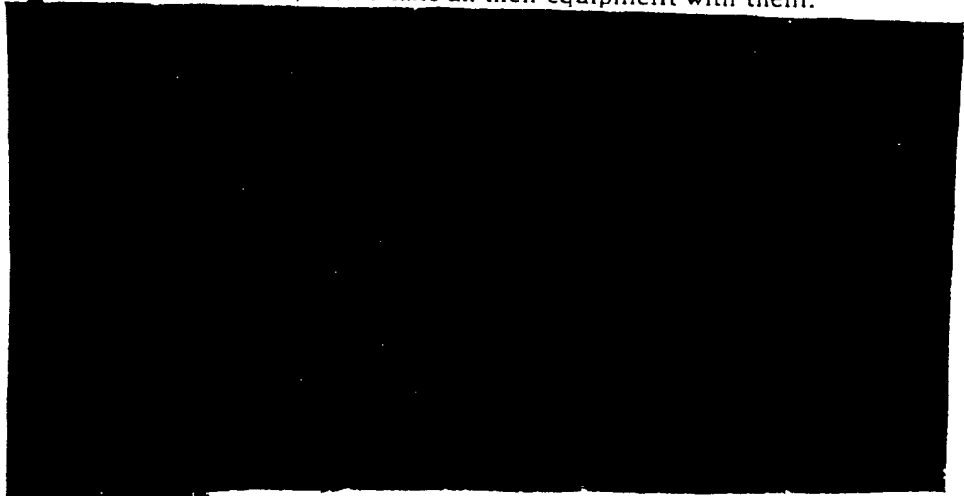
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USSR-
EASTERN
EUROPE:

Assessing the Withdrawal

Although the transfer of equipment from departing tank divisions contradicts some Soviet statements, the withdrawal of Soviet forces from Eastern Europe is proceeding generally in accordance with President Gorbachev's force reductions initiative. [redacted] 63

Last December, Gorbachev announced that six tank divisions, 5,000 tanks, and 50,000 troops would leave Eastern Europe by 1991. Official Soviet spokesmen later said that departing units, including the six tank divisions, would take all their equipment with them.



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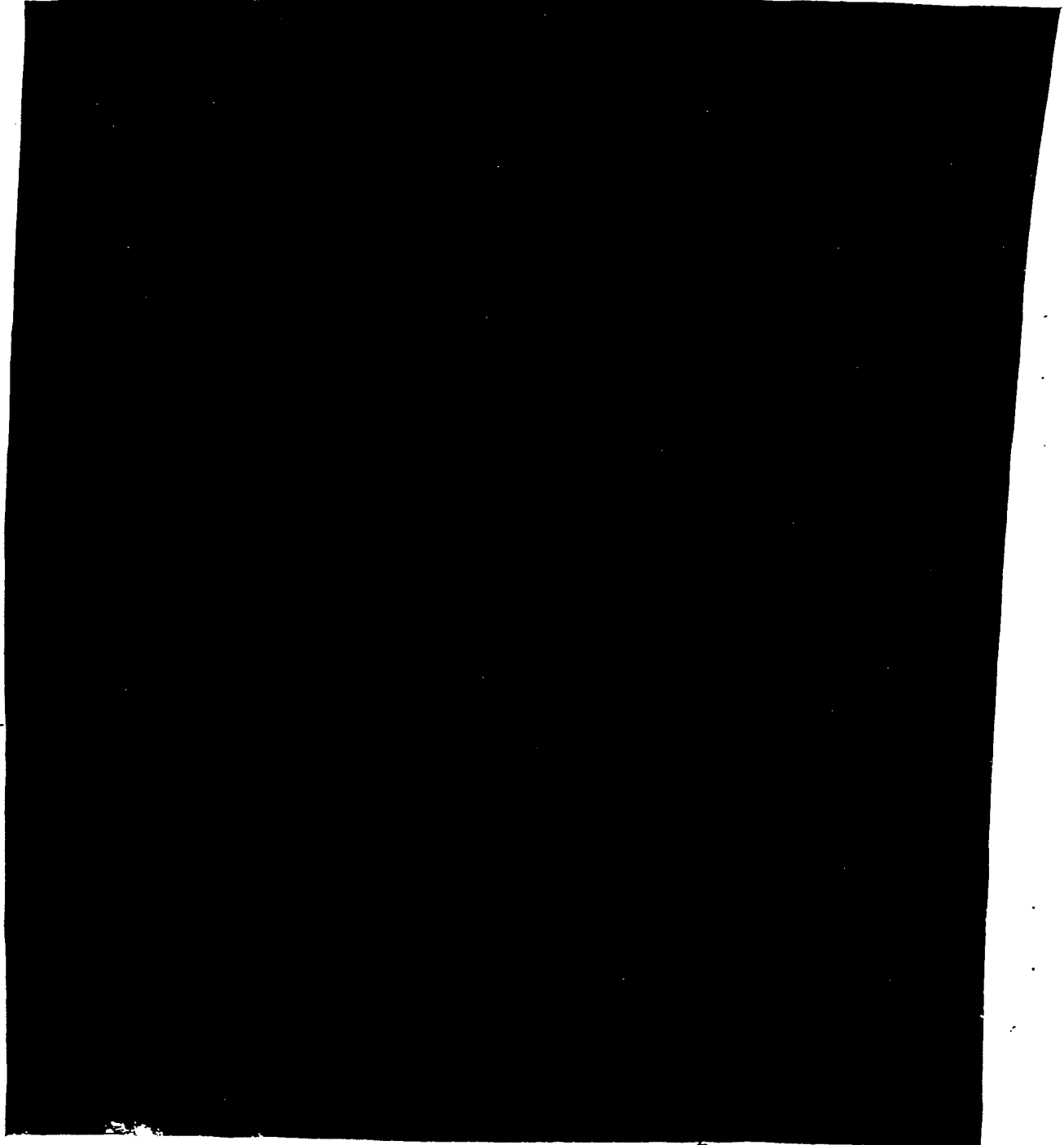
[redacted] indicate that the Soviet civilian committee monitoring the withdrawal expressed concern to Fursin that the West might view such activity as cheating. Fursin reportedly argued that the alternative, shipping in the large number of armored vehicles required to restructure remaining forces, would create a similar negative impression and incur additional transportation costs. [redacted] 63

