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~~Top Secret~~**Special Analysis****USSR: Challenges to Perestrojka in 1990**

This year will be the most tumultuous since President Gorbachev's accession to power in 1985, as the Soviet leadership decides whether to continue policies that foster the USSR's growing social revolution or to reassert authoritarian rule. Whatever course Moscow chooses, the crisis in the USSR is likely to be made worse by deteriorating economic and nationalities situations, by a decline in the Communist Party's authority and prestige, and by developments in Eastern Europe.

Gorbachev's political reforms have taken hold. The revitalized Supreme Soviet is likely to gain more legitimacy and independence, although it is not yet viable without Gorbachev's support. Republic and local elections are likely to bring into the system officials committed to further democratization.

The very success of his democratization campaign, however, confronts Gorbachev with a deepening crisis in the party. Resistance to *perestrojka* in the party bureaucracy is widespread, intraparty bickering has increased sharply, and the party machine has lost much of its legitimacy among large segments of the Soviet public. Gorbachev, in response, seems to be sowing disarray in the party's central bureaucracy and undermining it to gain a freer hand for transforming the party into an engine of change. It will be almost impossible, however, to loosen the bureaucracy's stranglehold while relying on it to hold the country together. Centrifugal forces already unleashed are likely to intensify this year, severely straining any arrangement Gorbachev can hammer out.

Gambles in Economic and Nationalities Policies

Alarmed by the deteriorating economy and growing consumer discontent, the leadership has revised its economic policies. It has introduced a stabilization program that, over the next three years, is to reduce the budget deficit, significantly expand the supply of consumer goods, and control the increase in income. Progress toward a more market-oriented economy must be measured by the implementation of this program; it is unlikely to succeed. The targets for consumer goods production next year are far beyond the economy's capabilities, and efforts to reduce the deficit are overly optimistic. The attempt to control income growth will fail, fueling inflation; shortages of food and consumer goods could spread.

As distinctions between independence movements—as in the Baltic republics—and ethnic unrest—as in the Caucasus—begin to break down, burgeoning nationalist movements in the non-Russian republics will pose serious political difficulties for Gorbachev.

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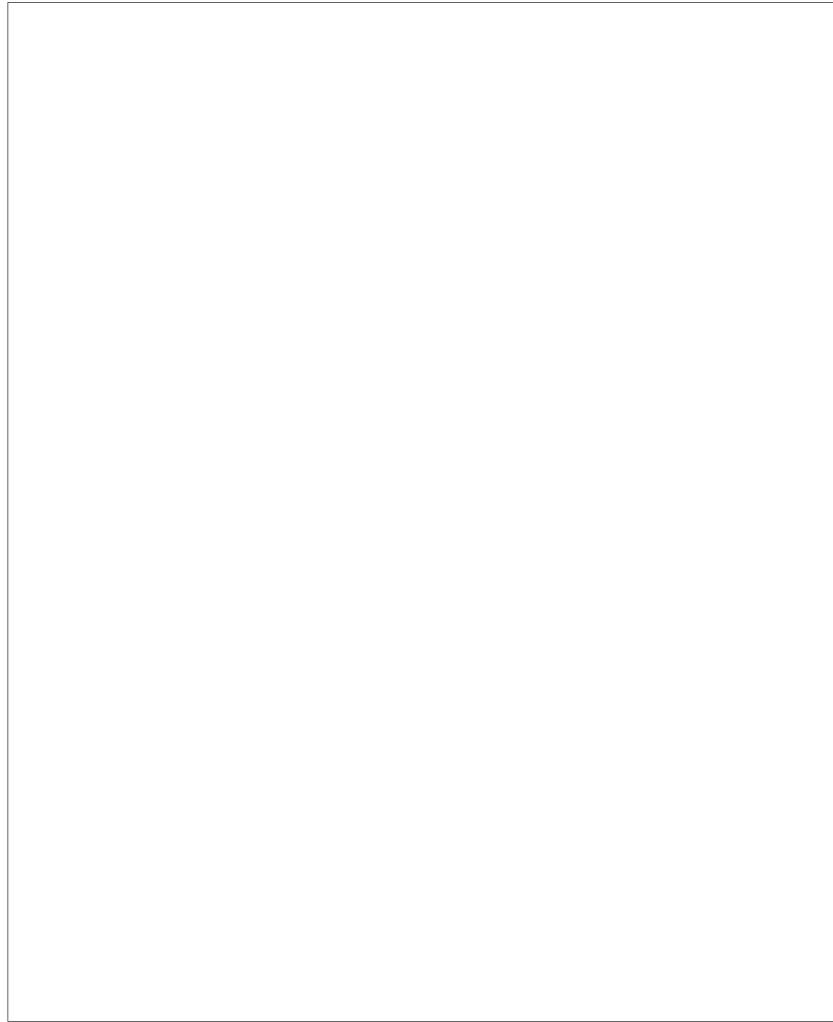


