September 29, 1989
National Intelligence Daily for Friday, 29 September 1989

Citation:

"National Intelligence Daily for Friday, 29 September 1989", September 29, 1989, Wilson Center Digital Archive, Approved for Release by the Central Intelligence Agency, June 3, 1999, Document #0000258742. Contributed by Mark Kramer.
https://wilson-center-digital-archive.dvincitest.com/document/209599

Summary:

The CIA’s National Intelligence Daily for 29 September 1989 describes the latest developments in China, Tunisia, the Soviet Union, Ecuador, Peru, Yugoslavia, Iraq, Philippines, Indonesia, Iran, and Brazil.

Original Language:

English

Contents:

- Original Scan

1785

m

[redacted] b3

[redacted] b3

[redacted] b3

Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Friday, 29 September 1989

[redacted] b3

[redacted] b3

29 September 1989

408

Warning Page Deleted
B-3

1787

[redacted] b3
[redacted] ACT-
[redacted] b3

Contents

[redacted] b3

[redacted]
29 September 1989

~~Top Secret~~ b3

[redacted]

b1
b3

~~Top Secret~~ b3

29 September 1989

1789

[redacted] b3

[redacted] b3

[redacted]

[redacted] b3

Top Secret

[redacted] b3

29 September 1989

1790

Top Secret

[redacted] b3

b1
b3

[redacted]

Top Secret

[redacted] b3

29 September 1989

1791

Top Secret [redacted] b3

CHINA: **Regime Braced for 1 October Anniversary**

The Chinese Government is implementing stringent security precautions to forestall demonstrations or violence at ceremonies Sunday marking the 40th anniversary of the founding of the People's Republic. [redacted] b3

Over the past week military units have conspicuously conducted riot-control exercises in the streets of Beijing [redacted] b3

b3 [redacted] Armed troops are patrolling the areas around Tiananmen Square and the nearby leadership compound for the first time since August. [redacted] ay authorities b3 have restricted domestic travel into Beijing and may seal off the city until 5 October. [redacted] b3

b1
b3

[redacted]

b3 [redacted] students suspected of involvement in last spring's demonstrations are being ordered to participate in official festivities in Tiananmen Square. Foreign attendance will be sparse: only Cuba and East Germany from the Eastern Bloc have sent official representatives [redacted] b3 [redacted] Western participation will be limited to token Embassy representation. [redacted] b3

b3 [redacted] The security preparations are evidence of the regime's nervousness about possible demonstrations of popular resentment, and it is signaling that it will deal firmly with any attempts to embarrass it. By coercing students to take part in the festivities, the authorities presumably hope to head off any student-initiated acts and make it appear that students in particular now support the government. There continue to be reports of isolated bombing and sniping incidents against troops, and it is possible some dissidents may try to disrupt the celebrations with sabotage. [redacted] b3
[redacted] b3

Top Secret [redacted] b3

1792

Top Secret

[redacted] b3

b1

b3

[redacted]

Top Secret

[redacted] b3

29 September 1989

1793

Top Secret
[redacted] b3

[redacted]

b1
b3

Top Secret
[redacted] b3

[redacted] September 1989

1794

[redacted]

b1,
b3

1795

Top Secret
[redacted] b3

b1
b3

[redacted]

Top Secret
[redacted] b3
29 September 1989

1796

TUNISIA: **President Faces Growing Opposition**

Tunisia's deteriorating economy is eroding popular support for President Ben Ali's government; some of that support is likely to go to the Islamic fundamentalists. [redacted] b3

Bel Ali sacked Prime Minister Baccouche Wednesday in favor of a ruling-party loyalist because of Baccouche's increasingly vocal opposition to the government's IMF-supported economic reform program. According to press reports [redacted] Baccouche marshaled a growing faction of government officials and businessmen concerned that strict adherence to the reform program—which includes higher prices on subsidized foods and the sale of state companies—would raise inflation and unemployment. Tunis narrowly averted sector-wide strikes this summer when labor unions threatened to walk out over wage and economic reform issues. [redacted] b1, b3 b3

b1, b3 [redacted]

The Ministry of Defense fears opposition to Ben Ali's programs will result in civil unrest when university students return to campus next week. [redacted] b1, b3

b3 [redacted] Sporadic demonstrations, encouraged in part by fundamentalists, are likely this fall. Ben Ali may be forced to slow the pace of reform to head off labor and popular unrest, but he is unlikely to jeopardize Tunisia's standing with international creditors by deviating drastically from the IMF-supported program. Although the President prefers a soft approach in order to co-opt the fundamentalists, [redacted] to repress them. [redacted] b1, b3 b3

