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Monday, 30 July 1990



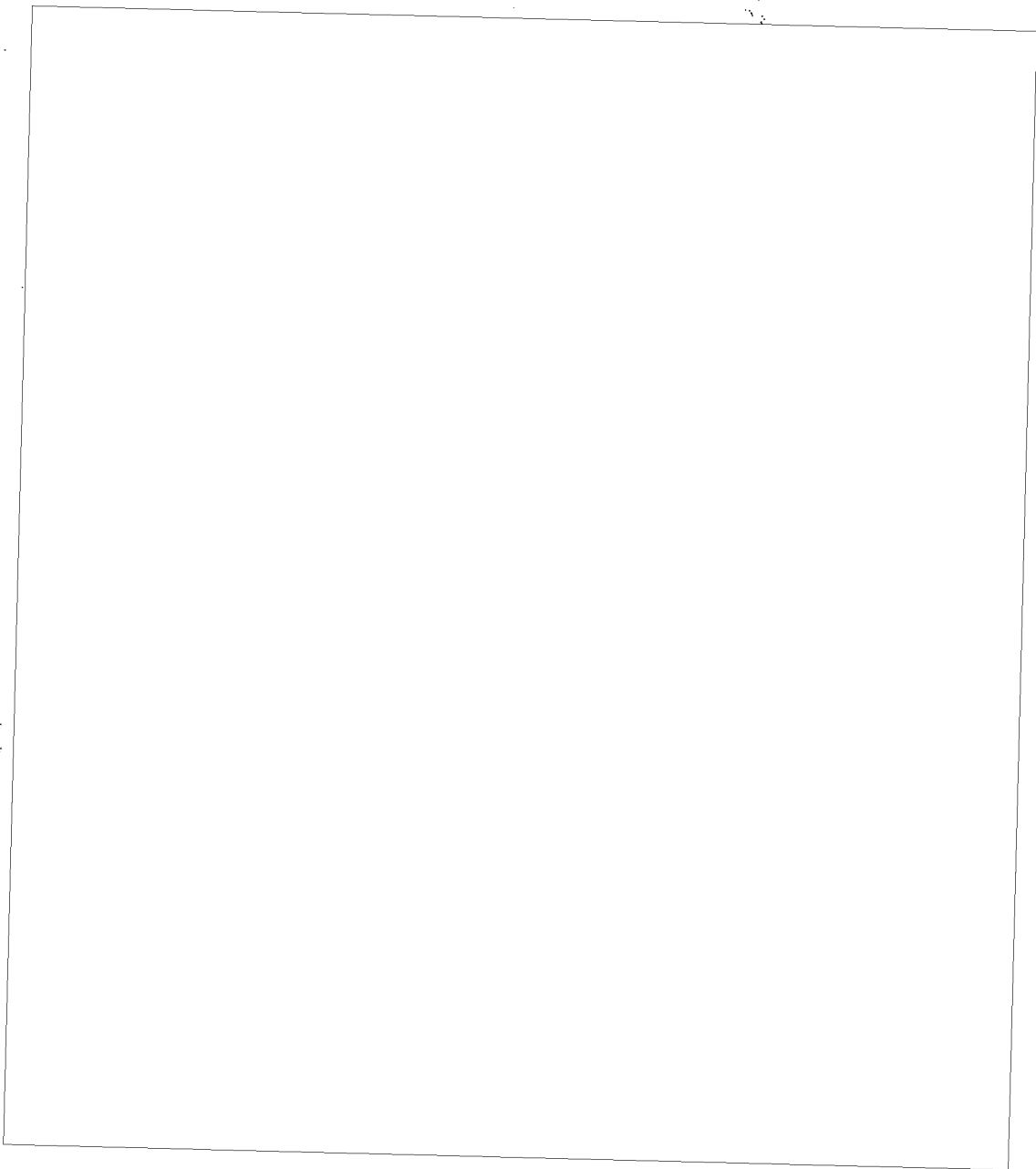
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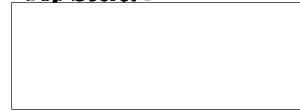
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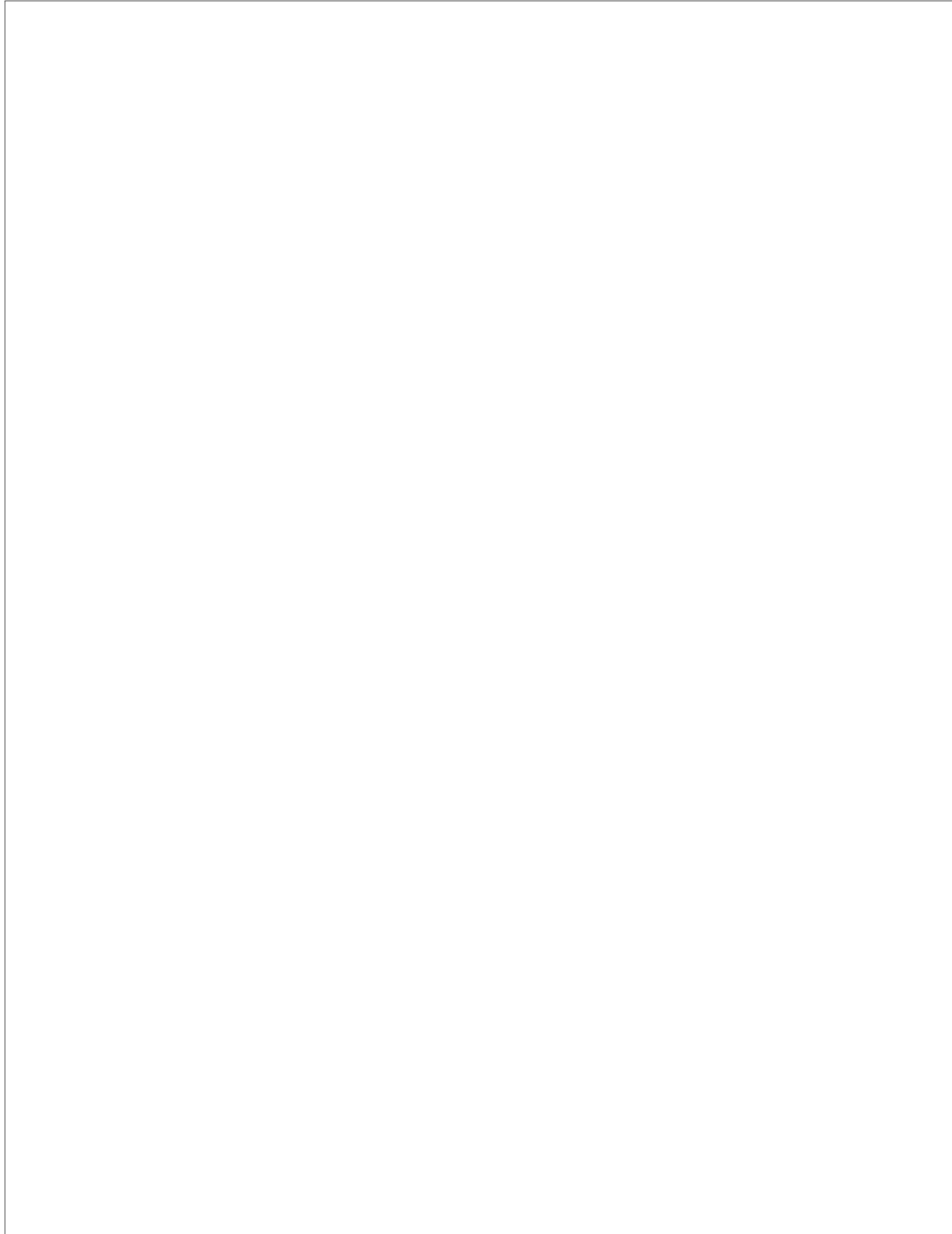