63 [redacted] Despite the transfers of equipment and personnel, the withdrawals are proceeding generally in accordance with Gorbachev's initiative. The Soviets have retained in East Germany armored troop carriers and other equipment from withdrawing tank divisions, but, by transferring regiments, they have withdrawn more tanks than were in the divisions originally. The Soviets have always indicated they would restructure the residual force, and activity to date has been generally consistent with their stated plans. The concerns raised by the civilian monitoring committee, however, show an awareness that the West may conclude Moscow is violating the letter if not the spirit of its claims. [redacted] 63

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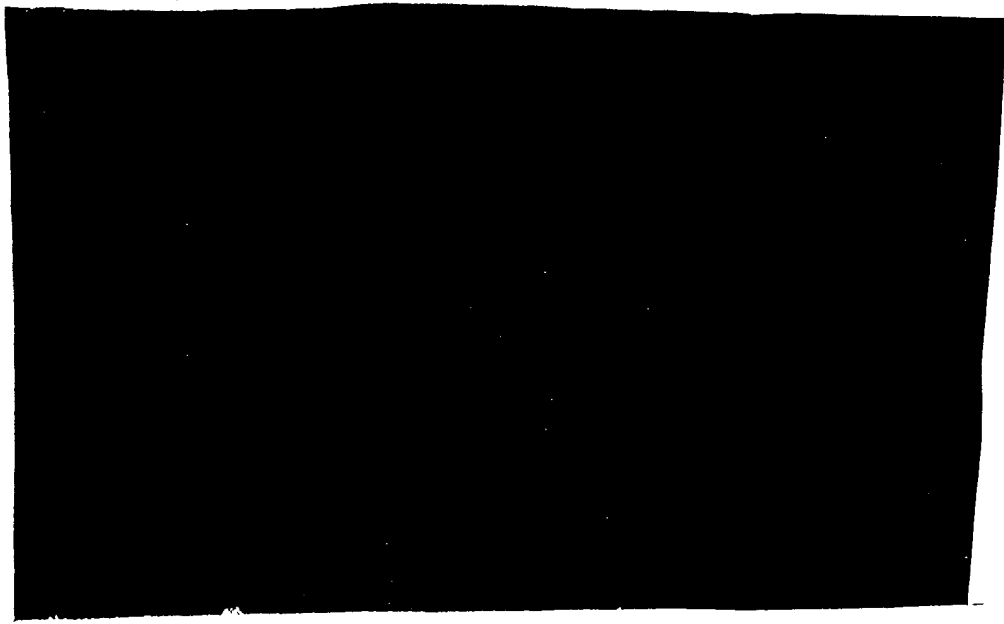
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SOUTH AFRICA: ANC President Suffered Stroke

