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NR

THE DIRECTOR OF
CENTRAL INTELLIGENCE

21 Feb. 1986

National Intelligence Council

NOTE TO: DCI
DDCI

Attached please find another of  special forecasts, this a world view for the year 1986. Points he particularly stresses are:

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1. Falling oil prices, especially, will lead to a more serious debt crisis than in 1982, and countries like Mexico and Nigeria will lead the way in expanding the Peruvian approach of unilaterally declaring limits on how much they will pay back each year.

2. Gorbachev will conduct the most vigorous Soviet peace offensive yet, the focus on helping bring leftist governments to power in West Germany and Great Britain.

3. The PRC will seriously reopen the Taiwan question in 1986.

4. There will be a high level of domestic political turmoil in South Korea, which North Korea will seek to exploit.

5. The Labor-Likud governing arrangement will break down in Israel.

Harold P. Ford

cc: C/NIC
All NIOs
NIC/AG

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7 February 1986

MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Vice Chairman, National Intelligence Council

FROM NR Special Assistant for Warning

SUBJECT : The International Arena in 1986

1. There will be no significant changes this year in the pattern of East-West relations or regional power equations that have prevailed in the past half decade. Sharp political competition centering on Gorbachev's bold "peace offensive" will dominate US-Soviet relations. Soviet political strategy, aimed primarily at influencing the outcome of critical national elections in West Germany in January 1987 and in Britain the following year, will preclude provocative or high-risk initiatives that might trigger unwanted confrontations with the US. The greatest potential for political surprise this year will reside in a possible decision by China to reopen the Taiwan question and in the regional fallout from a collapse of the Labor-Likud coalition government in Israel.

2. The most urgent problems facing the Administration will stem from essentially unforeseeable consequences of two major developments: a fall in oil prices to \$15 to \$20 a barrel and the US deficit reduction process under Gramm-Rudman. Prospective declines in the dollar's value, real interest rates in the US, and the US trade deficit will reduce, if not remove, the principal sources of economic growth during the last two years in Western Europe, Japan, and the developing countries. If these governments do not adopt more expansionary policies, Europe and Japan will experience various degrees of economic stagnation, and Third World countries will encounter even more intractable problems in servicing foreign debts.

International Economic Outlook

3. 1986 will be a volatile year. The world financial structure will experience severe strains that will exceed those induced by the recession and Mexico's financial crisis in 1982. The crunch will appear in the last two quarters, with a 50 percent chance of debt crises involving two or more countries. Leading debtors such as Mexico, Argentina, Brazil, and Nigeria will avoid formal defaults but there will be a strong possibility of unilateral reductions in interest payments, following precedents set by Peru and Nigeria in limiting payments to no more than 10 percent and 30 percent of export earnings. Most debtor countries will become more assertive in demanding concessions in rescheduling arrangements, and they will echo the declaration of Latin American economic ministers in December that growth must have higher priority than repayment of debts. These demands will be accompanied by growing agitation for a restructuring of world debt and reconstruction of the international financial system.

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4. Mexico, and perhaps Brazil, Venezuela and Argentina, will confront a choice either to maintain austerity measures in order to meet scheduled interest payments, thereby risking domestic political stability, or to declare major reductions or moratoriums on payments. Time is running out, and the fall in oil prices will hasten the day of decision. A substantial increase in bank and official loans to major debtors would avert another payments crisis for a year or two, but a policy of increasing the debt burden and curtailing domestic investment and imports will not be politically acceptable in the longer term. In the next year or so, more Third World debtors will emulate Nigeria's example in rejecting IMF austerity agreements, gambling that this can be done without incurring major economic or political penalties because banks will have no choice but to reduce interest rates and stretch out repayments.

5. The decline in oil prices will have cumulative effects on the debt problem. The drop in price in the last three months already has exceeded the projections of most industry economists, and it has inspired the Saudi strategy to force price reductions to the point that Britain, Norway and other non-OPEC producers will be obliged to negotiate a general producers' agreement on production levels and prices. Although conventional wisdom in the industry appears to anticipate such an agreement because of the magnitude of the stakes in an unrestrained price war, OPEC will fall well short of its goal of recapturing a "fair market share" for all 13 members. Moreover, Saudi Arabia's calculated risk in attempting to enforce its role as the crucial "swing producer" will fail in the next 12 to 18 months.

