

January 7, 1989
**National Intelligence Daily for Saturday, 7 January
1989**

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Summary:

The CIA's National Intelligence Daily for 7 January 1989 covers developments in Nicaragua, Venezuela, Panama, Libya, Lebanon, Jordan, Taiwan, the Soviet Union, and Armenia. Certain portions of the document are redacted due to b(1) and b(3) exemptions.

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Director of
Central
Intelligence

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National Intelligence Daily

Saturday
7 January 1989

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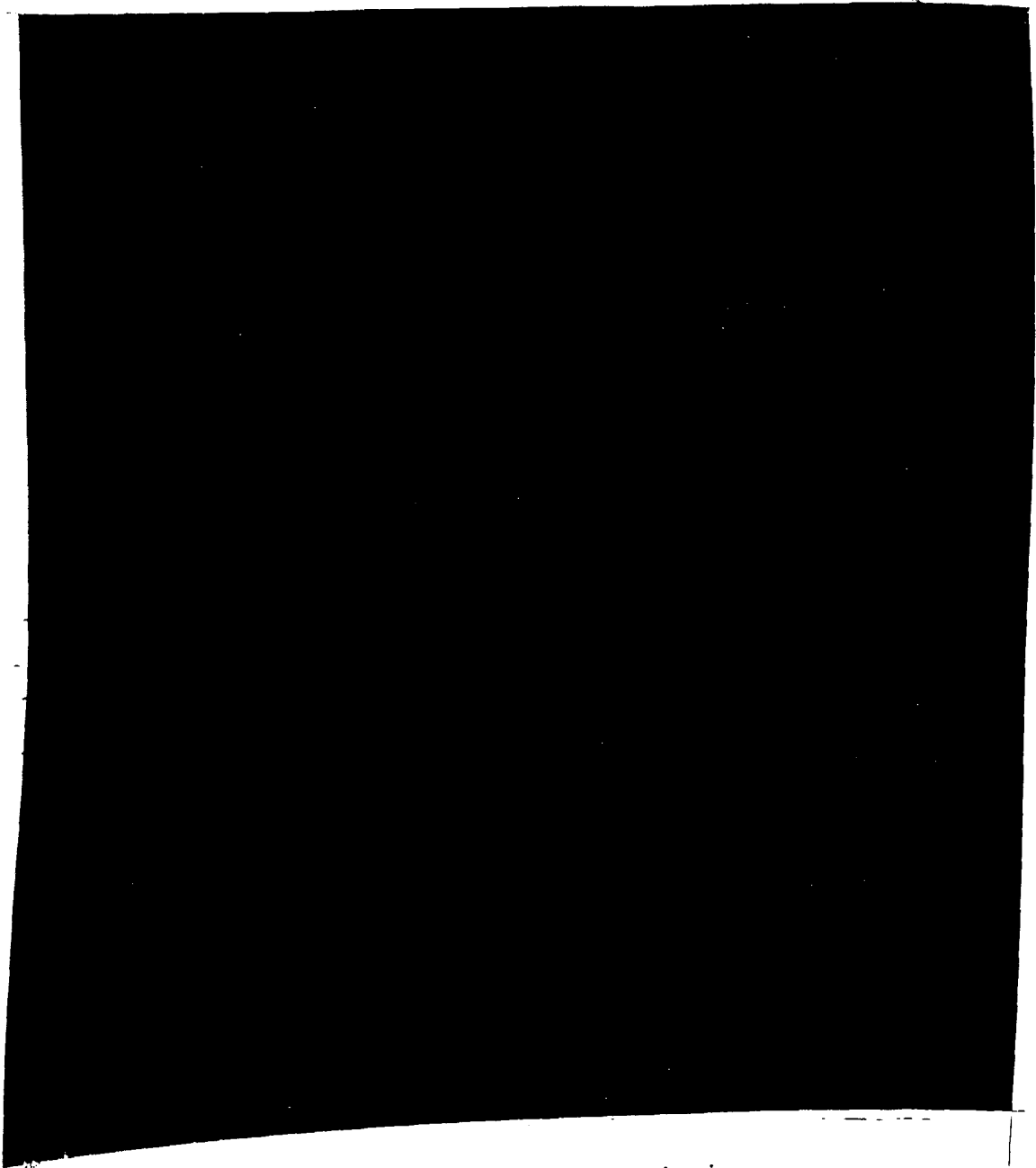
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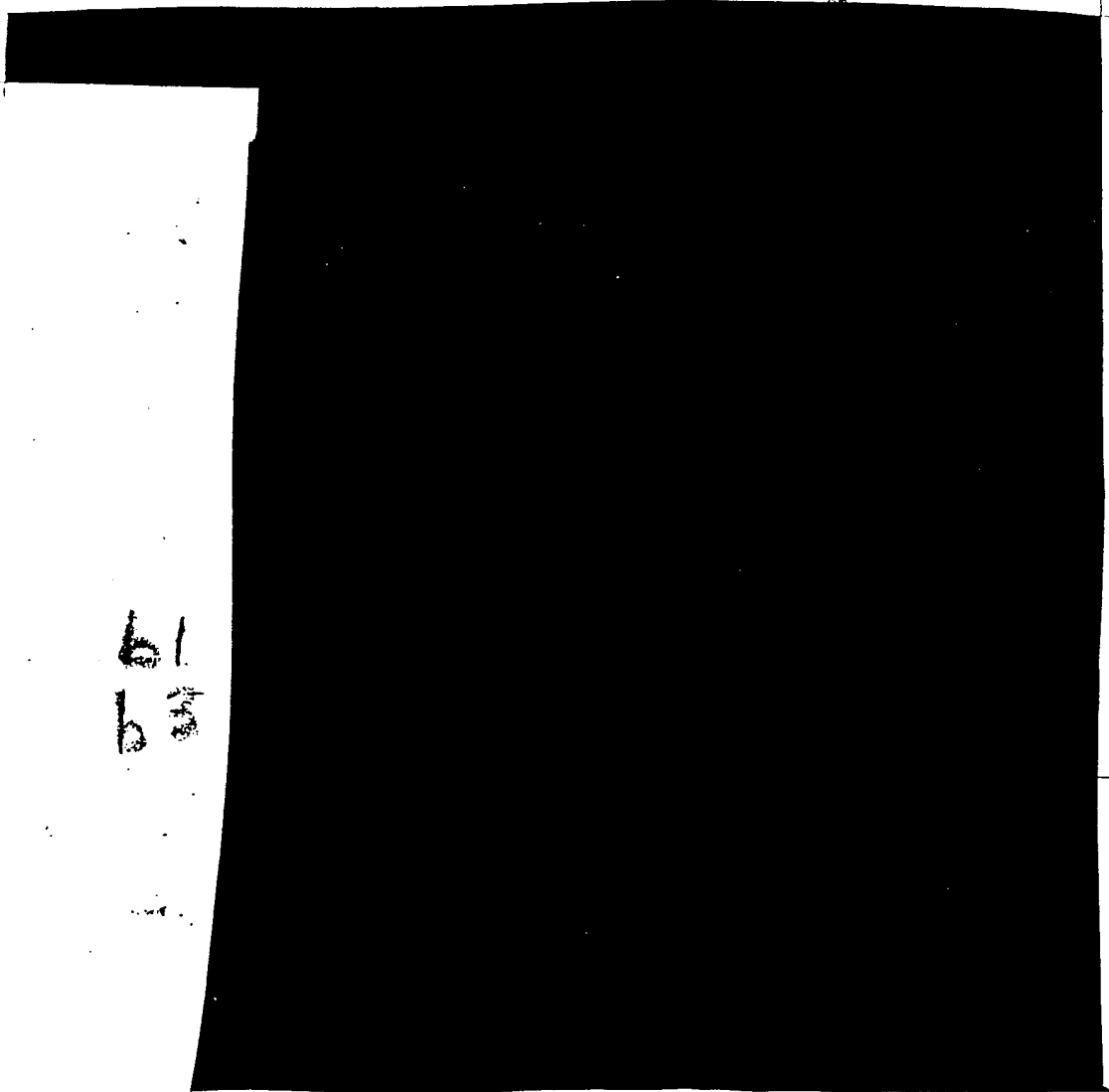
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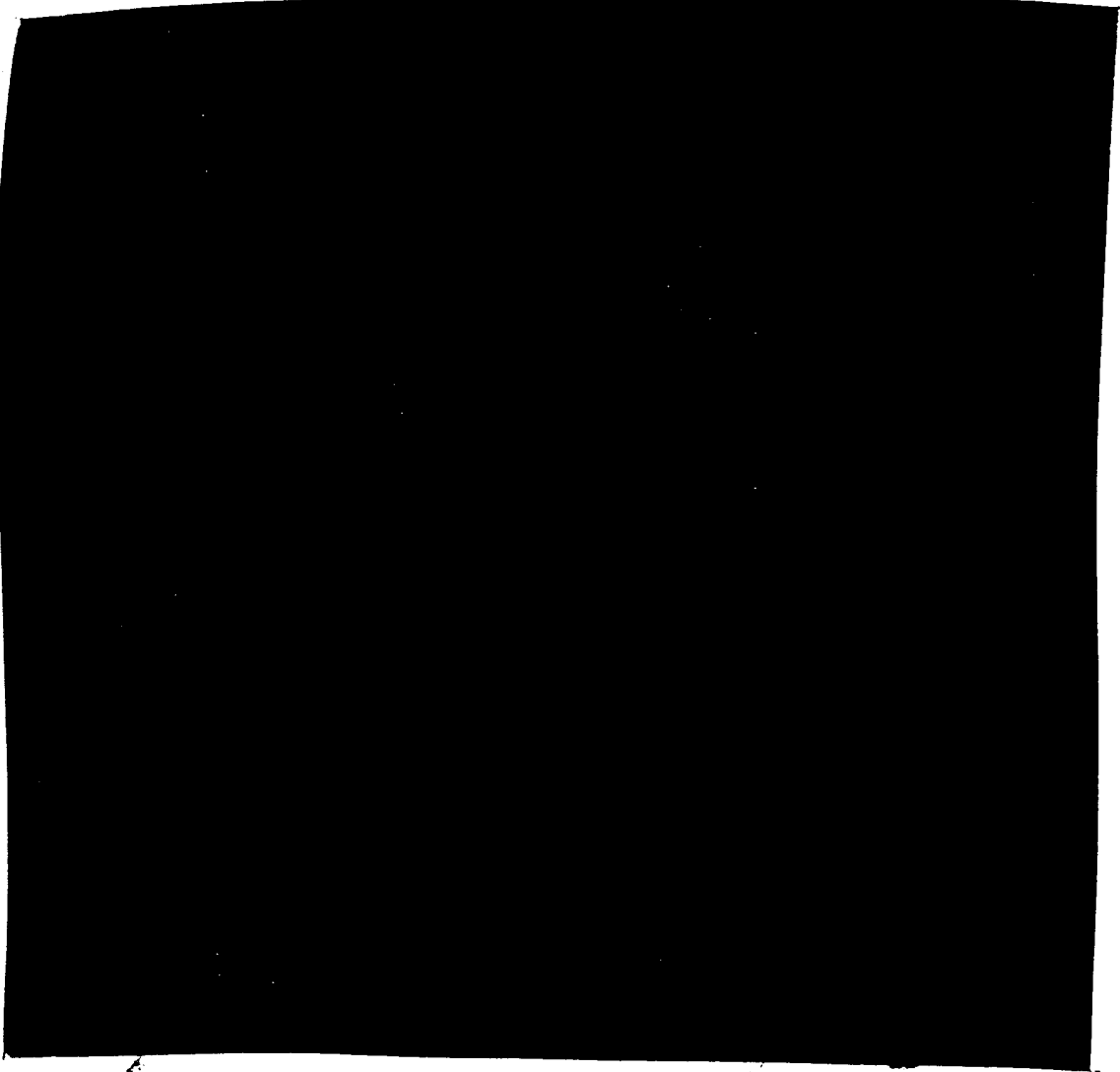
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NICARAGUA:

Guerrilla Activity Constrained

Combat activity in Nicaragua remains low despite insurgent intentions to renew attacks against prominent targets and Sandinista efforts to eliminate guerrilla strongholds.

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Insurgent manpower and ammunition shortages will limit guerrilla activities to ambushes by small units and raids on lightly defended targets. And Sandinista counterinsurgency measures make any coordinated operations by the guerrillas difficult, if not impossible. As a result, a significant disruption of the coffee harvest is unlikely.

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The Sandinista military is focused largely on protecting the coffee harvest—Nicaragua's most important cash crop. The government is also determined to destroy the insurgents' support network and will continue aggressive patrols into shrinking insurgent operating areas.

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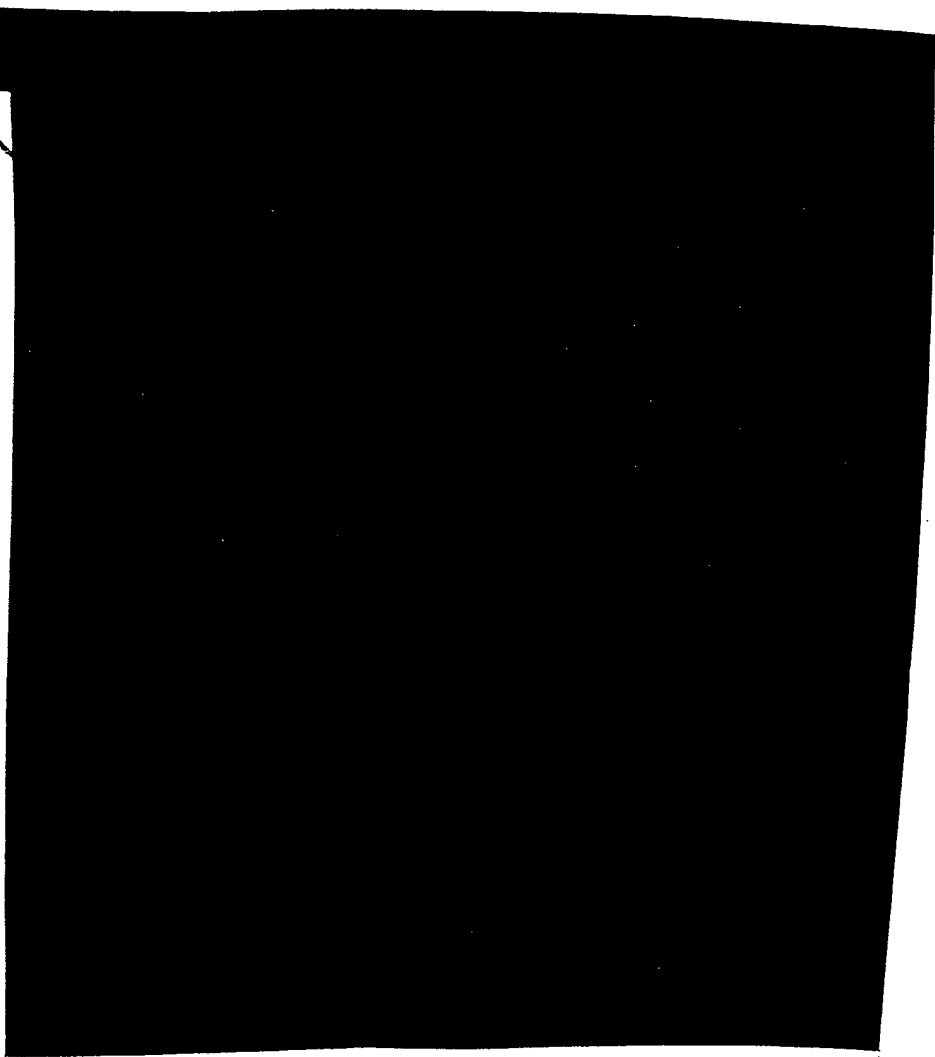
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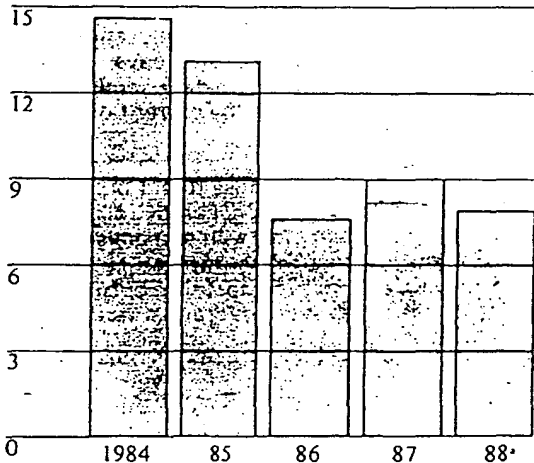
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Venezuela: Financial Indicators

Oil Export Holdings

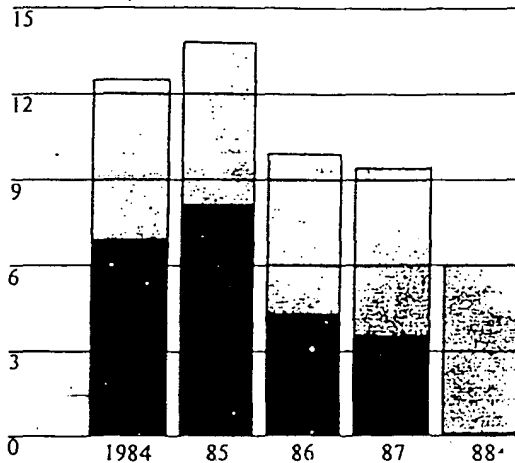
Billion US \$



* Estimated.

Foreign Exchange Holdings

Billion US \$



Note: Shaded parts of bars show liquid or "operating reserves" under Venezuelan definition.

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VENEZUELA:

Newest Problem Debtor

Venezuela's announcement over the weekend that it would suspend principal payments on \$20 billion of its \$38 billion debt had been anticipated by commercial creditors.

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Venezuela's liquid foreign exchange holdings are nearly depleted, and this probably prompted the announcement. It is possible, however, that outgoing President Luisinchi may have timed the announcement to counter domestic criticism that he has been too easy on foreign creditors.

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Regardless of Caracas's success in obtaining new credits, the Venezuelan economy is headed for a difficult year. Oil earnings will probably rise only slightly, and budget-tightening efforts and strict limits on imports are likely to produce a mild recession. Anticipated reform measures, such as a devaluation of the exchange rate and increases in government-set prices, probably will push inflation to the 40- to 70-percent level, as compared with 30 percent in 1988.

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If financial negotiations drag on, Perez may decide to postpone some economic reforms to limit the political backlash to belt tightening. See Venezuela overcoming its most serious financial problems by 1990; therefore, his administration is not likely to suspend interest payments except as a last resort because this would scuttle talks with commercial banks.

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PANAMA:

Trying To Anticipate US Moves

Recent Panamanian diplomatic moves seem intended to anticipate new US initiatives against the Noriega regime.

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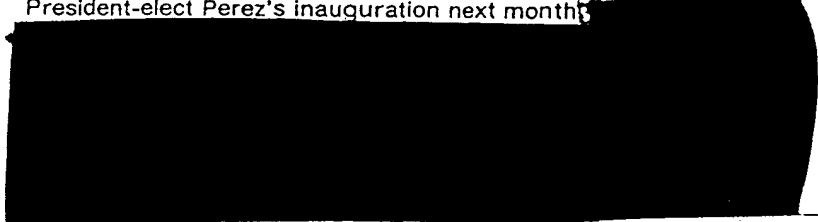
The regime-controlled press has speculated for weeks that the new US administration would ease economic sanctions and seek a political accommodation that would permit Defense Chief Noriega to remain in Panama. [redacted] however, President-elect Bush's recent statement that Noriega's departure remains a condition of any resolution of the crisis may have raised regime concerns about new US action against Panama.

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Panama is trying to improve relations with Venezuela and to enlist Mexican President Salinas's help in dealing with the US. Panama's Acting President, Solis Palma, hopes for an invitation to Venezuelan President-elect Perez's inauguration next month.