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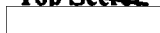
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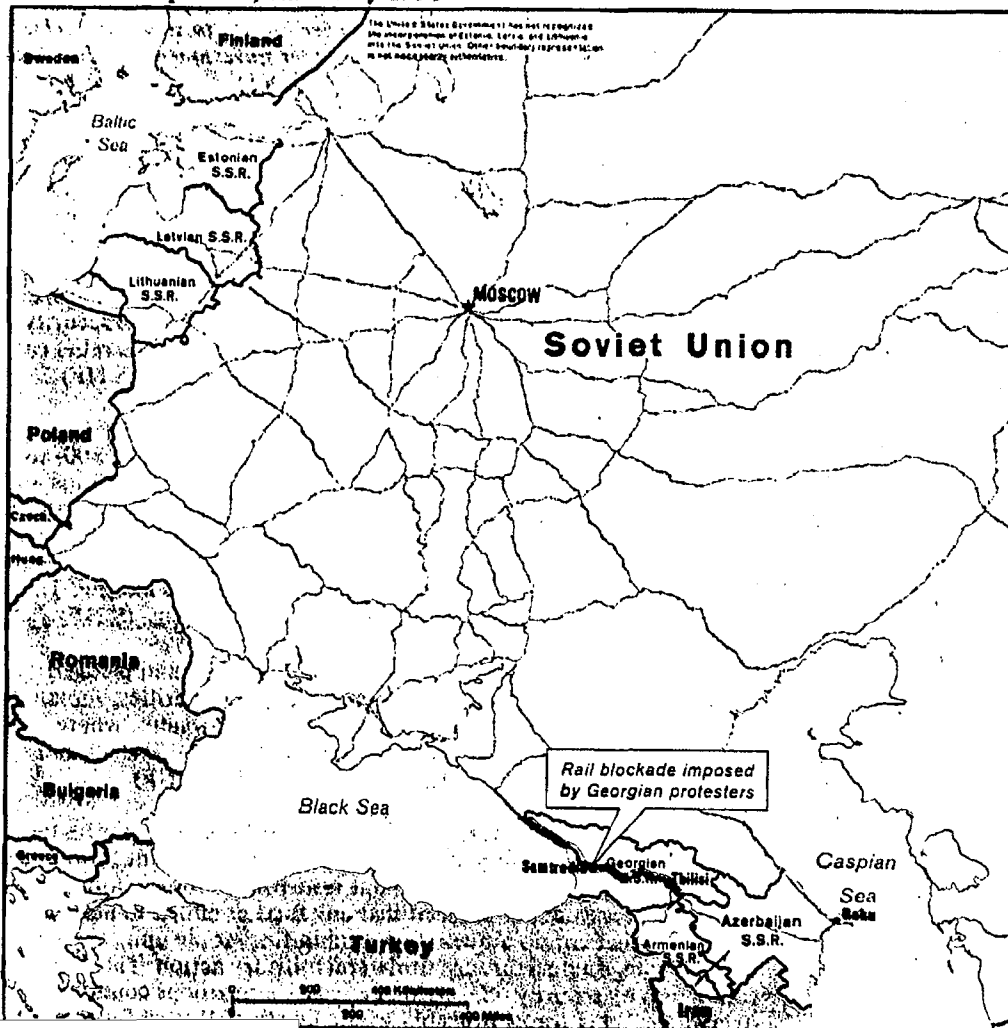
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USSR Developments, Late July 1990