Soviet Political Strategy

6. The Gorbachev leadership this year will mount the most vigorous and resourceful peace offensive since World War II. The principal vehicle will be Gorbachev's grandiose program of 15 January for a three-stage process culminating in the elimination of all nuclear and chemical weapons by the year 2000. Other initiatives in the coming year may include an easing or ending of Andrei Sakharov's internal exile and a schedule for partial withdrawal of Soviet forces from Afghanistan. The peace offensive will be aimed primarily at encouraging political forces that Moscow hopes will increasingly alienate Western Europe from the US and determine the outcome of the Bundestag elections in January 1987 and British elections the following year. Soviet arms control initiatives, particularly on INF, will be calculated to exploit the polarization among and within the major West German political parties created by the debate over INF deployment in 1980-83. The Soviets perceive historic opportunities to capitalize on the collapse of the 30-year West German consensus on foreign and security policies. Soviet initiatives will be tailored to encourage the Social Democrats to adopt positions designed to capture what Chairman Willy Brandt calls the elusive "majority to the left of the CDU."

7. West Germany, Britain and the Netherlands will be the main targets of frequent manipulation of Gorbachev's ambiguous references to a separate, interim agreement on intermediate-range missiles in Europe. Gorbachev will

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use his visit to Italy this spring to announce ostensibly attractive new proposals for an INF accord. His immediate aim will be to strengthen the prospects of the anti-INF Labor Party in the May elections in the Netherlands. A Labor victory would be a significant breakthrough for the Soviet scenario in 1986 because a new Labor government would repudiate both the present government's INF deployment decision and the basing agreement for cruise missiles.

8. West Germany, however, will be Moscow's prime target. Gorbachev's suggestion that the second US-Soviet summit meeting be deferred until autumn reflects a calculation that the impact on West German opinion of the arms control and political pronouncements he plans to make in the US will be magnified the closer the visit comes to the January elections in the Federal Republic. The Soviets are convinced that the erosion of West German public confidence in NATO's traditional security and arms control policies has made the Bonn government vulnerable. Chancellor Kohl has attempted to contain the damage by repeatedly emphasizing his commitment to arms control and by promoting the notion of an interim accord on INF. Gorbachev attempted to turn this tactic against Kohl by surfacing his own proposal for a separate, interim INF agreement during his visit to Paris last October. The thrust of Gorbachev's message throughout 1986 was illustrated by his speech at a dinner for Italian Communist leaders on 28 January: "If we managed to eliminate the Soviet and American medium-range missiles on our continent without delaying or burdening the matter with other problems, we would unravel what is perhaps one of the complicated tangles in present-day world politics and would significantly clear the way toward a radical reduction of nuclear weapons and then their complete elimination."

9. The Soviets of course will be operating on the assumption that neither Bonn nor Washington, having invested so much political capital in the protracted contest over INF deployment, will seriously consider "eliminating" the INF missiles. In sum, manipulation of the notion of a separate INF accord will be the cutting edge of Gorbachev's peace offensive, with the ultimate aims of undermining the Kohl government's political authority and electoral prospects, forcing the Administration to reject what will be portrayed as a genuine opportunity, in Gorbachev's words, to "free the European Continent of nuclear weapons," and enhancing the chances of a Social Democratic victory next January.

Soviet Policy Toward the United States

10. Soviet political strategy will focus on repeated attempts to corner the Administration into rejecting seemingly constructive arms control proposals. The central purpose of Gorbachev's three-stage nuclear disarmament plan was to lay the foundation for this strategy. Moscow's principal tactic will be to draw the Administration into assigning top priority this year to an interim accord on INF. In private contacts and public statements, the Soviets will actively promote the idea that INF reductions could go forward without an agreement on strategic and space weapons.