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Director of Central Intelligence

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NATIONAL INTELLIGENCE DAILY

Wednesday, 17 January 1990



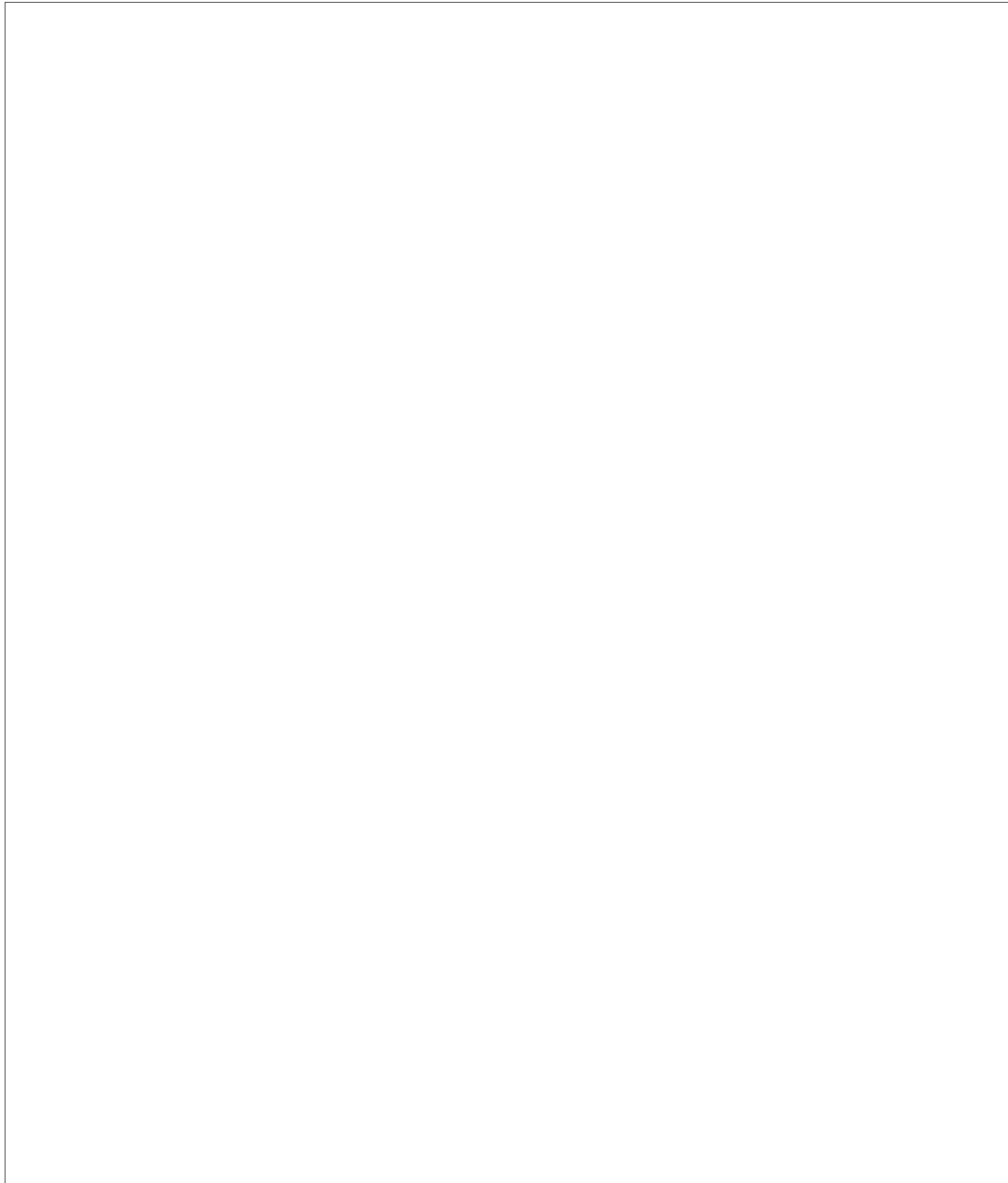
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EAST GERMANY: Opting for a Market Economy

East Germany's decision to institute a market economy, including limited joint ventures, is viewed as a good first step at home and in West Germany but may not ward off continued emigration and an economic tailspin.