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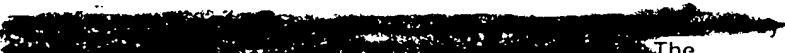
[redacted] meanwhile, reports Perez is weighing an approach to Noriega to ask him to step down. Perez may send a military envoy to Panama soon to arrange a meeting with the Defense Chief.

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Noriega probably is uncertain about what to expect from the new US administration. He is likely to listen to what Perez has to say—Perez may offer financial support for the presidential election in May and offer to press for Panama's reentry into the Group of Eight—but almost certainly would refuse to step down. Perez may decide to invite Solis Palma to his inauguration in an attempt to increase his influence with the Panamanians and improve the prospects for Venezuelan mediation.

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The Panamanian military visit to El Salvador probably is intended to undermine US influence there. The Defense Chief apparently is unchastened by the publicity given to his role in aiding the recent military rebellion in Argentina.

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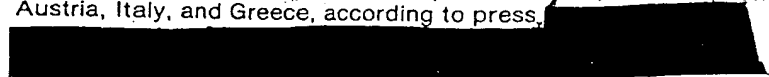
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LIBYA: Seeking Condemnation of US

Tripoli continues to seek international condemnation of the US for the downing of its aircraft. In the highest level Soviet reaction thus far, Foreign Minister Shevardnadze, in Paris for the chemical weapons conference, called the shutdown "air piracy" that could poison the atmosphere of the meeting. He said he would bring up the incident in his meeting with Secretary Shultz. The UN Security Council continued debating Libya's complaint yesterday, and the Libyan Foreign Secretary arrived in Paris for the CW conference. Demonstrations protesting the US action have taken place in Malta, Pakistan, Tunisia, Austria, Italy, and Greece, according to press.



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Libya will press its case but not its luck. The Libyan Foreign Secretary is almost certain to try to deflect criticism of Libya's CW program at the Paris talks by protesting US aggression. Most demonstrations appear to be locally generated by leftist or Islamic elements, although the Malta protest—which involved the local Libyan community—may have been instigated by Tripoli. Libya probably will defer violent demonstrations and terrorism for now in favor of its diplomatic campaign.

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USSR: Announces New Space Nuclear Reactor

Georgiy Gryaznov, a director of the USSR's program dealing with nuclear reactors in space, told a TASS interviewer Thursday about the flight testing of a new type of space nuclear reactor. He said that two of the reactors were launched last year aboard satellites in the Cosmos series and that one had operated for six months and the other for a year. He said the reactors use thermionic converters to generate 10 kilowatts of electricity from nuclear heat. The reactors, developed from an older design, were tested in a high orbit to ensure they would not reenter the atmosphere before their radioactive fission products had decayed to a safe level.

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Gryaznov's announcement came as he and others of a Soviet delegation were to leave for a technical symposium in Albuquerque on space nuclear power. Its timing seems intended to promote an atmosphere of technical cooperation at the symposium.

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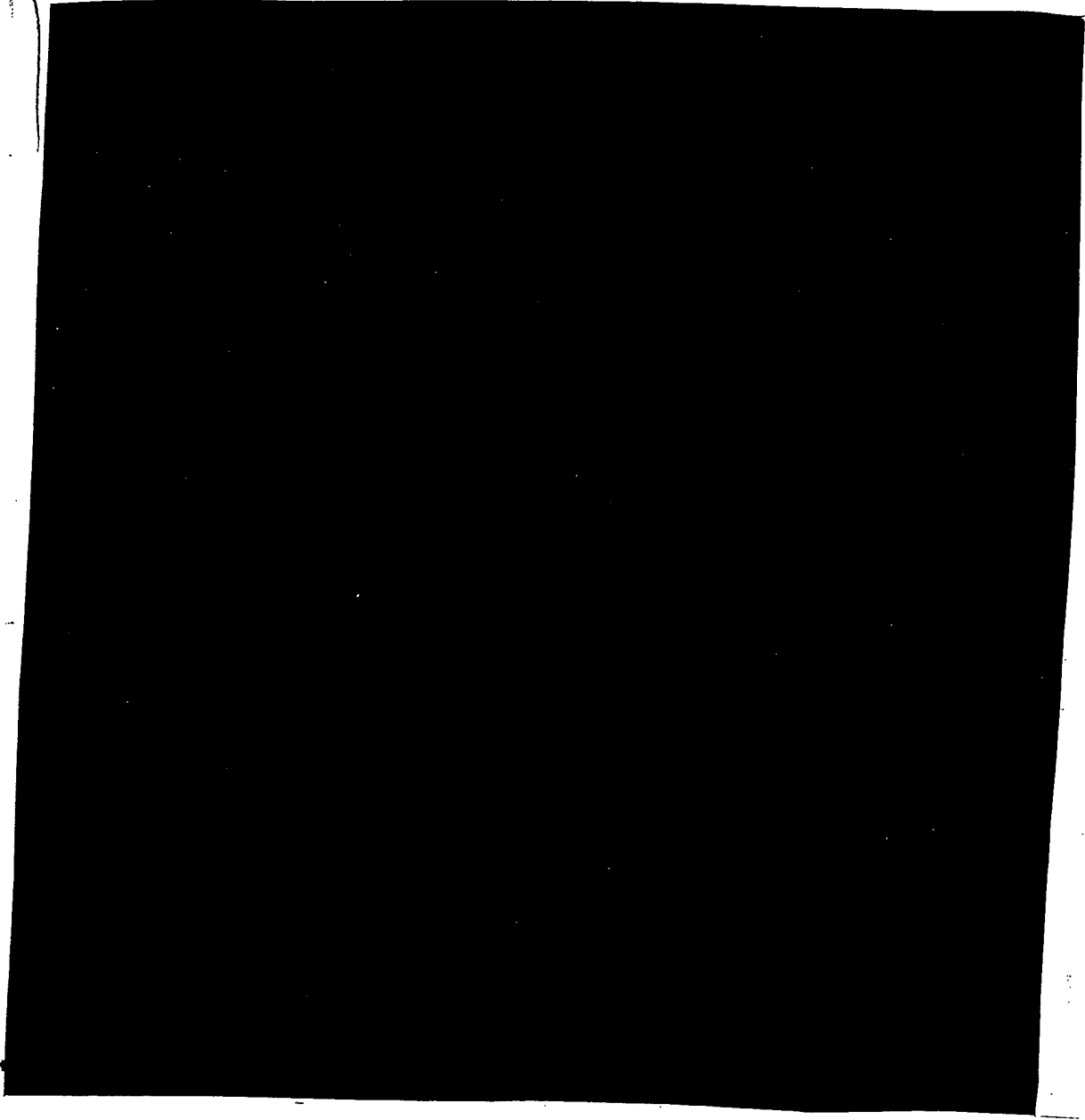
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LEBANON: Amal Making Gains