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11. The Soviets are convinced that the US, West Germany and Britain will be unwilling to consider a complete removal of the Pershing II's and GLCMs. They have taken the precaution, however, of guarding against a Western surprise by inserting in Gorbachev's plan a number of conditions judged to be totally unacceptable: (a) the US must pledge not to transfer its strategic and medium-range missiles to other countries under any circumstances; (b) Britain and France must agree not to build up their own nuclear forces; (c) the US must follow the Soviet Union's example and end all nuclear explosions and then join in calling on other states to halt testing; (d) other nuclear powers must freeze their nuclear weapons, end testing, and "begin to join in nuclear disarmament." Finally, the Soviets plan to counter an expected Administration demand that they reduce sharply the number of SS-20s in Asia by making an agreement contingent on a corresponding cut in American mid-range weapons in East Asia and the Western Pacific. Soviet spokesmen already have contended that the mission of SS-20s in Asia is to counter US nuclear capabilities in the region and implied that US carrier-based aircraft and aircraft based at Misawa on Hokkaido Island must be included in any trade-off.

12. There will be no retreat this year from the three cardinal points of Soviet arms control policy: (a) strategic weapons must be defined as including all systems capable of "reaching each other's territory," and any definitive long-term accord on INF must be an integral part of an agreement on strategic weapons; (b) an agreement on strategic weapons is possible only if the US joins the USSR in renouncing the development, testing, and deployment of "space strike arms"; (c) from the outset of any arms reduction process, the US must end all nuclear testing. The Gorbachev leadership has no illusions about the negotiability of this package. Proposals are deliberately framed to elicit US criticism and rejection, which can then be used to "document" charges that the Administration is irrevocably committed to achieving strategic superiority and a first-strike capability. As Gorbachev put it in his 4 February interview with L'Humanite, "These proposals are a kind of 'moment of truth.' They make our partners in the talks show their real worth and reveal the aims their policy is really pursuing." He charged that the US is "determined to continue the arms race come what may."

13. In sum, the Soviets will not modify either their political strategy or the fundamental assessment of the Administration's intentions which they first articulated in the spring of 1981. As recently as 25 January, Izvestia's senior observer, Aleksandr Bovin, restated the judgment he has regularly voiced over the past five years: "Frankly speaking, I think...that while the current Administration is in the White House in the United States, I can hardly see us agreeing on some major issues with the Americans. The factions of the American bourgeoisie now in power in the US and whose interests are represented by Reagan will hardly agree to reducing or slowing the arms race because of their material interests." These public assessments of Administration intentions, of course, are simply a device to enhance the credibility of Soviet policy and purposes in the contest for world opinion, particularly in Western Europe. Soviet diplomacy and propaganda will hammer relentlessly on the alleged contrast between the Soviet Union's peaceful aspirations and what Gorbachev describes as the "militarization" of the US economy and "even of political thinking." Gorbachev fully shares Andropov's basic calculation that

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the Administration's foreign and defense policies can be successfully misrepresented and exploited in a climate of growing "contradictions" between American and European political and economic interests. This calculation underlies Gorbachev's constant invocation of the "tremendous significance" of the world public's desire for peace and an end to the arms race, as well as his sermons about the "special responsibility" of the two superpowers and his appeals for a "decisive break" with "stone age ways of thinking" and for policies that "rise above national egoism."

14. The geopolitical ambitions that shape Soviet arms control policy and political warfare tactics will lead Gorbachev to focus on SDI, nuclear testing, and INF in his second meeting with President Reagan. He will elaborate on his offers of on-site inspection and volunteer a willingness to consider "untying" his three-stage arms reduction program so that separate accords on such items as INF and chemical weapons might be negotiated. This approach will be calculated to demonstrate the Soviet Union's readiness to produce "specific and concrete results" at the second summit and to prepare the ground for subsequent complaints that "the US side so far has not proved to be ready for major decisions." (Gorbachev's summit report to the Supreme Soviet on 27 November 1985) In sum, the Soviet leader's prime concern during his visit to the US will not be to explore areas of possible accommodation but rather to build a case that will impress West European opinion with the need to disengage from American leadership and pursue independent policies toward the USSR.