East German Economics Minister Luft, who had advocated a middle way between central planning and capitalism, told a gathering of industrialists from the two Germanys Saturday that East Germany was ready to begin the transition to a market economy. She announced the first cuts in East Berlin's \$20 billion consumer subsidy program, which now absorbs about a fifth of the state budget. Some East German industrialists argued that the country's large state-owned industrial "combines" should be sold to foreign and domestic investors as joint stock companies, but Luft promised only to make them virtually independent of government interference.

Senior officials almost certainly are relieved their new policies drew even a cautious endorsement from West German business leaders. They recognize, however, that ensuring the crucial support of the West German business community will remain difficult; the private sector, not Bonn, would provide most of the assistance required to stave off economic collapse. Although encouraged by the signs of East German flexibility, West German industrialists and bankers will continue to watch the implementation closely.

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Azeri Popular Front Implicated in Violence

The Azeri Popular Front has been in the forefront of nationalist agitation in Azerbaijan. Leaders of this diverse umbrella organization may be only loosely connected to the widely scattered violence being perpetrated under the Front's name, but the leadership's failure to distance itself from all violence has clearly helped escalate passions. Recently, in addition to destroying facilities along the border with Iran and seizing government offices, groups associating themselves with the Front have seized medical supplies, guns from local police, and even four armored vehicles from MVD troops; they reportedly are also blocking roads in the Baku area.

At least some Front leaders, however, have tried to rein in extremists since a Front-organized rally on Saturday led to a pogrom against Armenians in Baku. The rally's degeneration from a mass confrontation with the authorities into an uncontrolled ethnic riot probably shocked certain Front leaders—they reportedly have mounted volunteer security patrols in Baku in a bid to restore order. The patrols have been credited in Soviet media with saving a number of Armenians from Azeri mobs.

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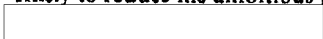
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IRAQ: Concerned Over Economic Hardship

Iraq, eager to improve depressed living standards, is fumbling for an effective mix of economic measures. Baghdad nearly doubled agricultural subsidies and reduced prices on public-sector goods as much as 25 percent recently. [redacted] Iraq plans to increase spending on civilian industries and agriculture to ease shortages, according to press reports. The government nonetheless reportedly plans to cut overall spending this year—even on consumer goods—to curb inflation, currently running at an annual rate of 30 to 35 percent. [redacted]

Comment: The regime hopes to control inflation in order to quiet the grumbling that began after the cease-fire with Iran in August 1988, but the measures announced so far will not significantly improve the situation. Shortages of imports and limits on the private sector will continue to depress domestic output and fuel inflation. President Saddam Husayn probably will feel pressure to take further action this year, especially when large-scale demobilization begins, but is not likely to reduce his ambitious plans for the military or the oil sector.

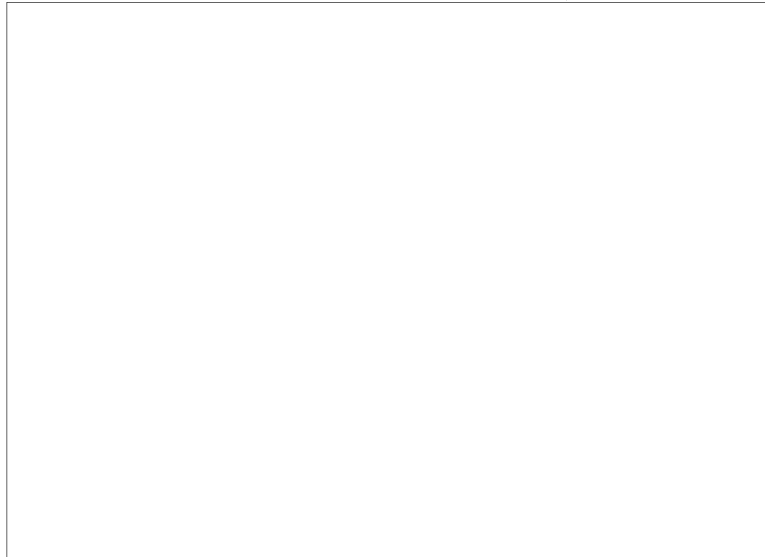


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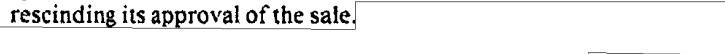
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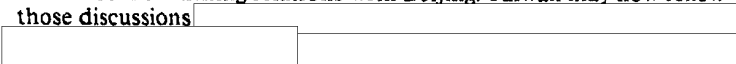
CHINA-TAIWAN-FRANCE: Frigate Deal Dead in the Water

Beijing has apparently persuaded the French Government to reverse its decision to sell frigates to Taiwan, sending Taipei back to square one in its search for a light combatant to complement the Perry-class frigates being acquired from the US. According to press reports, a spokesman for French Premier Rocard has confirmed that France is rescinding its approval of the sale.