[REDACTED] Hizballah is accusing the pro-Israeli Army of South Lebanon of assisting Amal by shelling Hizballah positions, according to press reports. On Thursday, Amal announced that it has "prohibited" shelling of northern Israel and areas controlled by the Army of South Lebanon and will arrest violators. Sporadic clashes continue in Beirut's southern suburbs, with Amal apparently making some small gains, and for the first time since November, fighting broke out yesterday in West Beirut. [REDACTED]

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Comment: The latest fighting may be the result of Amal's recent truce with pro-Arafat PLO forces, long one of its major opponents in southern Lebanon. Amal may hope its decision to stop shelling the Army of South Lebanon will also give it some breathing room to concentrate on Hizballah. The Army of South Lebanon probably is not coordinating actions with Amal but is taking advantage of the confusion to hit the radical Shia group. [REDACTED]

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JORDAN: Seeking Debt Rescheduling

A severe shortage of foreign exchange will soon force Jordan to ask creditors to reschedule some of its official foreign debt. This year's budget allocates only about \$280 million for the \$950 million in debt-service payments that are due this year. [REDACTED]

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Because lenders are uneasy about Jordan's creditworthiness, Amman will receive only half of a planned \$300 million loan for balance-of-payments relief. [REDACTED]

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[REDACTED] Jordan has run out of realistic options for dealing with debt payments that are nearly double the export revenue earned last year. Such key sources of income as worker remittances and Arab aid show no sign of improving this year, and Amman already has drawn down foreign exchange reserves to dangerously low levels. Few creditors, however, are likely to reschedule Jordan's debts until there is an international framework that includes a standby loan from the IMF. Jordan is not enthusiastic about meeting IMF preconditions for such assistance, but Fund officials will visit Amman next month to discuss a stabilization program. [REDACTED]