The stroke that US Embassy sources say ANC President Oliver Tambo suffered on Tuesday comes at a critical period of internal debate on policy toward South Africa and may spark a leadership crisis. Tambo, who is 71, has been reported as having high blood pressure and may have had a stroke in 1985. He ~~is~~ is being flown to London. The ANC this week presented a detailed plan for a peaceful settlement in South Africa to the leaders of the Frontline States, hoping that the international community will eventually accept its main premises. ~~_____~~ b3

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~~_____~~ Tambo's illness may intensify divisions within the ANC over the timing and utility of negotiations with Pretoria just as the organization is struggling to seize the diplomatic initiative from the white regime. Tambo is widely credited with maintaining a balance between diplomat Thabo Mbeki, chief advocate of a more flexible negotiating posture, and Chris Hani, hardline chief of the ANC's military wing. For now, the ANC is likely to pursue the diplomatic track. An indifferent response to its proposals from Pretoria or the international community, however, will undermine those who favor negotiations, and—in Tambo's absence—the military wing may quickly step into the vacuum. The ANC may try to avoid a succession struggle by appointing a neutral acting president, such as Secretary General Alfred Nzo, during Tambo's convalescence. ~~_____~~ b3

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Borja's Key First-Year Initiatives

- Reduced inflation from record 85 percent in 1988 to projected 50 percent this year.
- Initialed \$138 million IMF standby agreement on Tuesday.
- Negotiated truce with Alfaro Lives in March.

Hurdles Ahead

- Continued economic stagnation; GDP growth this year may not top 1 percent.
- Disputes over legality of expropriations of two US-owned operations.
- Likely bitter campaign for congressional election next year.

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ECUADOR: Borja After One Year

President Borja, who is beginning his second year in office, hopes to maintain the moderate, pragmatic agenda that in recent months has helped avert economic chaos in Ecuador and allayed early skepticism about his governing ability. [redacted] coup plotting in the military, initially rife because of Borja's left-leaning ideology, has abated. Even the conservative media, strongly critical of Borja at the beginning of his term, now credit him with adopting needed economic reforms—such as raising gasoline prices gradually—without provoking serious unrest. Borja has recently preserved a majority in congress by astutely courting a rival center-left party, and the [redacted] believes he probably can count on legislative support for his program at least until the end of the year. [redacted] 63

63 [redacted] Despite Borja's successes, his party faces a tough fight to maintain its plurality (30 seats out of 71) in the congressional elections next May. To mollify the growing numbers of disgruntled left-leaning voters, Borja might weaken his commitment to orthodox policies and increase social spending. Such a shift would jeopardize his chances of concluding pending multilateral loans needed to promote real per capita economic growth next year. [redacted] 63

NAMIBIA: UN Offices Attacked

An attack against UN facilities in Namibia on Thursday left a local employee dead and may presage further violence against UN personnel and political candidates. [redacted] suggest white rightwing extremists were responsible, according to the [redacted] SWAPO has announced that its President, Sam Nujoma, will return to Namibia after 30 years in exile on 26 August, the 23rd anniversary of the group's armed struggle. [redacted] 63