France has offered no explanation for its about-face.

Comment: China probably used strong threats, perhaps even the potential downgrading of relations and cancellation of Sino-French commercial ties, to block Taiwan's first major weapons purchase from Western Europe since 1981. Paris also probably sensed that canceling the sale would make Beijing more amenable to settlement proposals at this week's five-power summit talks on Cambodia. China—increasingly frustrated at Taiwan's recent success in breaking out of diplomatic isolation—almost certainly believed the sale would trigger other weapons deals between Taiwan and countries in Western Europe. The Taiwan Navy last year negotiated the purchase of South Korean frigates but was blocked by Taiwan legislators concerned about Seoul's warming relations with Beijing. Taiwan may now renew those discussions.

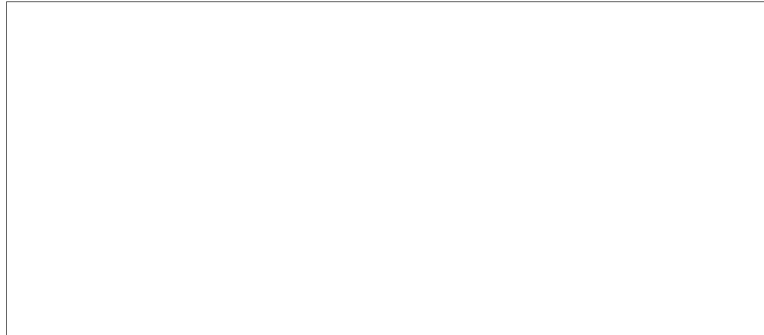


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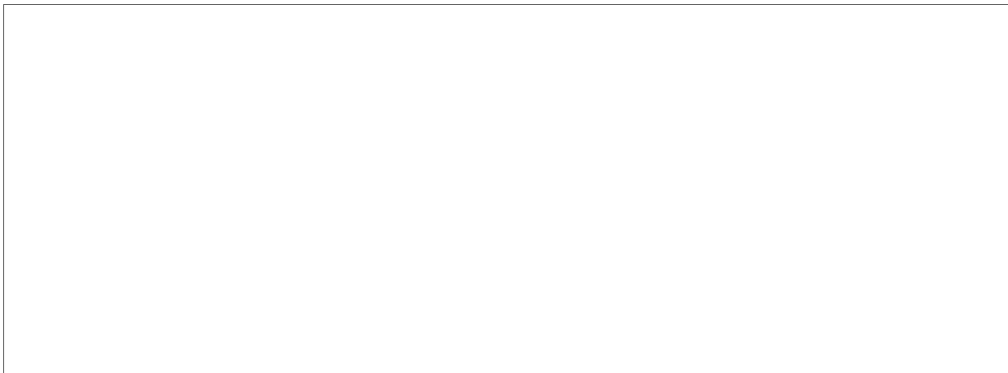
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**Demands for
Georgian
Independence**

Radical Georgian nationalists have stepped up their efforts to obtain independence for the republic. Representatives of various nationalist groups have occupied a number of government buildings in Tbilisi, the Georgian capital. Protesters have virtually halted public transit there, and many businesses and all schools are closed. A hunger strike by nationalist leaders—they demand independence and a meeting with a Politburo-level delegation—is in its second week. 

Comment: Georgian nationalism has been on the upsurge for several months, inspired by events elsewhere in the Caucasus and by the demands for more autonomy for minority nationalities currently under Georgian jurisdiction, particularly in South Ossetia and Abkhazia. A military response to the events in Tbilisi is unlikely; Moscow does not want a repeat of the harsh crackdown there last April. Moscow's attention is focused on the Armenia-Azerbaijan crisis, and Soviet leaders will probably try for a compromise with Georgian nationalists, perhaps promising future negotiations in exchange for an end to protests in that republic. 