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USSR:

Balts, Armenians Defy Gorbachev

Actions by increasingly defiant republics over the weekend underscored Moscow's impotence as it attempts to work out a new union treaty by the end of the year.

As expected, the Presidents of Lithuania, Latvia, and Estonia issued a joint statement on Saturday refusing to participate in the work on a new union treaty. The Armenian parliament voted on Saturday to suspend Gorbachev's ban on the formation of "illegal" armed groups; a second vote on the issue is scheduled for today, according to a spokesman for the Armenian Nationalist Movement.

A rail blockade imposed by Georgian protesters demanding the implementation of a multiparty system is continuing into the fifth day today; the USSR Ministry of Railways announced it is banning the dispatch of freight traffic to the region and is financing the evacuation of some of the 25,000 passengers stranded in Samtredia.

Comment: The actions by the Baltic republics and Armenia provide further evidence of their intention to establish their terms for relations with Moscow. The Balts appear intent on using bilateral arrangements with other republics as a means of establishing a new relationship with the USSR.

Moscow's unusually quick response to the rail crisis in Georgia may be intended to underscore Gorbachev's stated intent to retain transportation as a prerogative of the center within a new union treaty. The Railway Ministry appears to be setting a precedent for how it will respond when passengers are stranded in strife-ridden areas; disrupted freight traffic is being rerouted through Baku.