15. In the months before Gorbachev's visit to the US, the Soviets will make a concerted effort to project an impression of significant progress toward a normalization of relations with China. They will attach great importance to strengthening their position in the strategic triangle as a crucial element in influencing foreign perceptions of the global "correlation of forces." The Soviets are anxious to have Foreign Minister Wu Xueqian visit Moscow before the second US-Soviet summit, and they have announced that Wu has agreed to make this visit in May or June, with Foreign Minister Shevardnadze reciprocating with a trip to Beijing late this year. If Wu's talks in Moscow yield satisfactory results, the Soviets probably will try to arrange a summit meeting between Gorbachev and Deng Xiaoping or General Secretary Hu Yaobang, or one between Presidents Gromyko and Li Xiannian, before Gorbachev's trip to the United States.

16. Although the Soviet peace offensive in early 1986 assigns a key tactical role to proceeding with a second US-Soviet summit, this scenario could be changed by foreign or domestic developments in the next six months. If Gorbachev's nuclear disarmament plan and other political initiatives have not produced the intended effects by mid-summer--in particular, favorable prospects for an SPD electoral victory next January--the general secretary will come under strong pressure from elements in the party and military hierarchies to back away from another summit and from the invitation to President Reagan to visit Moscow in 1987. Considerable skepticism exists within Soviet elites about the efficacy of summitry as an instrument for advancing Soviet geopolitical objectives. Gorbachev tacitly acknowledged this skepticism in his post-Geneva

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summit speeches in which he struck a defensive tone in explaining the decision to open a dialogue with the head of an Administration which, in the general secretary's words, "openly took a course toward confrontation, rejecting the very possibility of a positive development of Soviet-US relations." This rhetoric and the obvious ambivalence of his claim that "we are right in saying that the overall balance of Geneva is a positive one," suggest that Gorbachev is leaving the door open for an abrupt shift in course. This calculated ambiguity also was evident in his remark to Senator Kennedy on 6 February that a second summit "would have no sense" unless it could "yield practical results, produce serious shifts in the directions that are of greatest importance for the cause of peace." The general secretary implied that Soviet agreement to a specific date would depend on progress toward an agreement to remove all intermediate-range missiles from Europe.

17. As of early February, the Soviets still intend to go forward with a second summit, provided they can secure the Administration's agreement to defer it until late November or December--timing calculated to maximize the meeting's impact on the West German elections. However, if the Soviets conclude next summer that a Social Democratic victory is beyond reach and that the Administration's approach to the second summit is likely to foreclose Soviet political gains, the odds will rise sharply that Gorbachev will postpone his visit to the US indefinitely, contending that the Administration's defense and arms control policies had ruled out all possibility of achieving "practical results."

Sino-American Relations

18. There is at least a 50 percent chance that Beijing will reopen the Taiwan question in the next 12 months by demanding that the US establish a specific date for ending arms sales to Taiwan, endorse China's "one country, two systems" formula as the basis for reunification negotiations, and undertake a direct role as mediator to overcome Taipei's refusal to negotiate "peaceful reunification." Chinese leaders have been preparing the ground for this initiative since late 1984. General Secretary Hu Yaobang's decision last month to postpone his expected visit to the US this year may have been motivated by a desire to avoid an impression of cordial bilateral relations that would undermine the credibility of renewed demands for resolving the Taiwan problem.

19. Although the "reformist" group led by Deng Xiaoping, Hu Yaobang, and Premier Zhao Ziyang strengthened its political authority last September by a major shake-up in the Politburo, Secretariat, and Central Committee, there has been evidence of considerable agreement within the party elite over the scope and pace of Deng's domestic reforms. The key imponderable in assessing China's intentions is the possibility that strategy on the Taiwan issue will become entangled in struggles over domestic policy and power. If this should occur, Deng and his principal lieutenants may find it expedient to abandon their ambiguous and temporizing stance on Taiwan and shift to pressure tactics.

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threatening that if the US does not agree to end arms sales and deliver Taiwan to negotiations, Beijing will be free to jettison its policy of peaceful settlement.