1797

~~Top Secret~~ [redacted] b3

[redacted]

b1
b3

~~Top Secret~~ b3
[redacted]
29 September 1989

1798

USSR: Gorbachev Oversees Ukraine Leadership Shift

At a Ukrainian party Central Committee plenum in Kiev yesterday, General Secretary Gorbachev thanked Vladimir Shcherbitskiy upon his retirement as republic party leader and spoke at the plenum's discussion of successors. Gorbachev said Shcherbitskiy had requested retirement last March. Republic second secretary Ivashko, one of two candidates put on the ballot, was elected Ukrainian party first secretary. In a break with tradition, the Ukrainian Central Committee allowed Soviet journalists to attend the plenum. [redacted] b3

[redacted] Despite the openness of the proceedings and the democratic formalities at the plenum, the smooth transfer of the Ukrainian party leadership from Shcherbitskiy to Ivashko clearly was carefully prepared. Ivashko assumed a high political profile in the weeks before Shcherbitskiy's retirement, taking moderate political positions that avoided serious offense either to the Ukrainian party establishment or to the republic Popular Front that had called for Shcherbitskiy's removal. As at the Leningrad plenum in July, Gorbachev's participation put his stamp of approval on the outcome. Ivashko nevertheless will have difficulty in the months ahead in satisfying the expanding demands of religious and nationalist Ukrainian movements while keeping them within bounds acceptable to Moscow. [redacted] b3

USSR: Deficit Reduction Faces Uncertainty

In a speech to the Supreme Soviet this week, Finance Minister Pavlov has proposed a budget for 1990 that would reduce Moscow's massive budget deficit to 60 billion rubles, about 6 percent of GNP. Although the budget calls for major cuts in expenditures on investment and defense, it relies mostly on an assumption of increased revenues to achieve the deficit reduction. Pavlov indicated, moreover, that the remaining deficit would be financed in a less inflationary way—by selling 60 million rubles worth of long-term bonds at a 5-percent interest rate to banks, enterprises, and cooperatives. [redacted] b3

Comment: The measures Moscow is taking to control the deficit could help the leadership deal with its most pressing problem, a massive monetary overhang that is creating havoc in consumer markets. Reducing the deficit, however, depends almost entirely on revenue increases that will be difficult to achieve; no source is specified for almost 20 billion rubles of the budgeted revenue increase. Moreover, some of the cuts and measures for raising revenues are likely to be hotly debated in the Supreme Soviet. One legislator already has suggested that the plan and budget for next year have little chance of being approved in their current form. [redacted] b3

1799

Top Secret
[redacted] b3

ECUADOR: Dispute With Oil Workers

President Borja has declared a national state of emergency and ordered troops to take control of Ecuador's Texaco-managed oil facilities and pipeline from striking workers. The strike, just before Sunday's scheduled assumption of management of the pipeline by the state oil company, has temporarily halted shipments of oil, which produces 60 percent of the country's export revenues. Workers are demanding up to $35 million in severance pay from Texaco because the state oil company will not honor their contract. Although Texaco and Quito agree that compensation is due, they disagree over who should pay. Texaco is appealing a recent court ruling in the government's favor. [redacted] b3

b3 [redacted] The union's far-left leaders probably want to play on nationalist sentiment by seeking payment from the US company, widely seen as having greater resources than the government. Labor Minister Verduga justified the government's refusal to pay the compensation by charging that Texaco had provoked the dispute to prolong its control of the pipeline. The confrontation, the third with a US-owned company this year, is likely to discourage sorely needed foreign investment and disturb foreign creditors. The government nonetheless probably sees the dispute as an opportunity to press Texaco to lower its demands for compensation in the full nationalization that is pending. [redacted] b3