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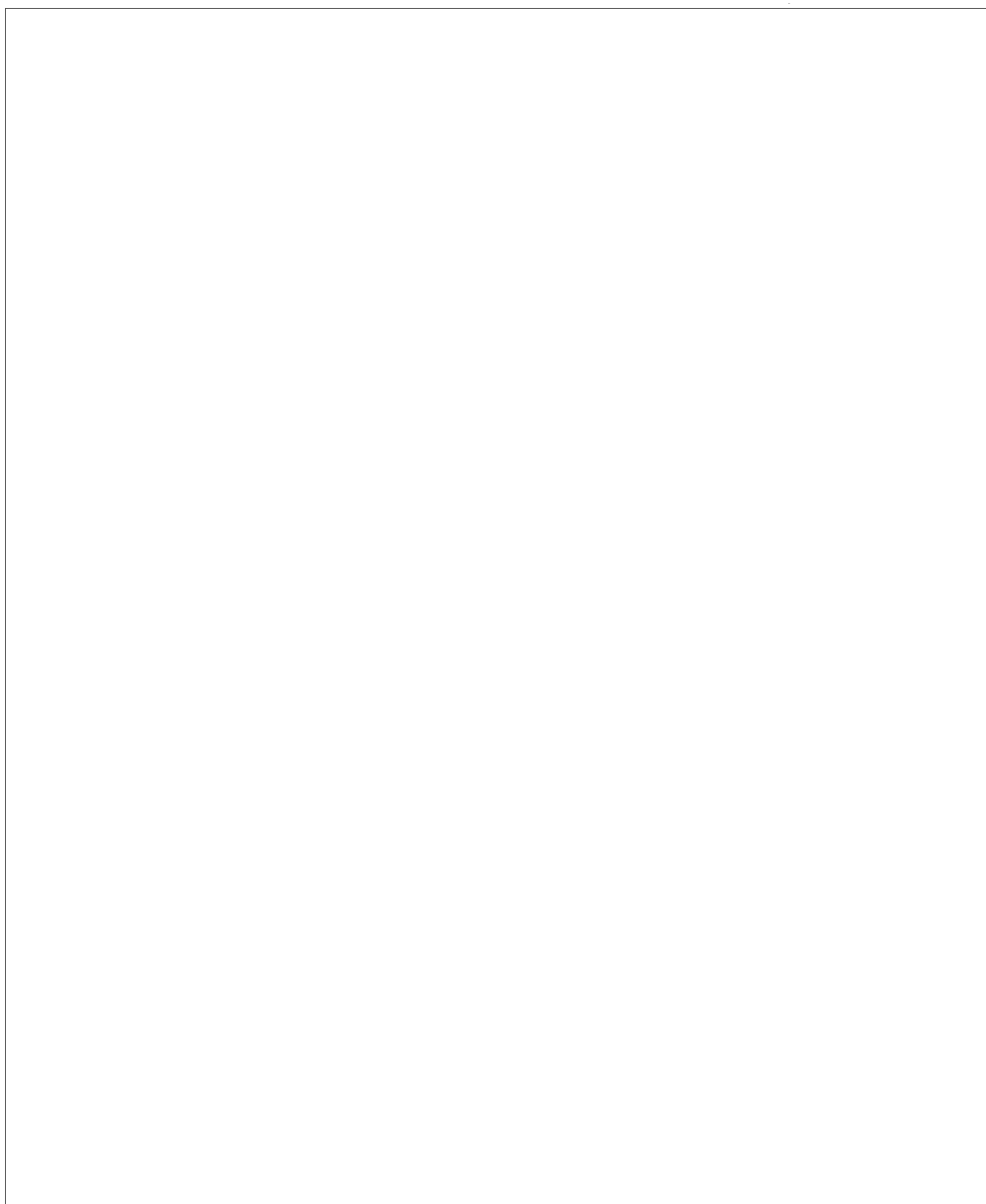


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~~TOP SECRET~~**USSR-JAPAN: Peace Treaty Talks Resume Today**

The Soviets are warning there will be no progress if the Japanese continue to focus only on the Northern Territories.

Deputy Foreign Minister Rogachev will raise Asian confidence-building measures and will look for agreement in areas other than the territorial dispute when he meets with his counterpart, Hisashi Owada, in Moscow beginning today. TASS reported on Wednesday that Gorbachev had told a visiting Japanese legislator there is no territorial problem and questioned whether it would be worthwhile for him to visit Japan next year if only one issue were on the agenda. He softened his language somewhat two days later, telling a Japanese Buddhist leader that the visit should take place and that he is prepared to take big steps to meet Japan halfway.