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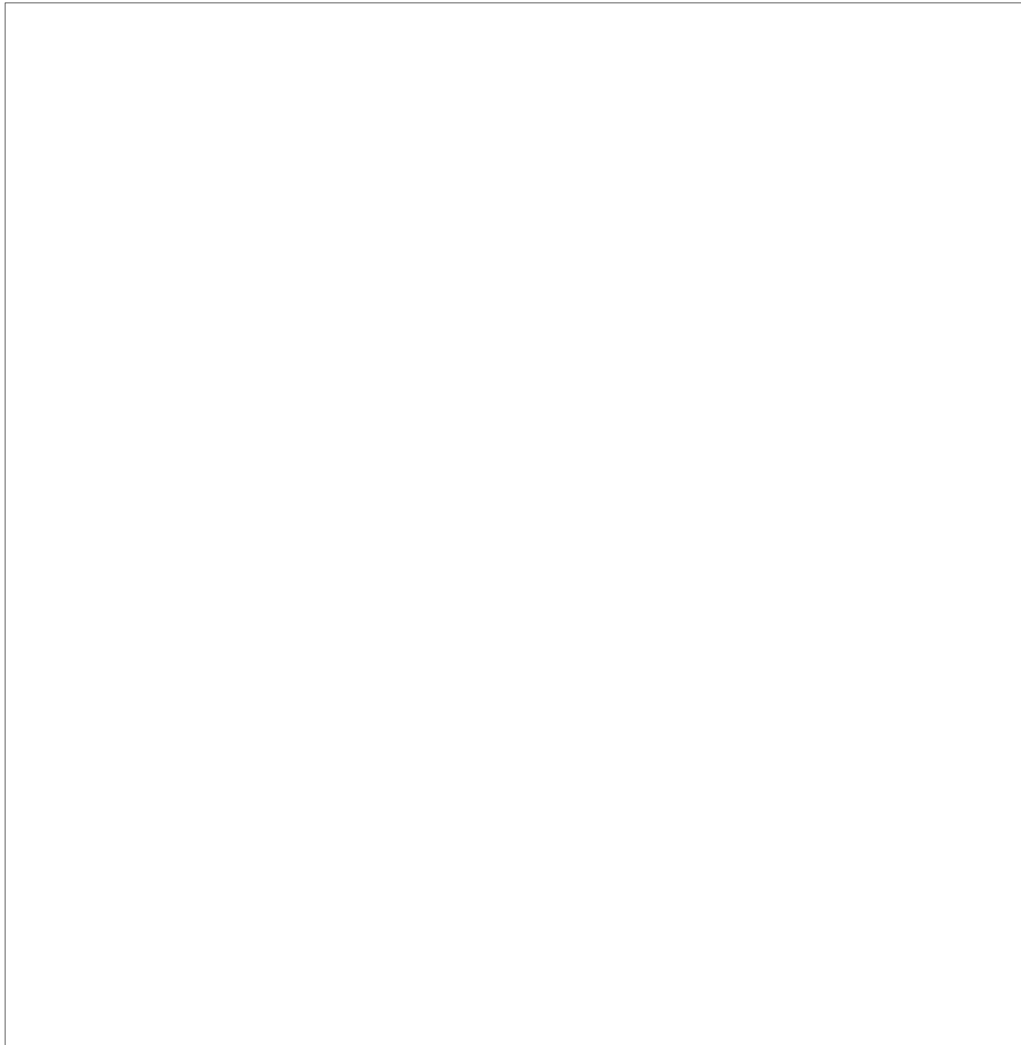


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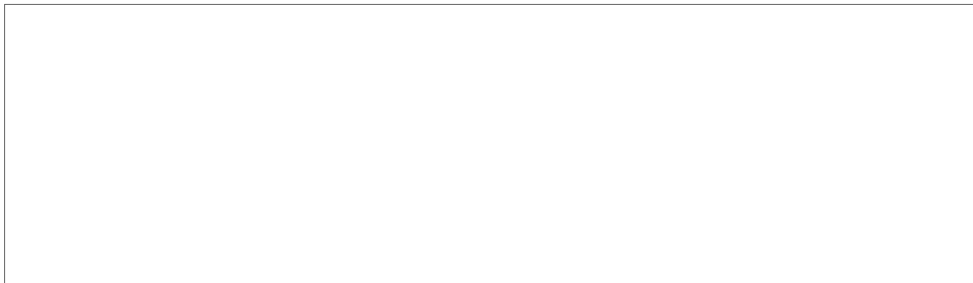
Caucasus Situation Report

Continuing Violence in Caucasus

Escalating violence in the Caucasus makes it highly unlikely that Moscow will be able to bring the situation under control there without introducing substantially greater forces. TASS says Moscow is considering imposing a "special military situation" in Nagorno-Karabakh, going beyond the state of emergency declared Monday. Azeris and Armenians are reported to be attacking each other with automatic weapons and armored vehicles stolen from Soviet forces. The Foreign Ministry gives casualty figures of 56 dead and 150 injured so far. Government troops were reportedly fired on yesterday as they attempted to quell disturbances in Baku and Nagorno-Karabakh. TASS says at least 300 trucks carrying militants were massed in Azerbaijan on the Nagorno-Karabakh border and that supplies to the region have been cut off by a rail blockade. Military activity in Nakhichevan apparently remains low, although 5,000 Azeris reportedly have massed again there to demand freer cross-border exchanges with Azeris inside Iran. 