PERU: Urging Regional Antidrug Stance

Peru is pressing Bolivia and Colombia to join it in a regional response to the US counternarcotics initiative. [redacted] b3 the Peruvian Foreign Ministry says Presidents Barco of Colombia and Paz Zamora of Bolivia have agreed to a strategy-planning minisummit with President Garcia in Peru on 10 October before meeting with US officials. Garcia and Paz have publicly called for a substantial crop-substitution program and are emphasizing the need to include West European countries in the antidrug plan. [redacted] b3

b3 [redacted] Garcia hopes the drug issue will help him realize his longstanding ambition to spearhead regional solutions to Latin America's problems. He probably believes that Colombian and Bolivian concurrence on a joint position will improve chances for securing more aid [redacted]

b1, b3 [redacted] His push to involve Europe may be an attempt to avoid potential domestic criticism that Peru is bowing to US pressure to intensify the struggle against narcotics, especially if the traffickers retaliate violently. [redacted] b3

Top Secret
[redacted]

29 September 1989 b3

1800

Top Secret b3

[redacted]

YUGOSLAVIA: Economic Reforms Likely To Provoke Unrest

Premier Markovic will present a controversial market-oriented economic reform package for approval by the Federal Assembly today. Although acknowledging the likelihood of increased social unrest, he reportedly believes his package is Yugoslavia's only hope for economic recovery and is confident of full approval. The package reportedly lacks the tough price and interest-rate controls demanded by Markovic's critics, and trade union and republic leaders have warned of general strikes and unrest if the government fails to make a more concerted effort to halt inflation, now running near 1,000 percent. Markovic has denied reports that he will step down if his reforms are rejected. [redacted] b3

b3 [redacted] The reforms, even if not watered down, will fail to curb inflation quickly enough to satisfy workers, while imposing greater austerity on a population already hard pressed. Moreover, tensions aggravated recently by confrontations between Slovenia and the Federation over constitutional issues will hamper agreement. Markovic's scheduled visit to the US in mid-October and his meeting with President Bush may strengthen his hand, but inflation probably will continue unabated and he stands an even chance of being forced out before his term ends in May. [redacted] b3

IRAQ: Reducing Foreign Labor Force

Baghdad, which claimed Wednesday to be preparing to demobilize five divisions by mid-October, is trying to reduce the number of foreign workers in Iraq in order to prepare for large-scale demobilization and to conserve hard currency. [redacted] b3 reports that next month Iraq will sharply reduce the amounts most foreign workers can convert to hard currency and remit. Earlier this year, Baghdad banned Egyptians from operating produce stands and prohibited workers from converting their earnings locally. [redacted] b3
b1
b3 [redacted] more Egyptians are leaving than entering Iraq daily. The five divisions to be demobilized include 50,000 troops, 4 to 5 percent of Iraq's current forces. [redacted]

b3 [redacted] Although previously announced demobilizations have resulted only in the shifting of units to Border Guard or internal security duties, Iraq probably wants to free some of the jobs of its 2 million foreign workers for soldiers. Baghdad also wants to save hard currency for development projects and imports; annual remittances will be halved to about $1 billion even if most workers remain. Many Egyptians probably will stay in Iraq because of poor opportunities at home. Baghdad's actions are likely to increase friction with members of the Arab Cooperation Council, which seeks opportunities in Iraq for its workers. [redacted] b3

Top Secret b3

[redacted]

1801

Top ~~Secret~~ [redacted] b3

PHILIPPINES: Debating How To Lay Marcos to Rest

The death of Ferdinand Marcos yesterday in Honolulu, where he and his wife have lived in exile since 1986, has reopened debate over whether the former President should be buried in the Philippines. President Aquino has expressed sympathy to Marcos's family but has publicly reiterated her earlier decision not to allow his remains to be returned. [redacted] Although most Filipinos vilify Marcos, they also strongly believe he has a right to be buried in his homeland. [redacted] b3

b1
b3

b3 [redacted] Marcos's death is likely to provoke some short-lived antigovernment and anti-US demonstrations, but his supporters probably are incapable of any serious threat to the Aquino administration. Although Aquino may eventually allow Marcos's burial in the Philippines, she will almost certainly seek US assistance to bar Mrs. Marcos's return; Mrs. Marcos and former Marcos associates are still under US indictment on charges of racketeering. [redacted] b3

INDONESIA: Soeharto Moves To Scotch Succession Talk

President Soeharto has put the military on notice that he will be the one to determine when and how a successor is chosen. [redacted] b3 He recently said he will come down hard on any generals attempting to remove him unconstitutionally. Armed Forces Commander Sutrisno has publicly reiterated the military's backing of the President, and Defense Minister Murdani has issued a warning to student activists previously tolerated by the military. Officials have renewed warnings to the press not to write on politically sensitive issues, including the presidential succession. [redacted] b3

b3 [redacted] The gestures of support by military leaders may mean they have decided to shelve for now an increasingly public confrontation over the succession with Soeharto, whose term expires in 1993. Although Soeharto remains in charge, the military is his power base, and behind-the-scenes succession maneuvering is likely to persist. He has not indicated whether he will seek another term. [redacted] b3