Pravda recently denounced Japan's hardline stance toward Moscow at the G-7 summit in Houston and criticized its attempts to "internationalize" the territorial issue. TASS referred to Foreign Minister Nakayama's comment that aid to the USSR is like throwing money down a sewer as "unprecedented for a statesman of his rank," and an *Izvestiya* commentator demanded an apology. But the Soviets have also floated trial balloons on the territorial issue. *Pravda* has suggested joint ownership of the disputed islands under UN trusteeship, and a leading Soviet academic has offered a three-phase proposal, including the immediate return of two of the four islands.

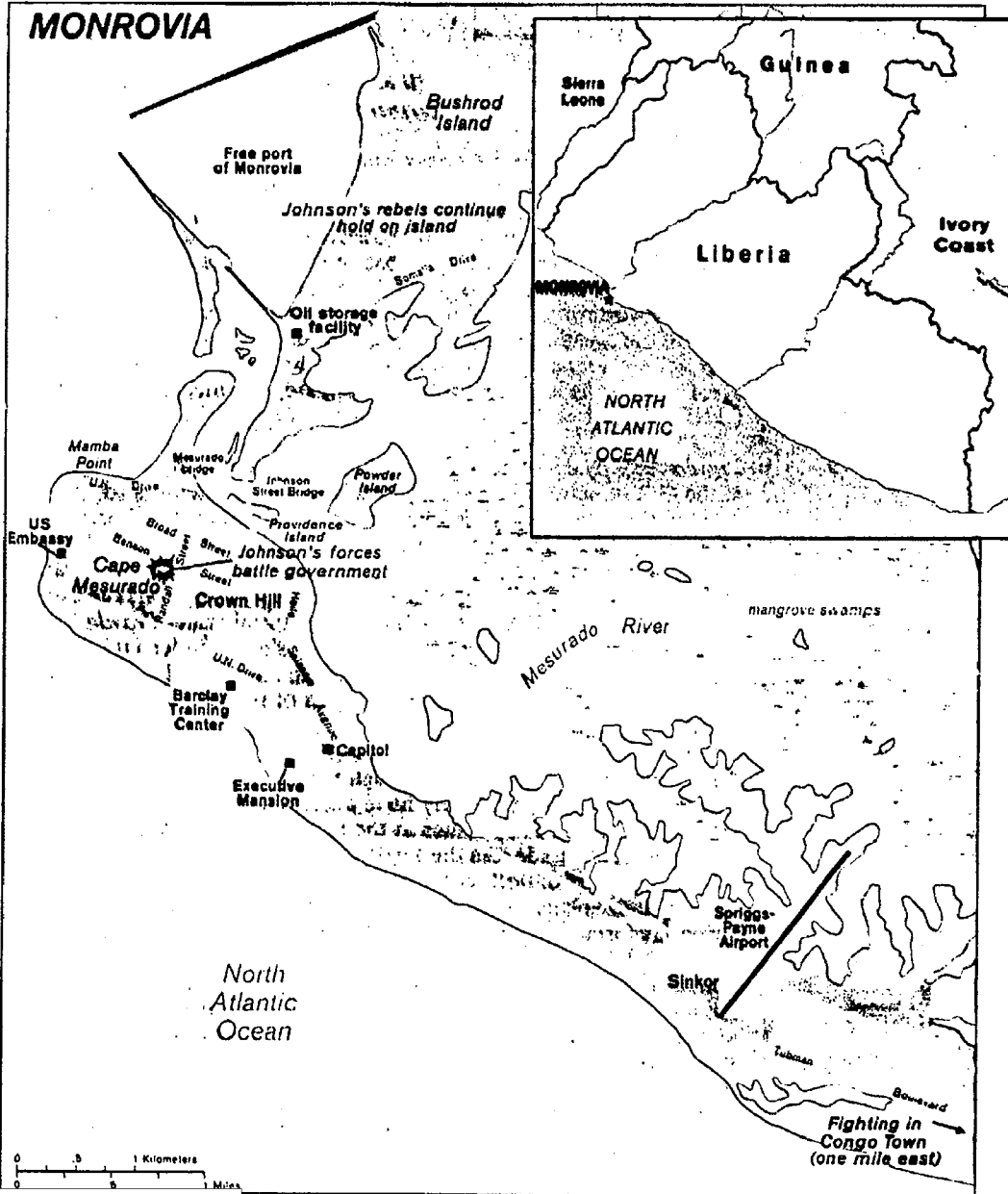
Comment: Some of the Soviets' tough talk probably is posturing, but recent Japanese actions clearly have annoyed them and may prevent any real progress on key issues at the talks. Before it formulates compromises that address the territorial dispute directly, Moscow wants assurances of both economic and security payoffs; Shevardnadze plans to present the confidence-building-measure proposals formally when he visits Japan in early September.