Politburo member Slyunkov specifically condemned actions by "Azeri extremists" in a speech delivered in Armenia, according to *Pravda*. TASS yesterday said "nationalists from the Azeri Popular Front" have been blocking Baku's airport and train station in a bid to prevent Armenians from fleeing the capital. 

Comment: Moscow's current main concern is to halt the interethnic violence and restore order. It does not appear to be using the unrest as a pretext to suppress the Azeri nationalist movement. The reported involvement of elements of the Front in the clashes, however, and the latest government criticism of "Azeri extremists" provide a possible rationale for a later move against the Front. With sufficient troops, the imposition of a state of emergency in the region and possible martial law in Nagorno-Karabakh will buy Moscow time to prevent a full-blown civil war. Moscow probably now recognizes a drastic fix will be required over the longer term, probably through a redrawing of republic boundaries. 



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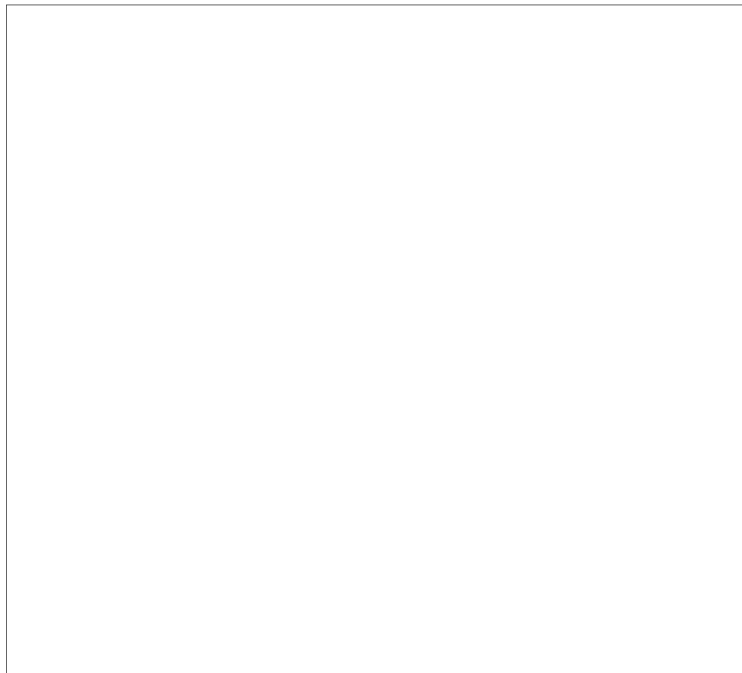
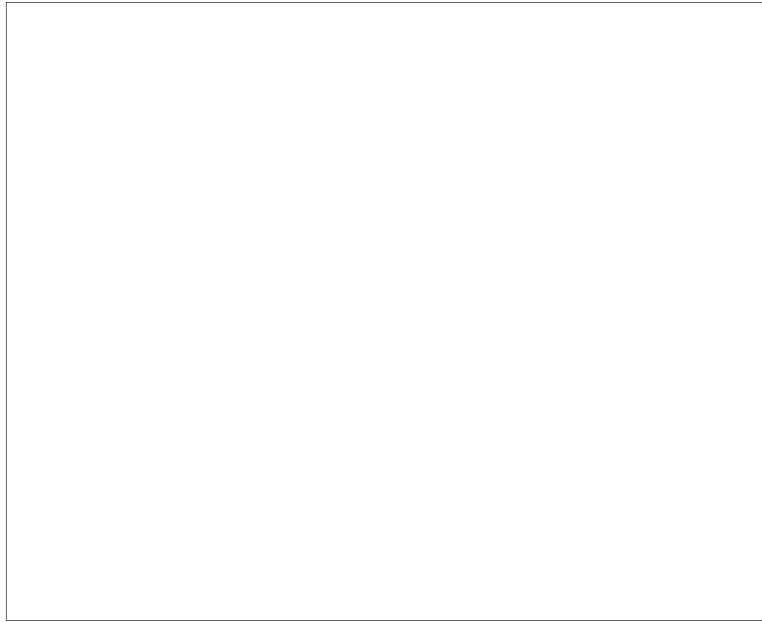