Top ~~Secret~~ [redacted] b3

September 1989

1802

CHINA: Employing Draconian Measures To Collect Revenues

Confronting a growing budget deficit, Beijing has launched an all-out drive to increase revenues by forcing state workers, joint-venture employees, and soldiers to buy more government bonds [redacted] b3
b3 Beijing is insisting that workers employed in joint ventures with foreign firms convert as much as a third of their wages into government bonds. [redacted] recently told the b3
b3 [redacted] he and his colleagues are being forced to spend nearly half their salaries. [redacted] b3

b3 [redacted] Beijing is scrambling to finance its deficit, which is likely to reach an alltime high of more than $10 billion this year, without printing money and aggravating already serious inflation. Forced bond sales will further cloud China's business climate for foreign investors by squeezing the profit margins of joint ventures to the extent that employers have to increase wages to attract workers. These sales will also hurt worker productivity by further alienating a restive labor force. The mandatory bond purchase is lowering morale in the military by negating a long-awaited pay raise awarded earlier this year and by keeping the living standards of soldiers below those of their civilian counterparts. ([redacted] b3

b1
b3

[redacted]

1803

Top Secret
[redacted] b3

In Brief

East Asia

— Press reports former South Korean President Chun agreeing to testify to National Assembly on alleged misdeeds without conditions . . . could break legislative impasse . . . [redacted] b1, b3

— Press reports say Japan sending technical aid mission to Iran . . . first since 1980 . . . suggests agreement near in dispute over petrochemical joint venture, broader assistance program in the works. [redacted] b3

USSR

— USSR's Gorbachev reportedly quashed attempt to raise Ligachev corruption investigation Monday at Supreme Soviet . . . liberals trying to reverse prosecutors' whitewash, focus attention on continuing legislative investigation. [redacted] b3

Europe

— Final session of Polish Communist party's Central Committee plenum put off to Tuesday amid stormy debate on party's future . . . party chief Rakowski warns disunity endangering party's existence . . . efforts to stem factionalism probably futile. [redacted] b3

— [redacted] b1, b3

— Greece has announced election for 5 November . . . charges filed against Papandreou complete conservative-Communist coalition's anticorruption mandate . . . conservatives favored to win, but Socialist-Communist coalition possible. [redacted] b3

b3

Africa

— Violence increasing as constituent assembly election nears in Namibia . . . 15 injured as supporters of leading contenders—SWAPO, South African–backed Democratic Turnhalle Alliance—clashed this week . . . still on track for 7-11 November. [redacted] b3

— Mozambican insurgents intend to increase urban sabotage . . . [redacted] b1 b3

Americas

— Press report says Miskito Indian exile leader Brooklyn Rivera returned to Nicaragua yesterday . . . return arranged by former President Carter . . . government statements suggest Managua will restrict Rivera's electoral activities. [redacted] b3

Top Secret
[redacted] b3

29 September 1989

1804

Special Analysis

IRAN: Roots of Growing Activism Against Israel

Iran is trying to assume a greater role in supporting violent Arab struggle against Israel. Responding to Palestinian overtures, it is seeking to develop ties to radical Palestinian groups and to foster cooperation between them and Lebanon's Shia militias. Tehran clearly aims to preserve or expand its influence in Lebanon and the region, as well as to maintain its strategic relationship with Damascus. The competing interests and rivalries of the Lebanese and Palestinian groups, however, will hinder Iranian efforts. [redacted] b3

b1
b3

[redacted]

An important step was taken in mid-July this year when key radical Palestinians and Lebanese Shia leaders met with Iranian officials in Tehran for the first time. Although the three parties issued a joint statement calling for Israel's destruction through armed struggle, Tehran made no commitment to provide financial support sought by the Palestinians. [redacted] b3

Most Iranian officials agreed that unity between the Lebanese Shia militias, Hizballah, and Amal had top priority. [redacted] b1, b3

continued

1805

Tehran's Aims

Iran's actions almost certainly are driven in part by tactical considerations. Coordination of the various Lebanese and Palestinian groups helps Syria in its battle against Lebanon's General Awn, who is widely perceived by Muslims as being supported by Israel and Iraq. Iran also hopes that focusing on Awn and Israel will divert the Lebanese Muslims from disputes among themselves and thereby help protect its primary client, Hizballah. [redacted]) b3