Owada almost certainly will restate Tokyo's position that Japan will not move on any front, including economic cooperation, until the Soviets return the four disputed islands. He is also likely to repeat Prime Minister Kaifu's offer on Friday of technical aid and training to support Soviet economic reform, a gesture meant to show Tokyo is in step with the West. Owada probably will sidestep on confidence-building measures, calling instead for Soviet arms reductions in East Asia.

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Military Situation, Late July 1990



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LIBERIA: Rebels Slowly Closing In on Doe

Prince Johnson's rebel group continued to gain ground in downtown Monrovia and in the vicinity of the US Embassy. His forces on Bushrod Island are estimated at about 1,000 men, of which more than 300 may be army deserters. They are distributing food to refugees, including displaced persons [redacted]

[redacted] Charles Taylor's forces southeast of the capital remain relatively quiet, although heavy shooting was heard yesterday in Congo Town. A government artillery barrage launched from the area apparently was aimed at the Elwa radio station, from which Taylor on Saturday announced the dissolution of Doe's government and the appointments to his own Cabinet. [redacted]

Comment: Johnson's troops probably will continue to expand their hold in downtown Monrovia before moving toward Doe's stronghold, but limited supplies of ammunition probably will slow the advance. Taylor may be waiting for Johnson and Doe to wear each other down in the city center before advancing his forces. Despite the military stalemate, Taylor's radio announcement proved a politically savvy move to assure the public of his control. Although the rebels and army soldiers have stayed clear of the Embassy compound, US citizens are increasingly vulnerable to stray gunfire. [redacted]

ALGERIA: Early National Election Announced

President Bendjedid yielded to opposition Islamic Salvation Front (FIS) demands and announced yesterday that an early parliamentary election will be held during the first three months of next year. The leader of the Berber Socialist Forces Front, which boycotted local elections last month, announced that his party is likely to participate in the election and urged other opposition forces to unite against the FIS, according to press reports. [redacted]

Comment: Bendjedid's decision to call an early election will help calm the growing impatience of Islamic fundamentalists. The move also buys time for secular opposition parties to resolve longstanding differences and to attempt to build coalitions to thwart an Islamic victory at the national level. Participation by the Berber Socialist Forces Front should encourage the higher voter turnout necessary for secular opposition forces to make a stronger showing. The FIS scored a major victory last month in part because only 60 percent of the population voted. [redacted]