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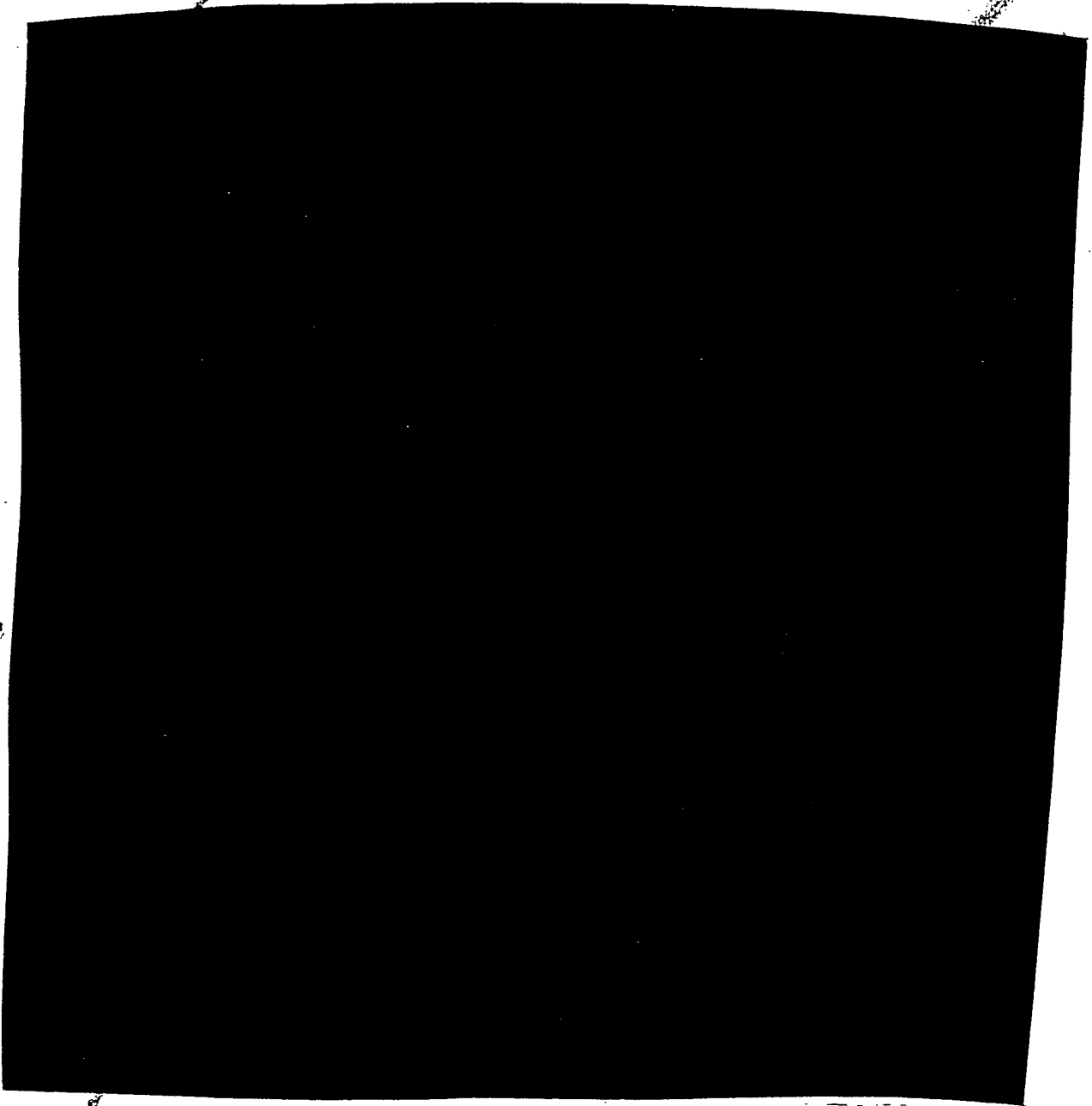
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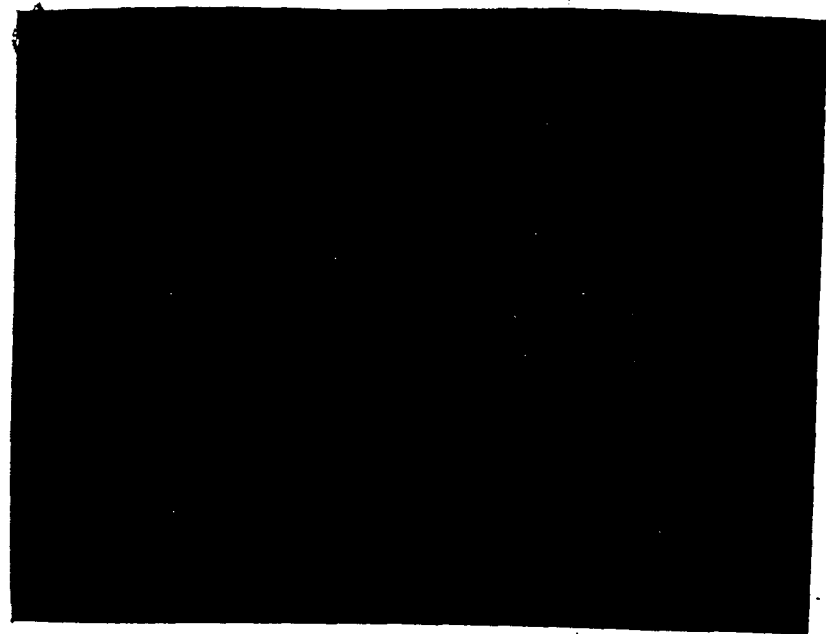
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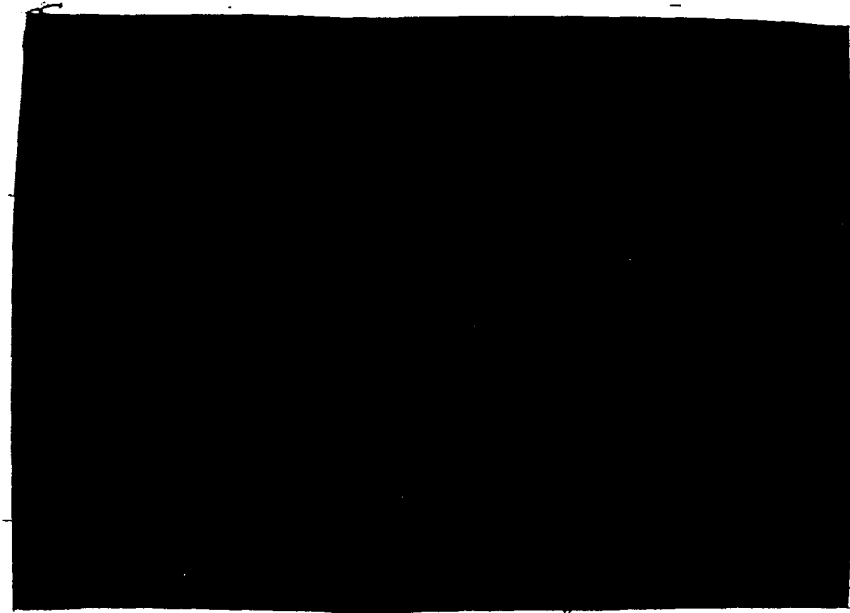