Strategic calculations also figure in Iran's anti-Israel policy. Tehran probably sees in Lebanon and Israel an opportunity to gain influence with Arab elements opposed to a political settlement with Israel, thus recouping prestige lost in the war against Iraq. The Iranians no doubt consider this policy a way to make gains with radical Lebanese groups and to move the more moderate Amal toward confrontation with Israel. Public Iranian statements have portrayed resistance to Israel as a religious rather than a national cause. President Rafsanjani may also see anti-Israel operations as an acceptable way to revalidate his revolutionary credentials and attract support from hardline domestic opponents. ([redacted] b3

Prospects

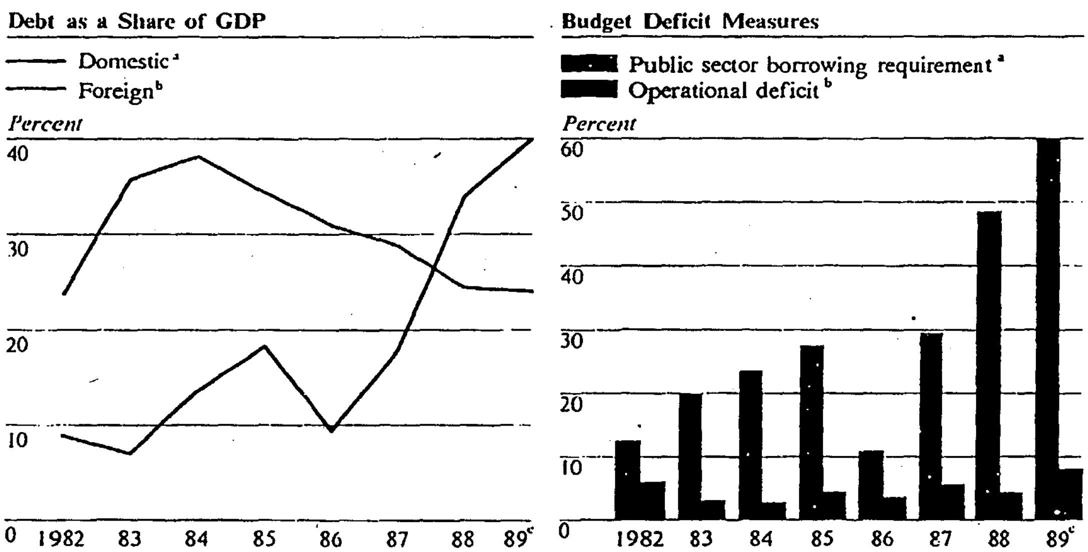
Iranian-brokered unification of the Lebanese and hardline Palestinians is likely to be ephemeral. [redacted] the Amal-Hizballah reconciliation is not progressing [redacted] Amal, fearing Israeli retaliation, has never been enthusiastic about armed struggle with Israel, and a broader coalition will be even more difficult to sustain. Nonetheless, there is a danger of increased attacks on Israeli positions in southern Lebanon as different groups vie for Iranian aid. The danger probably will increase if the immediate confrontation with Lebanese Christian forces recedes. [redacted] b3 b1, b3

Arab radicals will continue to turn to Iran for support, at least as long as the Arab consensus supports a political settlement with Israel. At a minimum, Iran will be a source of political and limited financial support to hardline Arab elements committed to armed struggle with Israel. More worrisome is the prospect that, in return for improving the resources and capabilities of radical Palestinian groups such as the PFLP-GC, Iran might use these groups to conduct terrorist attacks against its perceived enemies, including Western ones. [redacted] b3

1806

Top Secret [redacted] b3

Brazil: Fears of Financial Panic Resurfacing



[a] Includes only bonds and bills issued to the public.
[b] Includes only federal and federally guaranteed debt.
[c] Projection.

[a] Public-sector borrowing requirement is the total deficit of the government, which it must finance.
[b] The operational deficit excludes the inflationary component of interest payments on the domestic debt. The figure depicts that most of Brazil's borrowing requirements stem from growing debt-service costs.
[c] Projection.