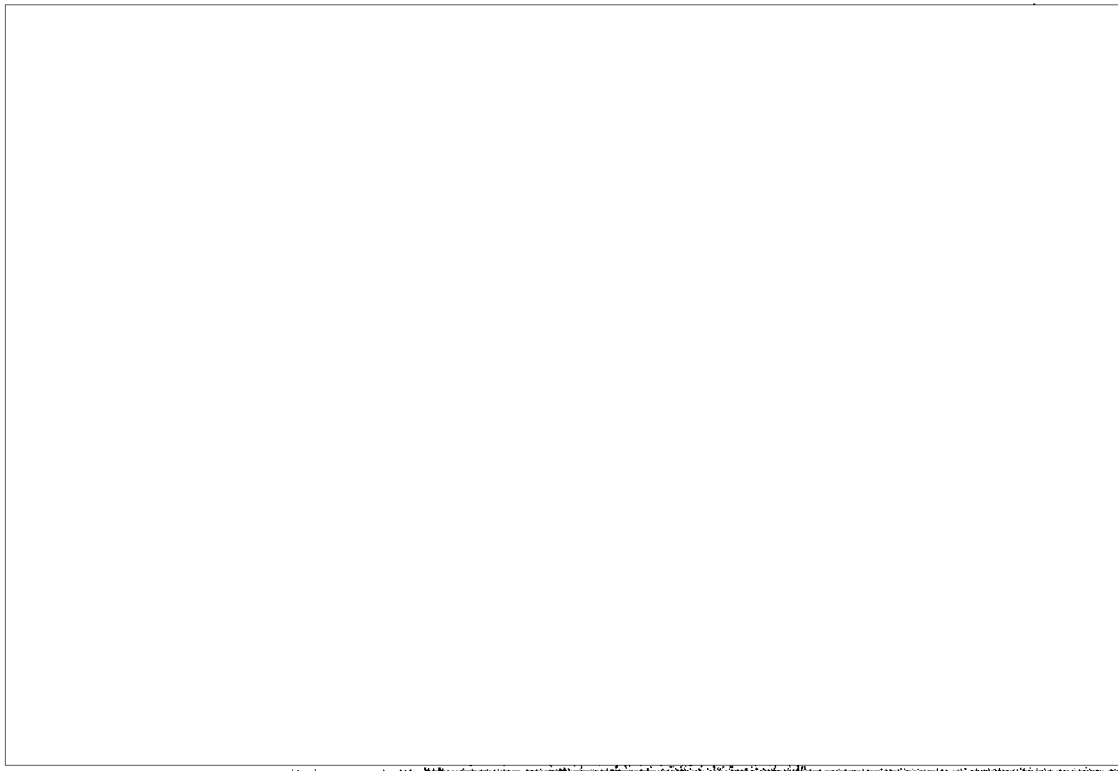
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~~Top Secret~~**TOGO: President Eyadema Visits US**

During his visit to Washington this week, President Eyadema probably will focus on the unrest sweeping West Africa, especially the Liberian insurgency, and on his plans for gradual political liberalization in Togo. Eyadema, in power since 1967, faces little organized domestic opposition and has been able to concentrate on regional mediation efforts, human rights reform, anticorruption measures, narcotics interdiction, and IMF-backed economic restructuring. Togo's economy is based on commodities vulnerable to fluctuating world prices, however, and is burdened by a \$1.3 billion external debt.

Comment: Eyadema almost certainly will continue to need considerable foreign aid in the near term. He probably believes greater political liberalization will contribute to good relations with the US, and he will emphasize moves his regime has taken in this direction, such as allowing independent candidates to compete in legislative elections. Eyadema probably hopes his visit will lead to increased aid, possibly including US support for his regional mediation and narcotics interdiction initiatives, new loans from multilateral organizations, and debt rescheduling.

AFGHANISTAN-USSR: Najibullah Summoned

President Najibullah went to the USSR yesterday for a short visit and medical consultations, according to press reports. During a press conference last week, he offered to relinquish control of some elements of the military and mass media in an effort to spur the negotiating process forward. First Deputy President Keshtmand has been in Moscow since early this month.

Comment: Najibullah, who has no known medical problems, apparently had not left Afghanistan since the Soviet withdrawal was completed in February 1989. His trip probably is related to the Baker-Shevardnadze talks in Irkutsk on Wednesday; Moscow probably is seeking to clarify Najibullah's latest offer and to coordinate its strategy with him. The USSR is not likely to replace Najibullah at this time—his international stature is on the rise and there is no credible alternative to him in Kabul.

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South Pacific Reaction to US CW Destruction Plan

A majority of the South Pacific nations probably will reluctantly support the destruction of chemical weapons stocks now on Johnston Atoll but will object to transporting stocks from West Germany. Washington has allayed some concerns by agreeing to let Forum observers visit the facility and by assuring that no further chemical weapons will be destroyed there, with the possible exception of some found in the Pacific region since World War II.

Nauru, supported by Kiribati and the Marshall Islands, probably will submit a paper opposing the US plan for weapons destruction. The three nations fear that the byproduct of incineration might be carried downwind and that the transportation of chemical weapons materials through the region is risky.

Australia is the plan's principal supporter in the region. Canberra accepts that incineration is the only practical solution and will not oppose the shipment of CW stocks from West Germany. It wants assurances, however, that there will be no further use of the facility after the on-site and West German stocks are destroyed.

New Zealand is likely to follow Australia's lead. But, as self-appointed spokesman for the South Pacific nations, Wellington probably will express concern about the transport of stocks from West Germany and will ask to be informed of the general route.