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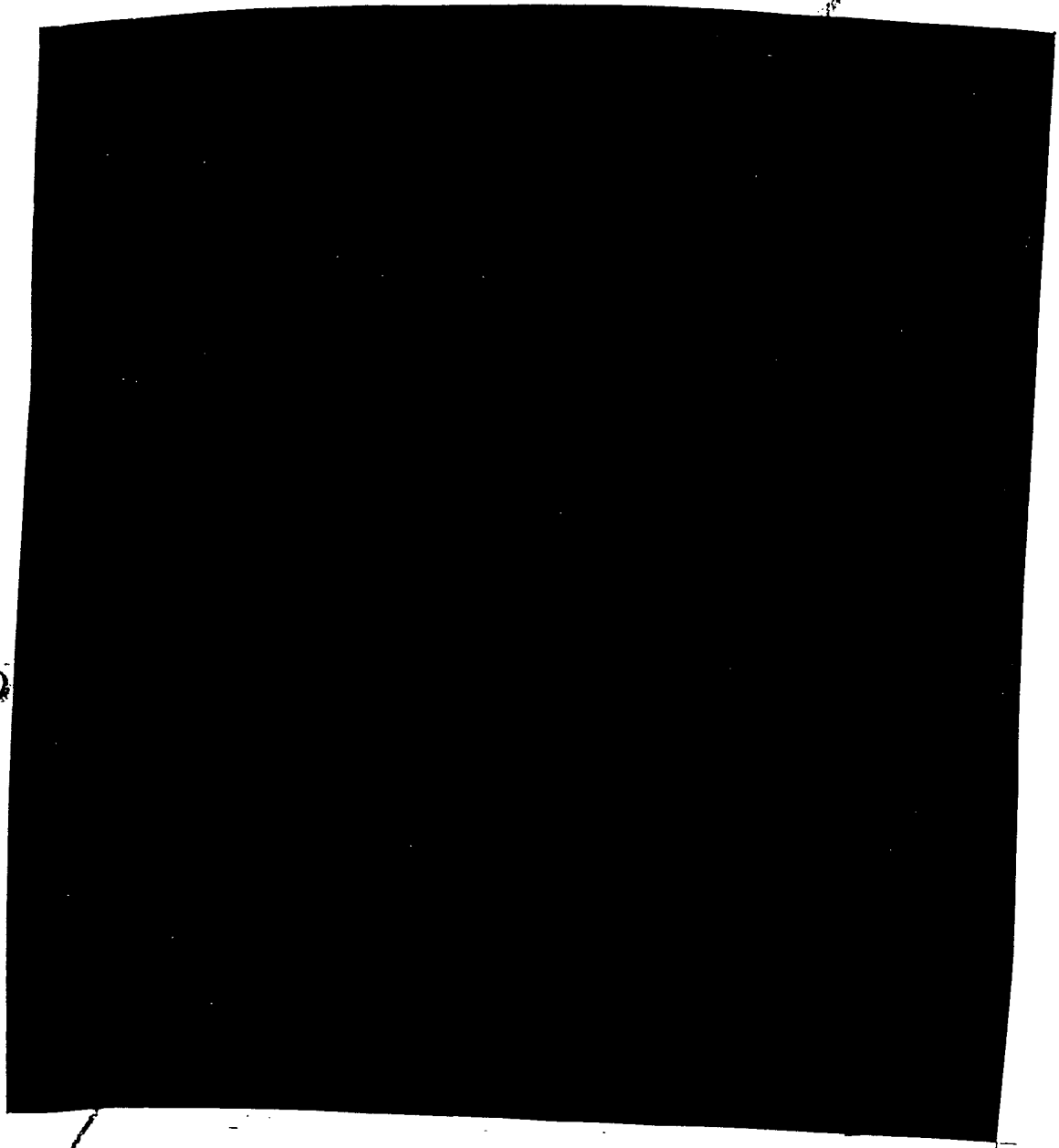
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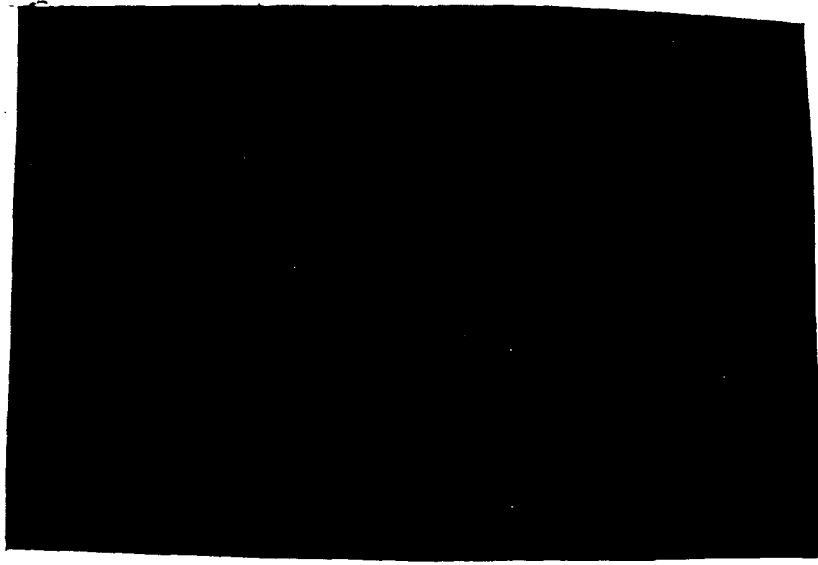
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TAIWAN: Allowing Trade With Communist States