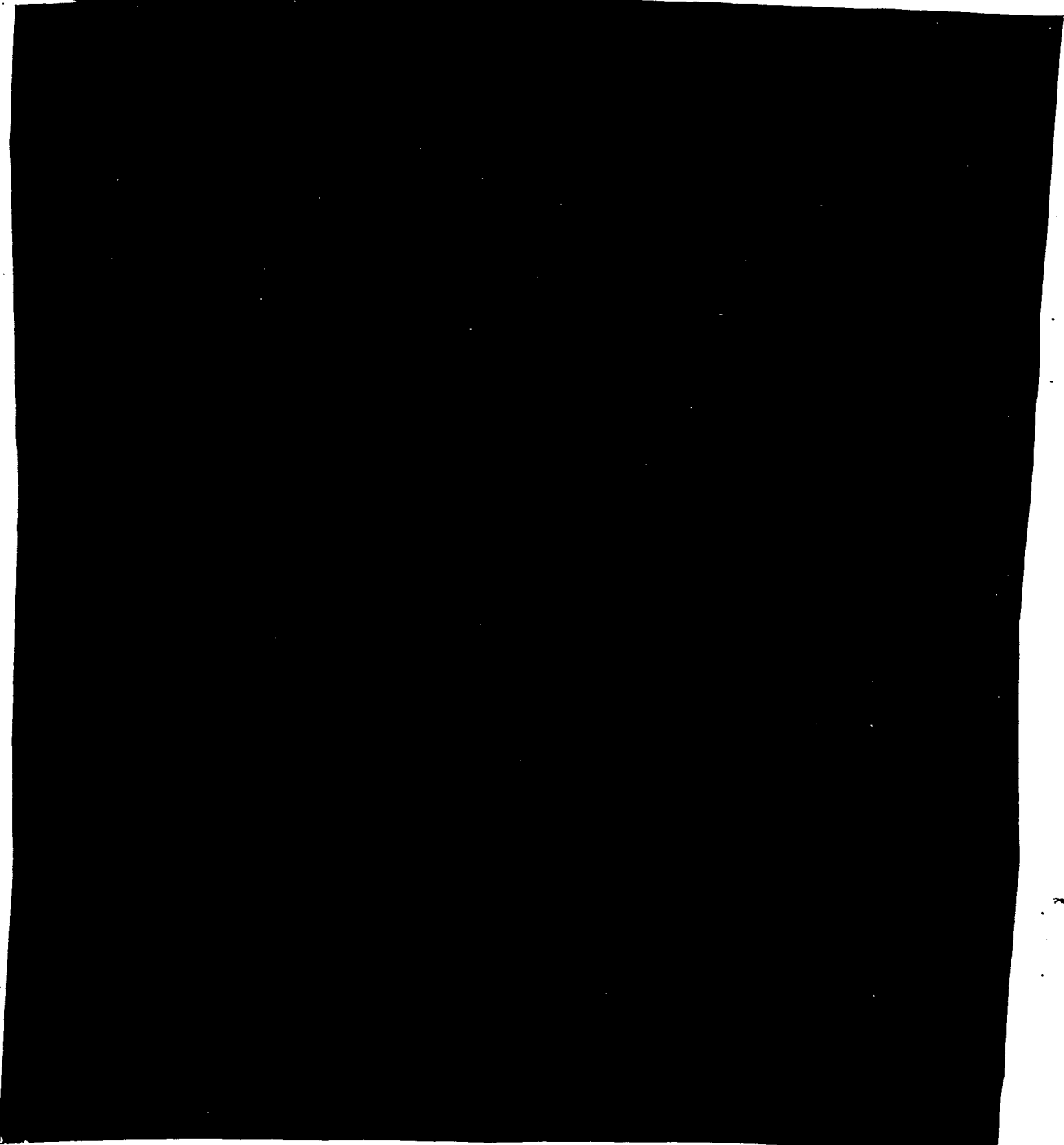
63 [redacted] UN personnel supervising Namibia's transition to independence have been harassed before, but this was the first armed attack. The proliferation of weapons in the territory is raising the potential for violence as the November election nears. Insurgents have smuggled weapons into Namibia for years, and the South African military has handed out many guns, especially after the SWAPO incursion on 1 April. Nujoma's impending return is likely to prompt SWAPO and leaders of the Frontline States to intensify their calls for additional UN police and military monitors to ensure the safety of SWAPO supporters. [redacted] 63