20. If US-Soviet relations take an abrupt downturn as a result of an impasse at the second summit or an indefinite postponement of Gorbachev's visit to the US, the odds favoring renewed Chinese demands would increase substantially. China's moves to improve the atmospherics of relations with Moscow during the past year were intended to enhance Beijing's negotiating leverage with Washington. In view of the Chinese leaders' sanguine view of their position in the strategic triangle, they would perceive a sharp deterioration in US-Soviet relations as creating favorable opportunities to force a test of nerves with the Administration over Taiwan. In this contingency, there would be a considerable chance of Chinese miscalculations because they would reason that renewed confrontation with the USSR would enhance the Administration's incentive to avoid a simultaneous downturn in Sino-US relations.

The Koreas

21. Political dynamics in South Korea this year will increase the chances of violent confrontations between President Chun Doo Hwan's government and the opposition New Korea Democratic Party. The government's strong reaction to the launching of the NKDP's nation-wide petition drive demanding direct presidential elections in 1988 and other constitutional revisions underscores its determination to repress any challenge to Chun's authority. There is a 60 percent chance that NKDP activists and university students will mount street demonstrations this spring in an attempt to provoke the government into imposing draconian emergency measures.

22. The North Koreans are anticipating political violence in the South. They will announce new initiatives such as a proposal for a North-South summit meeting in an effort to encourage Chun's domestic opponents and inhibit his freedom to justify a crackdown by invoking the usual "threat from the North." President Kim Il-song's New Year's address voiced support for the "just struggle" in the South against "oppression and persecution." The North Koreans will intensify their campaign to expand trade and exchanges of visits and agitate their proposal for a single Korean team to compete in the Asian Games in Seoul this year and in the Summer Olympics in 1988, also in Seoul. Kim Il-song believes that Chun Doo Hwan will attempt to perpetuate his power by amending the constitution that limits him to one term or by employing extra-legal means to designate his successor in 1988. Kim therefore anticipates a period of growing volatility in South Korean politics in the next two years that will open unprecedented opportunities for North Korean political exploitation and subversion.

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The Philippines

23. Post-election passions and hostilities will subside after a few weeks of protest demonstrations and rhetoric. Government security forces will be able to control the protests without resorting to the kind of draconian repression that might trigger an unmanageable breakdown in public order. However, the repercussions of the ill-advised snap election and Marcos' declining health and vigor will gradually erode his political authority. The Communist Party and New People's Army will attempt to exploit post-election confusion and recriminations by mounting urban violence and subversion, but the security forces will be able to contain this threat. There will be another upsurge of political protests and violence if the ruling party engages in conspicuous attempts to rig the local elections next May.

24. The evolution of events since the assassination of Benigno Aquino in August 1983 has set the Philippines on an irreversible course of transition to a new political order in the post-Marcos era. Marcos will retain the support of the bulk of the armed forces through the remainder of his incumbency, and he will be able to maintain a tolerable degree of internal order and national administration in the next year or two. In the longer term, there will be at least an even chance that establishment leaders in the ruling party, the political opposition, the business community, the church, and the military will gradually work out understandings that will ease the country through a difficult transition period.

Arab-Israeli Relations

25. In contrast to the relative stagnation and temporizing that characterized 1985, the next 12 months will witness an acceleration of political dynamics and change in both the Arab states and Israel. Events will be dominated by repercussions from three major developments: (a) King Hussein's moves to arrange an accommodation with Syria in the aftermath of the failure of his scenario for bringing the PLO into negotiations with Israel and the US, and the indefinite postponement of US arms sales to Jordan; (b) an intensification of the struggle for control over an increasingly polarized PLO; (c) political initiatives by Prime Minister Peres to split the Likud bloc and break up the coalition government before Yitzhak Shamir takes over the premiership as scheduled on 1 October.