[redacted] b3 [redacted] b3

Top Secret [redacted] b3
29 September 1989

1807

Top [redacted] b3

Special Analysis

BRAZIL: **Fears of Financial Panic Resurfacing**

As the presidential election in November approaches, the Sarney government again faces the threat of hyperinflation. Its policy of relying on high real interest rates to control inflation and to ensure there is a market for its securities—at least through March when a new president is inaugurated—is at risk as investors grow increasingly jittery. Some have already moved out of government-issued securities, doubtful of Brasilia's ability to meet ballooning service payments; hyperinflation would quickly result if investors abandon the securities en masse. Even if President Sarney manages to stave off a financial panic, his successor will not be spared and will need to address the internal debt issue immediately by imposing a painful economic restructuring. [redacted] b3

Government red ink has made Brazil's internal debt soar in recent years. Since 1982, Brasilia has had little access to foreign borrowing to finance its operations and has relied on printing money and selling bonds, creating a vicious cycle: as domestic debt increases, inflation rises and so do the interest payments on the securities that are posted and compounded daily; rising interest payments in turn further aggravate the federal deficit and result in the issuance of more securities. Last year, servicing the domestic debt cost more than 45 percent of gross domestic product. Inflation this year is projected to top 1,500 percent, and, as the government offers higher real rates on the securities, the servicing burden will take more than 50 percent of GDP. [redacted] b3

Caught in a Policy Bind

Growing domestic debt and ever-expanding interest payments have robbed the government of the use of traditional monetary and fiscal tools. A large chunk of Brasilia's expenses are now nondiscretionary interest payments. Lacking the political will to raise taxes and trim the federal payroll, the Sarney government has turned to monetary policy as its main weapon to control inflation. Relatively high real interest rates soak up excess liquidity and keep investors in the government securities market but at the cost of adding to the budget deficit. [redacted] b3

Courting Financial Panic

Real returns on the order of 30 to 60 percent a year have allowed the government successfully to market its securities, but particularly astute investors reportedly are limiting their purchases of government

continu

1808

Size and Scope of Domestic Debt

Brazil's internal debt—the paper the government issues to the public to finance its budget deficit—has soared from the equivalent of about 9 percent of gross domestic product in 1982 to about 35 percent last year and will probably surpass 40 percent by the end of this year. Although a few other countries have similarly large debts, they do not have the high nominal interest rates that inflation has induced in Brazil, where the burden to service internal debt has reached a whopping 50 percent of GDP—twice what Mexico pays and 15 times the payments on external debt.

Commercial banks, brokerage firms, cash-rich companies, and wealthy individuals are the primary holders of the securities, which are indexed to inflation. Most of the debt carries a maturity of 120 or 273 days, but some 80 percent of the estimated $80 billion now issued changes hands daily on the private-sector overnight market.

[redacted] b3

1809

Top Secret
[redacted] b3

paper. Financial markets have been nervous in the past week as Brasilia first temporarily tried to lower interest rates, then sharply raised them along with the official projections for inflation, making it difficult for investors to predict their real rate of return. Moreover, b7 [redacted] some holders of securities are beginning to question the government's ability to meet ballooning service payments. [redacted] b3

A flight from government securities would trigger hyperinflation. If investors opt out of bonds, they will try to turn to dollars and gold. Because the $80 billion in government securities far exceeds these assets, investors would next look to real estate and consumer and capital goods. The rapid increase in demand would outstrip supply, sending prices soaring. Brasilia would be forced to print money when it could no longer sell bonds. [redacted] b7

By ignoring the root of the internal debt problem, the Sarney government has produced a fundamentally unstable financial system. Flight from government bonds could occur very quickly because the volume of securities traded on the overnight market is huge. More than $44 billion of securities are scheduled for redemption between now and the inauguration in March. Inflationary pressures are building quickly, and a rapid upward spiral in prices might make investors jittery about holding cruzado-denominated assets, regardless of the return Brasilia offers. [redacted] b3

b1
b3

[redacted]

Although a financial collapse is not likely to result in postponement of the election, Sarney may come under pressure to hand over power to his successor before March. Even if Brasilia manages to stave off panic this year, the next president will inherit a tremendous internal debt that will require immediate and drastic spending cuts. Without them, the government will ultimately be forced to take the Argentine "solution" of hyperinflation, which forced a restructuring of internal debt along with severe disruption to production and social stability. [redacted] b3

Top Secret b3
[redacted] September 1989