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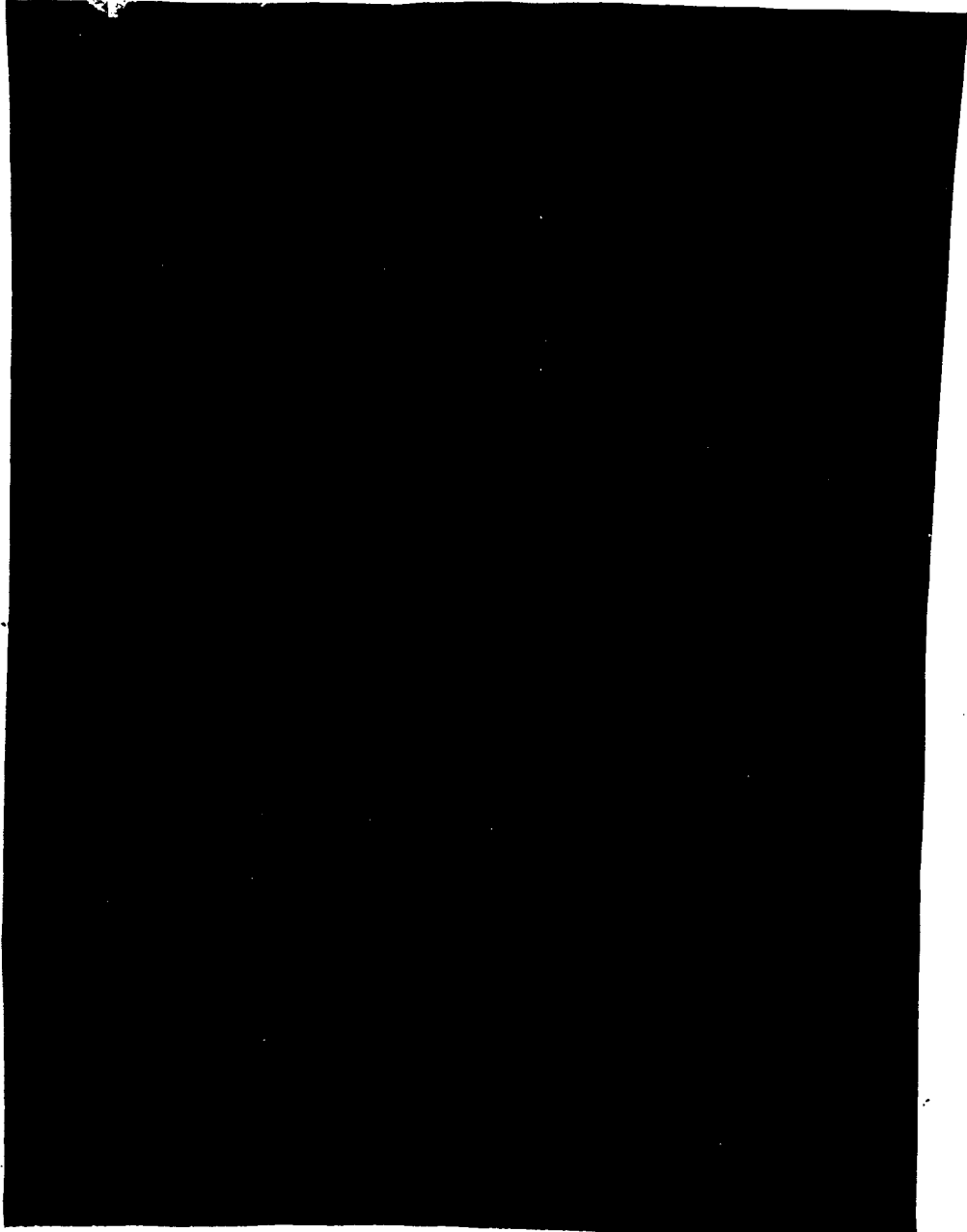
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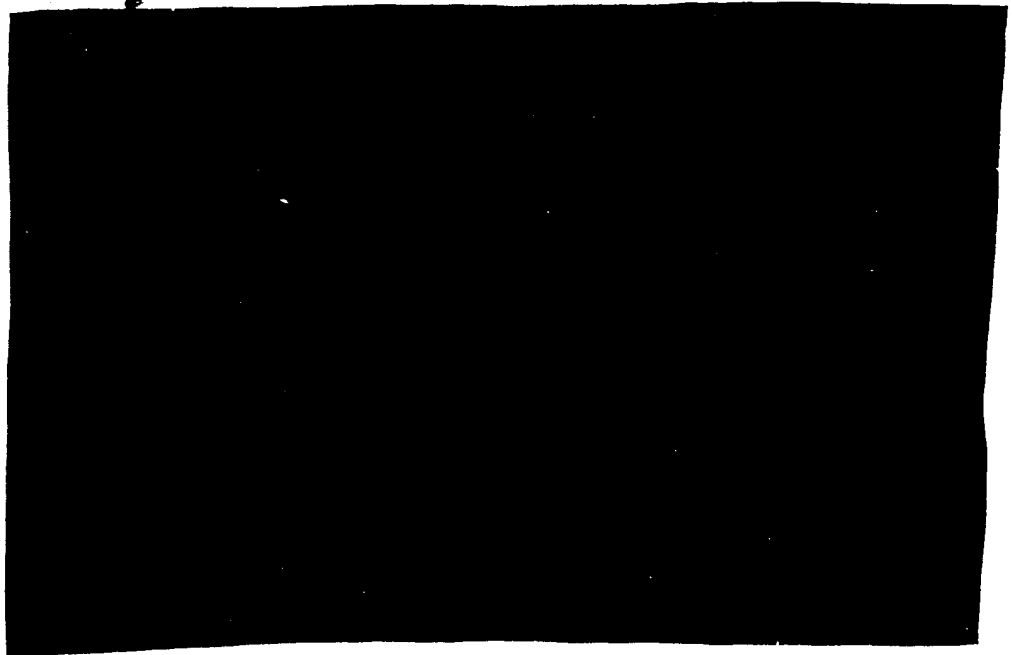
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USSR: Battle Joined Over Investment in Oil