Taiwan approved new trade regulations late last month that allow direct trade and technical cooperation with Cuba, Laos, Cambodia, and Vietnam. Earlier last year it approved direct trade with most countries in Eastern Europe. Direct trade is still banned with the USSR, North Korea, and Albania, but indirect trade with Moscow through Bloc nations will now be permitted.

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The new regulations are part of a campaign by the government—under pressure from local businessmen—to diversify Taiwan's export market, traditionally dependent on the US. The move is also an integral part of Taipei's more flexible foreign policy, designed to allow it to expand ties to countries that recognize Beijing. The decision to increase contacts with the Soviet Bloc may represent an attempt as well to develop a rationale for greater economic contacts with China without violating its policy of "no contacts, no negotiations, and no compromise" with Beijing.

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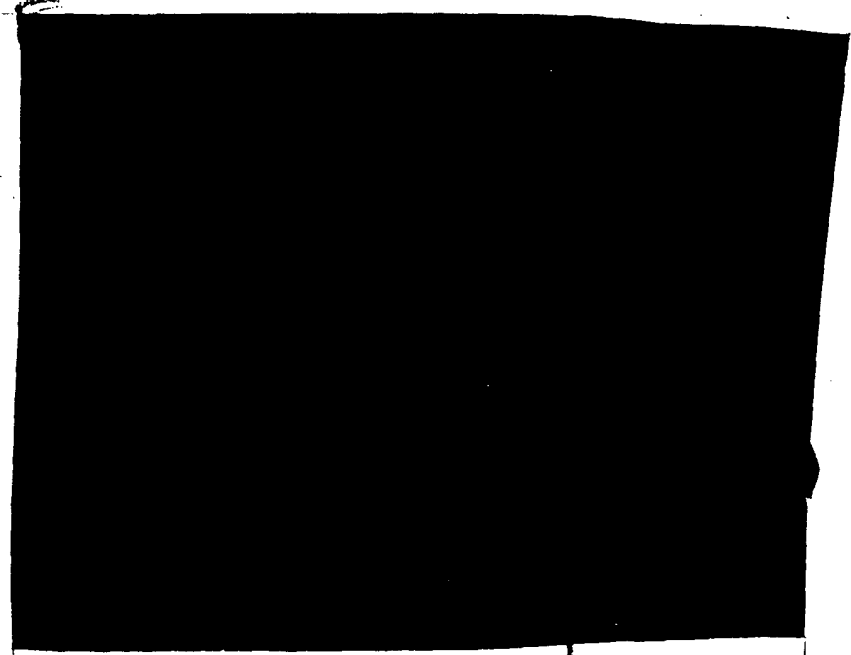
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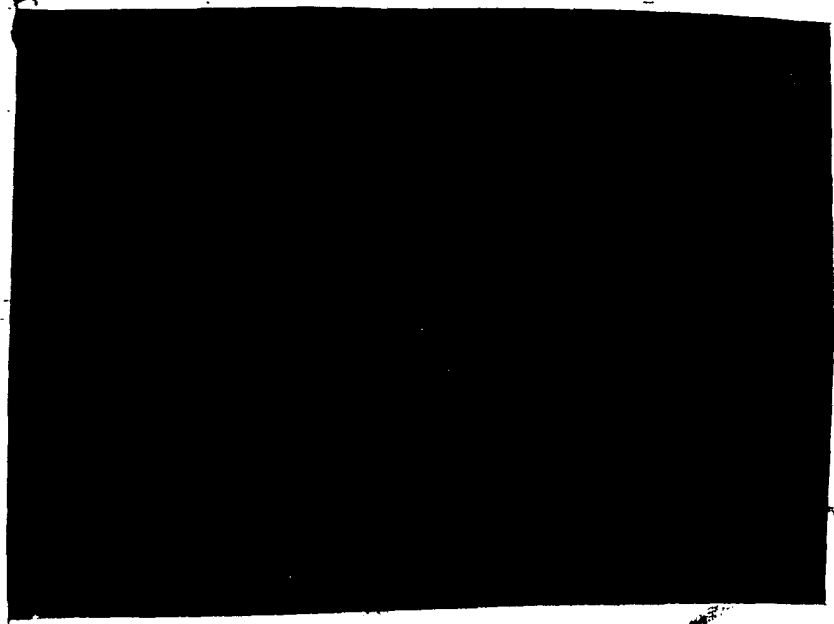
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In Brief

Terrorism

[REDACTED]

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— Saudi diplomat shot dead in Bangkok on Wednesday . . . similar attacks on Saudis in recent months in Ankara, Karachi . . . assassins most likely radical Shias, who promised to avenge Saudi execution of four Shia saboteurs in September [REDACTED]

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[REDACTED]

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[REDACTED]

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Africa

[REDACTED] RENAMO insurgents in Mozambique captured more SA-7 missiles [REDACTED] . . . Soviets concerned rebels may get training, maintenance help . . . threat to relief flights, government's Soviet-supplied aircraft. [REDACTED]

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Europe

— Hungary ordering subsidy cuts, hefty raises in many consumer prices Monday . . . may increase cost of living for average worker by almost 10 percent . . . leadership, trade union chief concerned about possible wave of strikes. [REDACTED]

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Americas

[REDACTED]

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— Cuban Foreign Minister Malmierca to visit China 18 through 23 January . . . most senior Cuban visitor since 1960 . . . probably will discuss increased trade and cultural contacts, African policy, developments in Cambodia. [REDACTED]

— Uruguay to hold referendum 16 April on repealing amnesty for military accused of human rights abuses . . . latest poll shows increasing support for repeal . . . leftists will begin intensive campaign against amnesty. [REDACTED]

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Crackdown in the Caucasus

Some 300 Armenian activists have been arrested since 10 December. Most leaders in key nationalist organizations have been sentenced to 30 days of administrative detention, but criminal proceedings, which carry a penalty of six months to three years in jail, have been instituted against a number of them—including one Armenian activist from Azerbaijan.