26. The political contest in Israel will aggravate rivalries among the Arab states and Palestinian factions that will harden reactions to Israeli moves. In May or June, Peres will announce plans to unilaterally impose autonomy in the West Bank and the Gaza Strip by late December. Labor Party leaders will portray this plan as an interim arrangement pending negotiations for a comprehensive peace agreement with Jordan. The autonomy plan will not apply to the strategic Jordan Valley, greater Jerusalem, or Jewish settlements in the West Bank and Gaza. With these exceptions, Palestinians would be granted control over the administration of municipal affairs, agriculture, education, justice, finance and taxation, and other services.

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27. The political purpose of the autonomy plan, which Likud strenuously opposes, will be to split the Likud bloc and its dominant Herut Party and force Likud to withdraw from the coalition government. The Labor Party will then form a new government with several small religious parties. This scenario, however, will carry a high potential for igniting a political upheaval. Likud leaders will attempt to preempt Labor's ploy by creating a cabinet crisis and taking Likud into the opposition on a platform of no concessions of any kind to Jordan or the Palestinians. There will be a good chance that Shamir will be replaced by Ariel Sharon as Likud leader, with the result that Likud's policy will become even more intransigent on negotiations with Jordan. One effect of a deliberate breakup of the Labor-Likud coalition will be to strengthen the appeal of ultranationalist right-wing parties at the expense of both Labor and Likud.

28. A cabinet crisis in Israel will trigger sharper competition among rival Palestinian factions and result in an upsurge in terrorist actions against the Israeli presence in the Occupied Territories and Israel proper, as well as more frequent attacks on American targets in the Middle East and Western Europe. Arab governments, including Egypt, will portray the autonomy plan as an irreversible step toward formal annexation of the West Bank and Gaza. Political disarray in Israel will be exploited by the Syrians to intensify Shiite and Palestinian pressure on the Israeli military presence in southern Lebanon. President Assad, however, will continue to avoid major provocations such as a limited attack on the Golan Heights that would unleash strong Israeli reprisals against Syrian clients and military facilities in Lebanon or against Syria itself.

29. Assad will become more aggressive in seeking to oust Arafat and bring a reunified PLO under Syrian control. Having succeeded in blunting the Jordanian-PLO initiative on negotiations with Israel and obliged King Hussein to pursue an accommodation with Syria, Assad will press harder to secure predominant influence over Arab policy, at the expense of Jordan, Egypt, and Saudi Arabia. This change in power relations within the Arab world will pose particular dangers to King Hussein's position. The general aggravation of Arab-Israeli tensions, a significant escalation of unrest and terrorism in the West Bank, and the return to Jordan of thousands of Palestinians discharged from Gulf oil fields because of the fall in oil prices and output will create a potentially explosive situation in Jordan in the next 12 to 18 months.

Iran-Iraq

30. The war will intensify this year as both Tehran and Baghdad gamble that even minor successes will demoralize enemy forces and civilian populations and trigger internal upheavals. Both regimes are exaggerating the adversary's vulnerability to domestic revolts or coup attempts. In Iran there will be a growing likelihood of showdowns between competing factions, especially if a deterioration of Khomeini's fragile health removes his moderating influence. His mediation was crucial in averting violent clashes between radicals and conservatives last year. A major military setback could ignite a test of strength instigated by private militias organized by radical Revolutionary Guard leaders.

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31. Even an intensified domestic struggle will not impair the Iranians' confidence in their capacity to outlast Saddam Hussein in a protracted war of attrition. Evidence of growing military and civilian frustration over Saddam's inability to end the war will encourage Iran to mount further limited offensives, such as the capture of Al Faw. There will be a 40 percent chance of an attempt by senior Iraqi military officers to oust Saddam before the end of the year. These odds will increase if Iraqi forces fail to dislodge the Iranians from their bridgehead at Al Faw. Iran's tenacity and performance seem to have led the Soviets to judge that the war is gradually turning against Iraq--a revised assessment reflected in the decision to send Deputy Foreign Minister Korniyenko to Tehran and to adopt a more conciliatory attitude. Although the Iranians will persist in pressuring the Gulf states to halt financial and logistic support to Iraq, they will not carry out their threats to close Hormuz or make a sustained effort to interrupt international shipping in the Gulf.