The Soviets early this week unveiled a draft economic plan for 1990 that calls for reducing investment in energy by as much as 40 percent. On Wednesday, however, an article in a leading economic newspaper advocated further support to energy—particularly oil—as the key to spurring the slumping economy.

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██████████ Moscow currently puts about 20 percent of its investment spending into the energy sector, but increases in energy output have lagged far behind the growth in spending. For oil, in particular, investment has nearly doubled since 1980, but production has grown by barely 3 percent. Curbing investment in energy would free large amounts of resources but risk severe dislocations in Soviet industry, which is ill-prepared to slash energy use. Continuing to increase spending for energy, on the other hand, denies badly needed resources to other sectors. The battle over investment is likely to be intense, and other would-be resource claimants will be quick to respond to this opening salvo.

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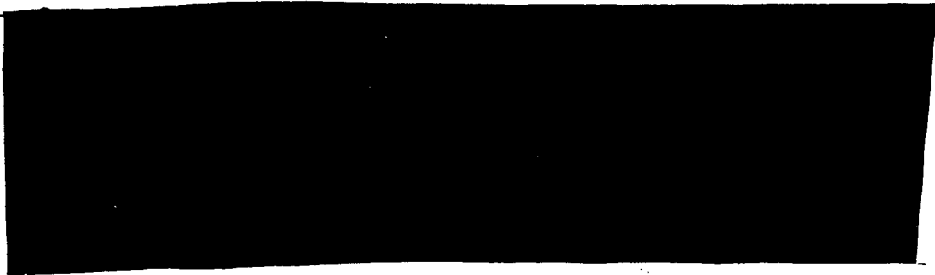
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In Brief

Middle East

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Americas

— Panamanian Defense Forces units detained four US military police vehicles and their occupants yesterday . . . quickly released them following show of strength by US forces in area . . . regime meanwhile blasted US military "provocations" at the UN.

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— Ruling-party infighting has led to rumors of coup attempt in Grenada early next week . . . coup unlikely, violence possible, especially if election not called soon . . . government deploying security units, seeking regional military assistance.

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Europe

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USSR

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Soviet Vice President Luk'yanov to visit China next month . . . if true, first high-level Soviet visit since May summit . . . further sign Moscow will not let Chinese strife derail improved relations.

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— Soviet 30,000 defense industry workers to switch to producing consumer goods by next year . . . less than 1 percent of that work force . . . direction right, pace too slow to meet leadership conversion goals.

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Africa



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Altering the Playing Field

Iranian radicals are once again showing themselves adept at making an issue appear to challenge the core precepts of the Islamic revolution. In their eyes, the hostage question involves Iran's mission to serve Islam by standing up to the US and by exporting the revolution through support of fundamentalist Shias abroad.

The radical backlash has been more implied than explicit, as is usually the case in Iranian politics. Radical leaders do not publicly use Rafsanjani's name. Instead, they imply that some Iranians are failing the litmus test for true leadership: loyalty to Ayatollah Khomeini's legacy. Since Rafsanjani's speech on 4 August, the rash of assertions about Khomeini's legacy and Iran's duty to confront the US leaves no doubt about the intended target.

Similar tactics of guilt by association were used successfully against Rafsanjani during the Rushdie affair in February. The radicals argued that, by allowing Rushdie's book to be published, the West had taken a stand against Islam and Iran.