The Soviet Supreme Court recently published specific guidelines for prosecuting those who stir up ethnic unrest in Armenia and Azerbaijan. These guidelines strictly curtail freedom of assembly and speech under such headings as spreading rumors and undermining trust and respect for another nationality, as well as by leaflets, placards, slogans, and organizing gatherings, meetings, and demonstrations. Troops have reportedly entered the university and polytechnic institute in Yerevan to ensure that students attend classes.

A renewed press campaign against Armenian nationalist leaders has followed Gorbachev's tongue lashing of the leaders as power-hungry extremists during his visit to view earthquake damage last month. Some activists claim that an anonymous threat—published in the Armenian central paper late last month—to use US-made Stinger missiles in a campaign of mass terror if jailed Armenian nationalists are not released is disinformation intended to discredit the nationalists.

Airborne and Internal troops have rigorously enforced the state of emergency in Yerevan, Baku, and other volatile areas. Authorities used many of the ~~troops~~ troops there to enforce a midnight curfew, arresting thousands of Armenians and Azerbaijanis for violations and invoking the 23 November USSR Supreme Soviet Presidium decree giving military commanders the right to hold individuals for up to 30 days without trial. Thousands also have been picked up on charges of illegal ownership, use, manufacture, or sale of firearms, which carry penalties of up to five years in prison. The Soviet military commandant says that in the past month alone almost 16,000 firearms have been confiscated in both republics and another 22,000 turned in voluntarily.

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Special Analysis

USSR:

Instability in Caucasus' Likely To Be Prolonged

The political situation in the Caucasus remains volatile; growing anti-Russian and anti-Gorbachev sentiments are adding to the existing hostilities between Armenians and Azerbaijanis. Continued threats of violence and the confiscation of large numbers of firearms in both republics suggest the unrest will continue despite mass arrests and the presence of security forces.

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Nationalist organizations are now well established in both republics and cannot be easily disrupted—particularly the Armenian groups, which get at least financial and moral support from ethnic Armenians abroad. During the yearlong unrest, such groups—especially the Karabakh Committee in Armenia—have come to rival the local Communist parties in influence. A profile of these organizations in *Pravda* last month called them illegal but noted they have shown they can organize and finance massive demonstrations, strikes, and even attacks on militia and government facilities. The military newspaper, *Krasnaya zvezda*, noted last week that the Karabakh Committee and the Movement for Self-Determination—the two major Armenian nationalist organizations—had renewed activity within a few weeks after the arrests of their key leaders in December.

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The *Pravda* article said a secret think tank in Azerbaijan mobilized an alliance of workers, intellectuals, students, and elements of the media, many of them Communists holding important positions, to mount the mass demonstrations against the transfer of Nagorno-Karabakh to Armenia that occurred in November. The anti-Russian, anti-Soviet sentiments of many demonstrators were clear from the portraits of Iran's Ayatollah Khomeini and the Islamic banners that appeared in the crowds, symbols of Azerbaijani nationalism.

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Soviet press reports indicate cross-border migration between the two republics continues, fueled by fear of violence and reprisals; more than 300,000 people have fled their homes, according to published Soviet estimates. Violent confrontations appear likely because weapons seem to be readily available and cannot be easily controlled. The Soviet press noted recently that both sides had manufactured their own firearms illegally; there is apparently a lively black market in military hardware.

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Moscow's Response

Moscow's deployment of [redacted] troops and the arrest of activists have for now stopped the spiral of unrest, and de facto military occupation has prevented communal violence in

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the area since the earthquake. Hundreds of nationalist leaders in both republics, including most of the organizers of the Karabakh Committee, have been jailed. The Soviet courts are actively prosecuting these and others connected with the ethnic unrest.

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Moscow's dismissal of hundreds of party members in both republics since November has not stopped collusion between the local parties and regional nationalists. Some in the leadership blame Mikhail Gorbachev for this serious threat to the leading role of the party and to Moscow's political control of the two republics.

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Challenges Ahead

Moscow has learned to live with a degree of instability, and where it will draw the line is unclear. It has already set certain limits in the Caucasus: no large demonstrations or strikes, no communal violence, and no attacks on government targets and personnel. These limits have been hard to maintain, however, and some level of violence will probably continue indefinitely.

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[Redacted] Soviet leaders seem to have a growing concern that some radical groups may opt for terrorism.

Frustrated by their inability to get results by political means, and feeling under attack from Moscow, Armenian activists have told several Western journalists [Redacted] that some radical nationalists there are ready to take up arms against not only Azerbaijani but Russian targets. Armenian terrorist organizations already exist outside Soviet Armenia, and at least one group—ASALA—has threatened to avenge Armenians killed in ethnic violence in Azerbaijan.

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b3 [Redacted] Armenian terrorists had made threats against Aeroflot [Redacted]. The present lull in the Caucasus may soon disappear as recovery from the earthquake progresses and the February anniversary of the drive to unite Nagorno-Karabakh with Armenia approaches.

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Special Analysis



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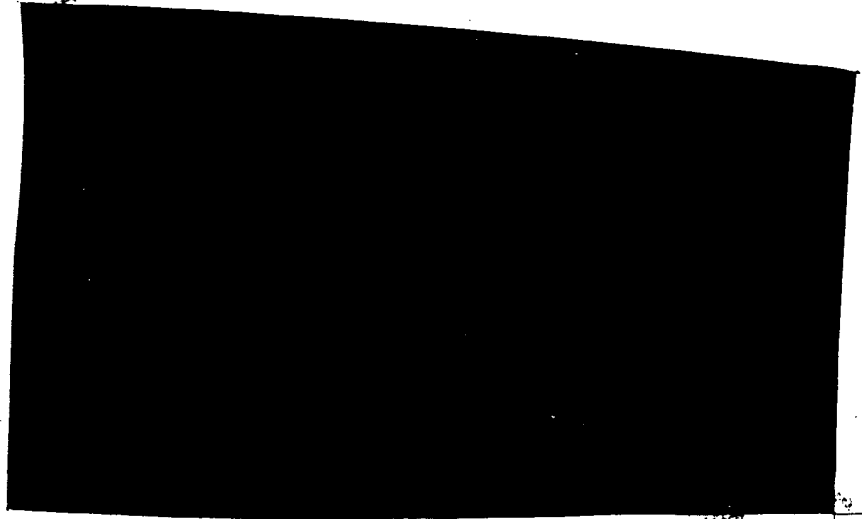
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