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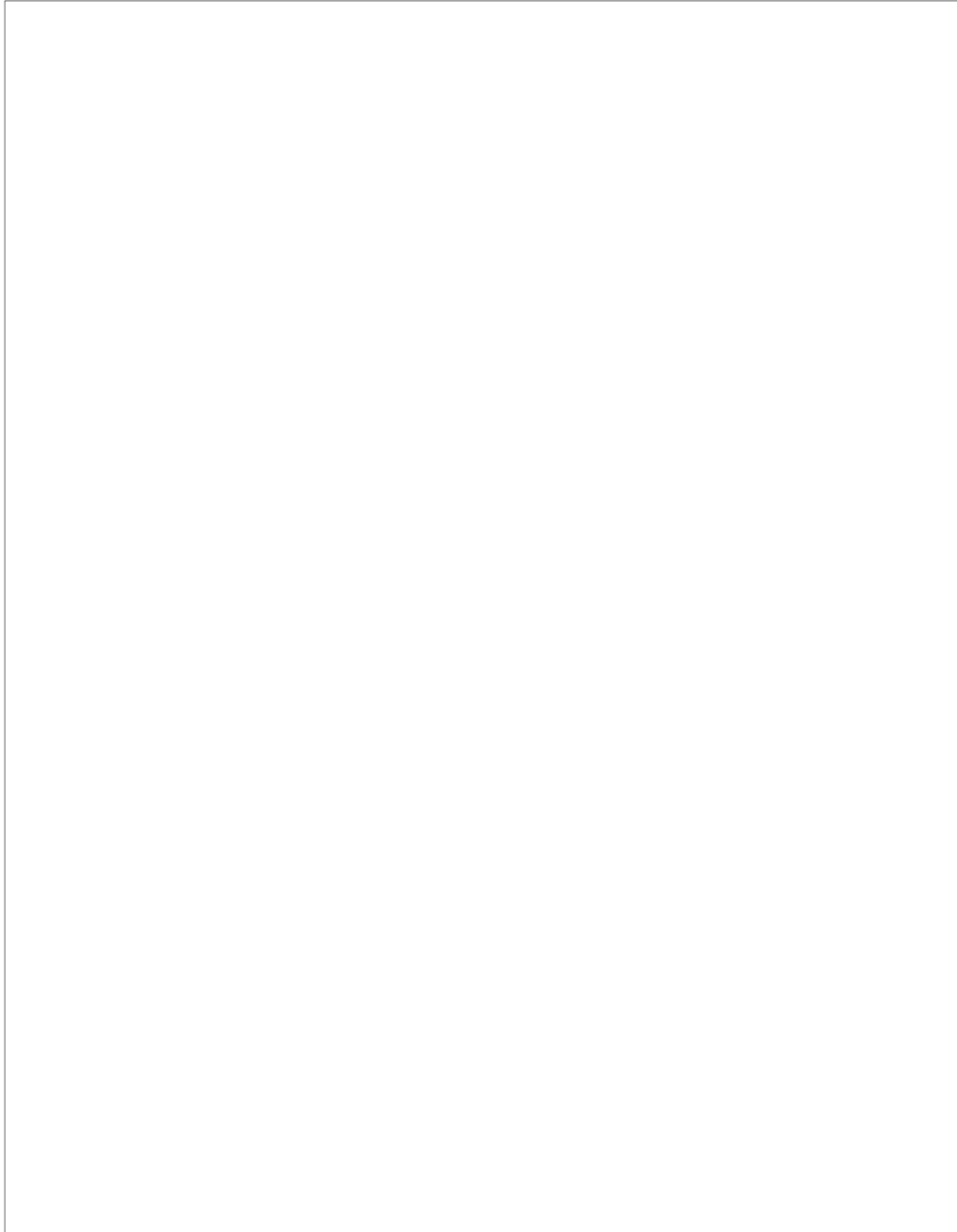
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Despite high-level warnings that nationalism is getting out of hand, the periphery is less and less amenable to Moscow's control. Gorbachev is gambling that negotiations can buy him enough time to persuade separatist forces to accept his vision of a new federated union with greater autonomy for the republics. [redacted]

Foreign Policy

Gorbachev will increasingly focus on Germany. He must tread delicately, playing on fear to try to slow reunification and maintain security while preserving good relations with Bonn for economic reasons. Gorbachev also faces a growing risk that the upheaval in Eastern Europe will fuel independence movements. [redacted]