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Special Analysis

IRAN:

Rafsanjani's Leadership on Hostage Issue Under Attack

President Rafsanjani's offer to help the US resolve the hostage issue has sparked intense factional infighting in Tehran. His radical opponents are implying the offer betrays Khomeini's legacy; their aim apparently is to make Rafsanjani dependent on their support over the long term.

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The radicals' immediate objective is to ensure a place in Rafsanjani's new administration.

[redacted]

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Rafsanjani may now find it more difficult to dismiss the radicals, and those he does let go will have more leverage to continue the challenge. By charging that the hostage issue is one of loyalty to Ayatollah Khomeini's principles, they hope to deflect attention from the rundown economy, an issue on which they are vulnerable because of their opposition to foreign assistance.

[redacted] b3

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[redacted] division of opinion in the clerical hierarchy. Since Rafsanjani's speech on 4 August, there has been almost no sign of support for the idea that Iran should help the US with the hostage issue, except on Tehran's terms.

[redacted] b3

Indeed, attacks on Rafsanjani's proposals are becoming sharper and more explicit.

[redacted]

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Tehran would prefer to wash its hands of the assets than to strike a deal on terms that violate Iranian ideological principles.

[redacted] b3

In the face of these attacks, Rafsanjani has retrenched.

[redacted]

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Rafsanjani wants to establish at least an indirect dialogue with the US.

[redacted] b3

The radicals' efforts to exploit the hostage issue for broader domestic political ends will severely limit Rafsanjani's ability to make policy changes. The conflict is likely to continue for some time, and Rafsanjani's practice has been to respond by bringing his policies more in line with those of his opponents.

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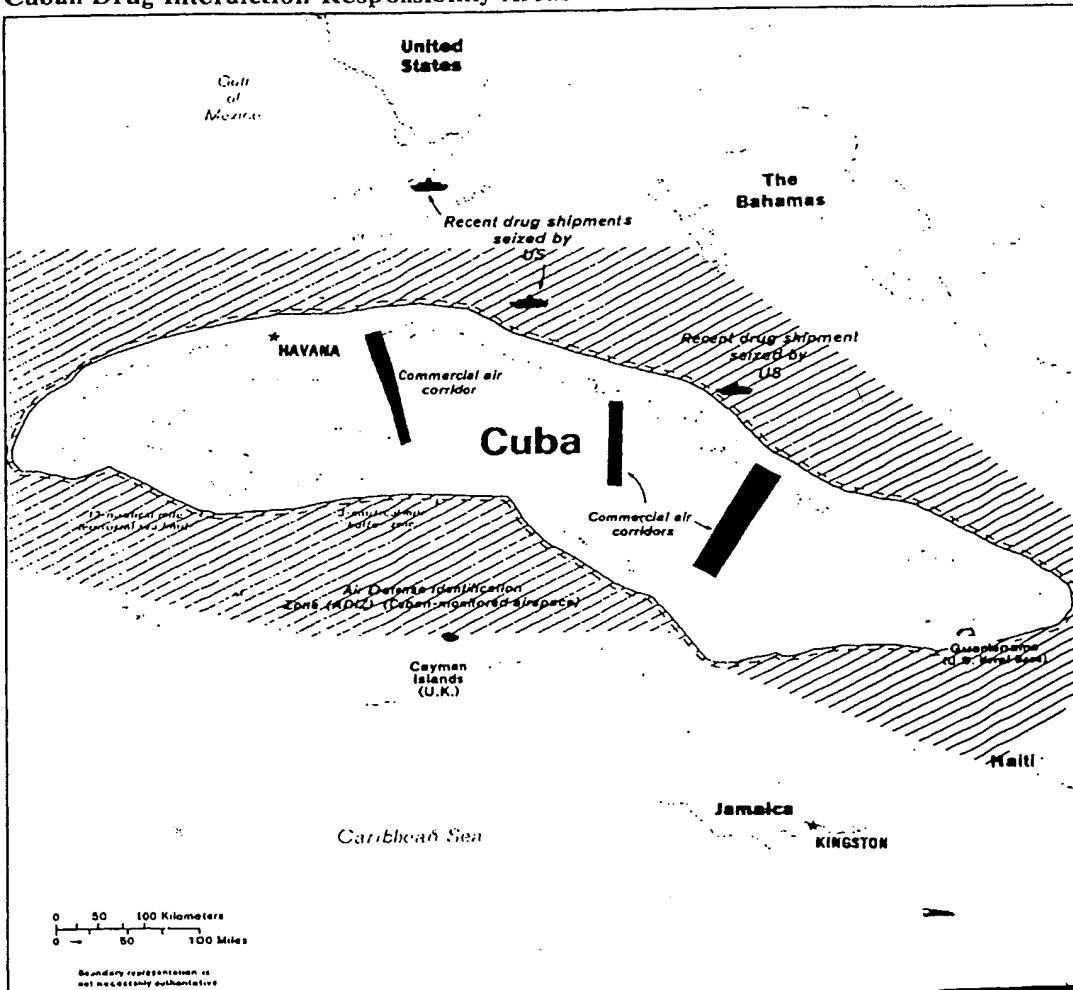
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Cuban Drug Interdiction Responsibility Areas