Central America

32. Events in the first half of the year will focus on congressional consideration of the Administration's request for substantial military and humanitarian assistance to the contras. The Sandinistas and Cubans will take a variety of initiatives calculated to strengthen congressional and public opposition to the request. Managua, for example, will indicate readiness to resume negotiations under Contadora auspices after the six-month suspension ends in May, and Castro will reaffirm his willingness to withdraw Cuban military advisers from Nicaragua if the US accepts Sandinista terms for an agreement. The Sandinistas will also offer cosmetic concessions to two small opposition parties, make other gestures toward "pluralism," and relax some emergency decree restrictions. But they will not agree to begin talks with the United Nicaraguan Opposition under any circumstances, and they will count on tacit Latin American support for rejecting Administration requirements on this issue. The Sandinistas, moreover, will continue to insist that a formal US agreement to halt all assistance to the contras and other forms of "interference" is an essential precondition for a regional peace accord.

33. If Congress approves the Administration's request to resume military assistance to the FDN, the Sandinistas, backed by Cuba and the USSR, will attempt to turn Latin American opinion against the US by raising noisy allegations that this represents only the first phase of a plan for direct military intervention in Nicaragua. If the request is rejected, the Sandinistas will interpret this as the beginning of the end of the FDN's challenge. By mid-year they will intensify military and subversive pressures to force Honduras to deny sanctuary to the contras.

34. Regardless of the outcome of the debate in Washington over Central America policy, the Sandinistas will continue to play a waiting game. The recent request by eight Latin American foreign ministers that the Administration

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halt aid to the contras and renew the dialogue with Managua will reinforce Sandinista confidence that time and prevailing political trends in Latin America will work to their advantage in the next year or two. The Sandinistas will rely on political warfare maneuvers rather than negotiations, and they will remain deeply skeptical that the Contadora process will yield an acceptable agreement. The next 12 months will not bring the Nicaraguans to modify their basic assumption, namely, that their Central American neighbors will be ready to come to terms through bilateral negotiations only after the FDN is reduced to a manageable nuisance along the thinly populated northern border.

35. The Soviets and Cubans will continue to urge the Sandinistas to avoid blatant provocations that would play into the Administration's hands. The Gorbachev leadership will regularly voice support for Nicaragua's independence and sovereignty and the Soviets and Cubans will provide sufficient petroleum, industrial machinery, and consumer goods to avert a collapse of the economy. Neither Moscow nor Havana, however, will deliver advanced weapons such as MIG-21s or MIG-23s, or SA-2/SA-3 surface to air missiles this year. Bloc military assistance will continue to be confined to helicopters, infantry weapons, and support materiel such as trucks, jeeps, spare parts and other non-lethal equipment. The Soviets and Cubans will go on training Nicaraguan air-defense forces, and they may provide self-propelled anti-aircraft guns this year, but they will not cross the crucial threshold of introducing jet fighters or SAMs.

36. In El Salvador the uneasy truce between Duarte's Christian Democrats and senior military leaders will be tested more severely this year than ever before in the last three years. Support in the officer corps for Duarte has declined in the past six months, and there will be growing tensions and recriminations over economic policy and management, military assignments, and cabinet changes. If Duarte aggressively pursues his US-supported economic stabilization program, his political standing will be progressively impaired among most sectors of the population, and this will deepen the high command's dissatisfaction with his leadership.

37. In sum, the political climate will be ripe for a potentially destabilizing test of strength toward the end of the year. A major misstep by Duarte could precipitate his overthrow with no advance warning. The decline in the FMLN insurgents' military capabilities will limit the threat to terrorist spectaculars in San Salvador and other urban centers, including assassination attempts against Salvadoran political and military figures and US personnel. One of the most volatile issues this year will be Duarte's reaction to probes by non-Communist members of the FMLN of prospects for reentering the political mainstream. Social Democratic groups led by Guillermo Ungo and Ruben Zamora will be more active in exploring a possible political accommodation. If Duarte and his political lieutenants appear to be responding favorably, the chances of a violent reaction by hard-liners in the military will increase sharply.