Events elsewhere threaten to transform past successes into liabilities. Gorbachev must show critics that his policies toward Eastern Europe and NATO have enhanced Moscow's security. He will push for arms control agreements that foster more stable European and strategic environments and expanded economic ties to the West but will try to preserve the USSR's links to its CEMA partners. In Afghanistan, the Soviets will continue to support Najibullah while showing interest in opportunities for a political settlement. [redacted]

Prospects

Gorbachev has temporized in the face of these challenges, deferring decisive measures to halt economic decline and the emerging pluralism. As inadequacies in the economic stabilization program become fully apparent, pressure will build on him either to move quickly toward a more market-oriented economy or to avoid the harsh medicine of the market by consigning the USSR indefinitely to the gross inefficiency of the command-administrative system. The crisis posed by the Baltic republics will get worse this summer if one or more declares independence, confronting Moscow more clearly with the choice of allowing them to break away or using force to hold them. [redacted]

The contest between Gorbachev and his party opponents is likely to intensify. Republic and local elections between now and March probably will further deplete the party's prestige and authority, and, at the 28th Party Congress in October, Gorbachev is likely to try to oust those opposing a more open, pluralistic system; his opponents will charge him with failure in all spheres. His reform agenda may be severely tested by the East German elections on 6 May that could give significant momentum to German reunification. [redacted]

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~~Top Secret~~**USSR: Renewed Threat of Coal Strikes**

Soviet Deputy Premier Ryabev has traveled to Western Siberia to meet with Kuzbass coal miners in an effort to head off a strike. The miners told Western reporters over the weekend that they had lost faith in the government's ability to deliver on its promises. [redacted]

Comment: Miners have received higher pay since last summer, but Moscow's efforts to increase supplies of consumer goods and other necessities and to promote enterprise independence have been stalled by red tape, a lack of financial resources, and bureaucratic sabotage in some cases. For example, regional officials reportedly sold medicines on the black market that were to go to the miners. Tired of waiting for Moscow's help, Kuzbass workers want Ryabev to deliver finalized plans that will give local government councils more control over regional economic decision making; independent labor leaders are expected to win the March elections for the councils. The miners founded an independent Kuzbass Working People's Union in November to forge an alliance with workers from other industries, increasing prospects a strike by miners would spread to the entire local economy. Moreover, other miners in the USSR considering striking this spring will watch developments in Kuzbass carefully to decide whether to adjust their plans. [redacted]

USSR: Endorsing Mozambique's Non-Marxist Constitution

Favorable Soviet commentary on Mozambique's draft constitution is the latest sign of Moscow's readiness to play down ideology in its policy toward Third World clients and to stand aside when they reject Marxism. A Soviet Portuguese-language broadcast to Africa on Saturday commended the Mozambican leadership on the new draft as laying the basis for political and economic stability; the broadcast noted that the constitution legalizes private enterprises, which it claimed will strengthen the confidence of Western creditors. Although the draft does not mention Marxist-Leninist ideology, the commentary pointed out only that Maputo is not assuming an anti-Communist or anti-Soviet stance. The commentary raised the possibility that Mozambique may emulate Zimbabwe, which has combined socialist ideals and private enterprise and avoided the bankruptcy of many African countries. Moscow also claimed that the new constitution will undermine the RENAMO insurgents' cause, leaving them little room to pose as fighters for democracy. [redacted]

Comment: Moscow's aid over the past two years has been minimal, and the Soviets have been unwilling to meet Mozambique's huge economic needs. They have supported Maputo's efforts over the past year to reform the economy in order to attract Western investment. [redacted]

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Benchmarks for *Perestroyka* in 1990

- January CPSU Central Committee plenum(s): considers Lithuanian Party secession, begins work on 28th Party Congress.
- January-June Republic and local supreme soviet elections: may elect legislatures dominated by popular front deputies.
- February-March Third USSR Supreme Soviet session: considers bills on emigration, freedom of religion and of the press, and on property, local self-government, and economic reform issues.
- March Elections in Hungary: results might lead to demands for change in Warsaw Pact status.
- May Elections in East Germany: could approve closer ties between the two German states.
- June US-USSR summit: START agreement may be signed.
- Summer 50th anniversary of annexation of Baltic states: may intensify popular pressure for independence.
- October 28th CPSU Congress: may replace large numbers of party officials, revise party laws.
- Fall Third Congress of People's Deputies in Moscow: agenda to be determined.
- Late 1990 Constitutional Revision Committee finishes work: will give broad political and economic autonomy to republics, codify powers of state institutions; may repeal Article 6 that guarantees CPSU's leading role.



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