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Special Analysis

CUBA: Counternarcotics Efforts

Since the drug scandal involving General Ochoa and other Cuban officers broke in mid-June, Havana has moved to expand its antinarcotics efforts. Like other nations in Latin America, however, Cuba is severely hampered in combating drug smuggling by tactical weakness and a lack of equipment, as well as by narcotics-related corruption. [Redacted] b3

Cuba has played only a minor role in the drug trafficking between South America and the US, although its proximity to the US mainland along major air and maritime routes has helped make it a relatively secure conduit for some trafficking. Two of three commercial air corridors through Cuba have regularly been used by northbound aircraft to avoid US interdiction efforts. [Redacted] b3 traffickers use these corridors as shortcuts to drug transshipment areas near The Bahamas, historically a major route to the US for South American cocaine and marijuana. In addition, drug smuggling ships have exploited Cuban territorial waters and the 3-mile-wide buffer zone to elude the US Coast Guard, frequently picking up drug cargoes dropped from aircraft. [Redacted] b3

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Actions and Impact

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Since Castro's announcement in June, fighter aircraft and Border Guard units have reacted to at least six suspected air and maritime smuggling operations.

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Cuba Posturing Over Narcotics Interdiction

b1, b3 Cuban criticism of recent US statements on bilateral relations reflects President Castro's determination to resist pressure for change even as Havana holds out the possibility of cooperation on narcotics interdiction. The Communist Party newspaper *Granma* [redacted] said Monday that Cuba will not trade its "socialist" orientation for an agreement to combat narcotics traffickers. [redacted] b3 [redacted] added that Cuba will fight the smugglers alone if the US rejects its offer to work together. It contrasted last month's execution of four Cuban officers for drug involvement with the "scandalously mild" sentences given US criminal offenders.

Despite the harsh rhetoric, Castro probably would welcome cooperation with Washington on interdiction because it would improve his image and might make possible accommodation in other areas of interest to Havana. If rebuffed, Castro is likely to intensify his propaganda campaign portraying Cuba's counternarcotics efforts as more serious than those of the US.

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Special Analysis

SOUTH AFRICA: National Party Faltering

South Africa's ruling National Party, hurt by a rift between President Botha and party leader F. W. De Klerk, has been unable to capture the initiative in campaigning for the parliamentary election on 6 September.

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The tensions, which date from Botha's stroke in January and the party's subsequent request that he resign the presidency, resurfaced this week when Botha announced he had not approved De Klerk's plans for talks with Zambian President Kaunda on 28 August. Botha is irked by De Klerk's efforts to put his own stamp on National Party policies and has refused to appear at key official and party functions or to do much campaigning. ██████████ b3

Leadership problems have hampered efforts to mobilize the party's extensive grassroots organization, and it has had to rely on a media blitz to counter aggressive campaigning by the Conservative Party and the proreform Democratic Party. The campaign has also been hindered by the retirements of five Cabinet members and over a fifth of the party caucus, some on charges of corruption. As a result, the party's rivals have grabbed the spotlight in recent weeks, portraying it as riddled with corruption and sniping at its vague plans for political reform and its handling of the economy. ██████████ b3

The lackluster campaign is complicating the party's ability to counter the Conservative Party's growing appeal, especially among Afrikaners. As the campaign progresses, the Nationalists are likely to focus on the more vulnerable Democratic Party in an effort to preserve the increasingly important support of liberal English speakers. Recent National Party campaign speeches and advertisements have focused on Democratic Party contacts with the outlawed African National Congress, indicating that the National Party is trying to exploit white concerns about security, a tactic it used effectively in 1987 to attract liberal voters. ██████████ b3

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