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38. Panama's chronic economic problems will grow more unmanageable, increasing the likelihood of a political upheaval this year. Having ousted President Barletta last September, Defense Chief Noriega is now stuck with an already discredited Delvalle government. Noriega may remove Delvalle in the next six months and assume the presidency himself, or become head of a military-civilian junta. There will be some chance that Noriega will attempt to reinforce his authority and silence critics in the Defense Forces by blaming the US for the country's problems, particularly the Administration's policy of withholding economic assistance until Panama establishes a coherent economic program.

South America

39. Aside from the debt problems of the major South American countries, Chile will present the greatest potential for a political breakpoint this year. The main imponderable will be the capacity of more than a dozen non-Communist opposition parties and labor leaders to organize a credible threat of a national strike this summer as a means to force General Pinochet to negotiate a transition to civilian rule based on principles contained in the national accord signed by eleven parties last August. The opposition's principal aim will be to deepen cleavages among the service commanders who form the ruling junta. Air Force Gen. Matthei's advocacy last last year of a dialogue with the opposition prompted a threat from Pinochet to dismiss him and the national police chief if they persisted in opposing his political policies. The Army representative on the junta was forced into early retirement last November and the Navy commander is thought to oppose Pinochet's plan to stay in power after 1989, when Chileans are scheduled to vote on a single presidential candidate to be nominated by the junta.

40. If the opposition succeeds in staging protests leading to a general strike, there will be an even chance that Pinochet's intransigence will precipitate an open split in the junta and armed forces. The political atmosphere will become much more volatile after the summer vacation period ends in March. Pinochet is confident that the divided opposition can be intimidated without risking a major breakdown in public order. His disdain for "pseudopoliticians" and his successful repression of strikes and leftist violence in 1983 and 1984 will lead him to underestimate the strength of public demands this year for a return to civilian rule. Gen. Matthei and other junta members believe Pinochet "committed large mistakes" last year by refusing to negotiate. The next 12 months will witness events that may provide a definitive judgment on these conflicting assessments of the stakes in Chile.

Southern Africa

41. In South Africa the coming year will be marked by escalating black attacks on white businesses and residential communities. The capacity of government security forces to maintain order in black townships and, at the same time, protect white areas will be stretched thin. The government will be obliged to deploy regular military personnel in substantial numbers.

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The aggressiveness of militant black youths who are not associated with or controlled by the major black organizations will become the principal threat to white security and authority. This threat will far exceed that of the ANC's military arm, which will not be able to mount any significant expansion of guerrilla activities from bases in neighboring Front Line states. The ANC, however, will succeed in staging sporadic attacks on key economic facilities such as the petroleum refinery in Transvaal. The ANC this year will concentrate on building long-term assets for waging a "people's war," particularly the organization and expansion of small military cells.

42. The federation of 34 black labor unions formed late last year will become much more politicized. Its president has warned, for example, that if the government does not abolish laws that require blacks to carry passes, "we will take all the passes of the black people and burn them." The federation and other major black organizations will combine to sponsor demonstrations including boycotts of black schools and white businesses. The boycotts may be called in the next three months if the government rejects demands for the unconditional release of Nelson Mandela and other ANC leaders and the lifting of the state of emergency imposed last July.

43. There is a 40 percent chance that escalating violence against the white minority will produce a severe crisis of confidence in President Botha's leadership before the end of the year. The accelerated drift toward open race war will strengthen the influence of hawks and maximalists in the National Party and government. If a genuine crisis of confidence emerges, there will be a 30 percent chance that Botha will repudiate his strategy of limited and ambiguous reforms, call a snap election, and resign from office before year's end.

44. In Angola, the prospect of US military assistance to UNITA will not cause the dos Santos government to establish a timetable for the withdrawal of Cuban troops. The Angolans will react by suspending further negotiations on Namibia and by shifting to a more hostile stance linking the US with South Africa's regional interests. Castro will increase Cuban support to Angola, as well as to the ANC and SWAPO, and seek to place himself at the head of a movement for greater unity among the Frontline States in confronting the US and South Africa. The Soviets will expand military and economic assistance to Angola and reinforce their advisory presence in the country.

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