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~~Top Secret~~**BURMA: Military Refines Stalling Tactics**

Burma's military rulers on Friday announced a national convention to set guidelines for the National Assembly in drafting a new constitution. The regime also means to review the draft constitution and to submit it to a national referendum after approving it. Regime officials have publicly warned the National League for Democracy, which last May won 80 percent of the Assembly seats, not to try to form an interim government. The NLD's Assembly delegates met this weekend to discuss the transition from military rule. They called for parliament to be convened in September, for talks with the military, and for the release of NLD leader Aung San Suu Kyi.

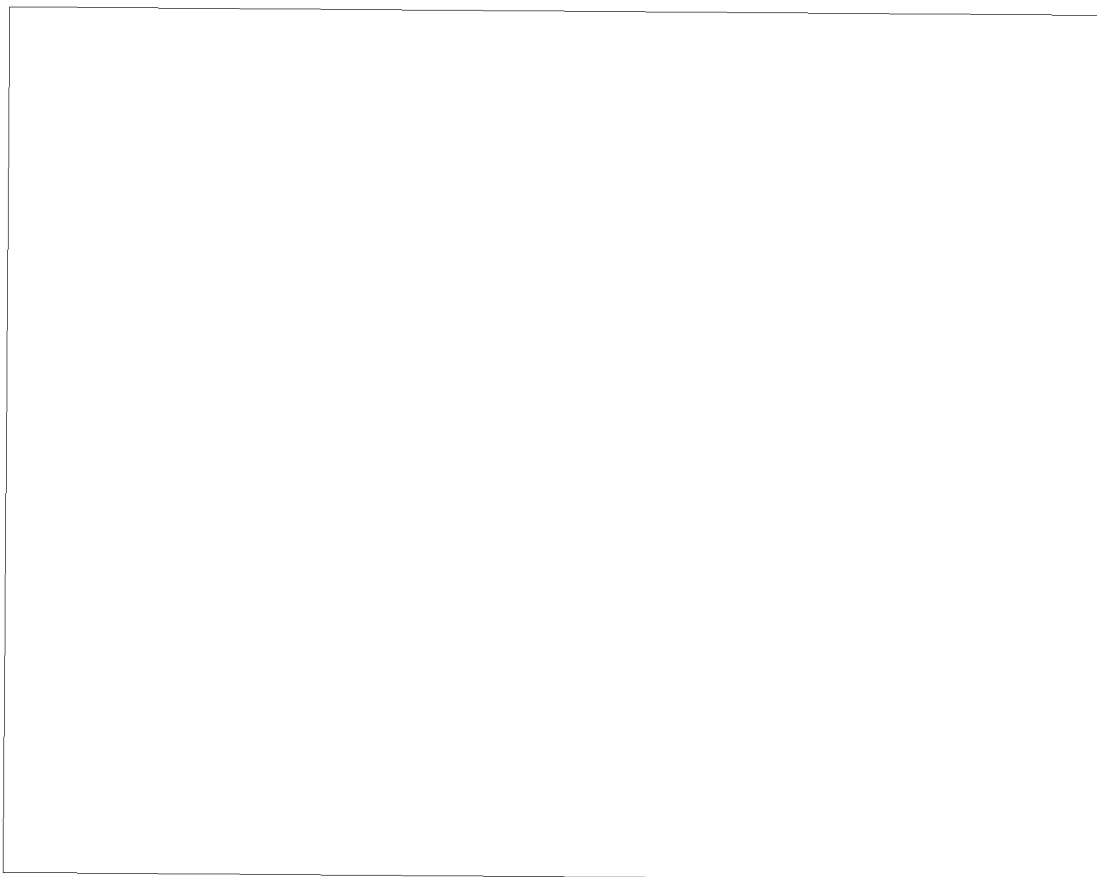
Comment: The regime is trying to sidestep the NLD's electoral mandate, and its ploy probably will delay political transition for a year or more. Officials have not explained how the national convention will be chosen, when it will meet, or when the Assembly may convene. They evidently mean to keep Aung San Suu Kyi under house arrest. The NLD will come under strong pressure to abandon the conciliatory approach followed since the election. The military has strengthened security in Rangoon, however, and probably will deal firmly with any unrest.

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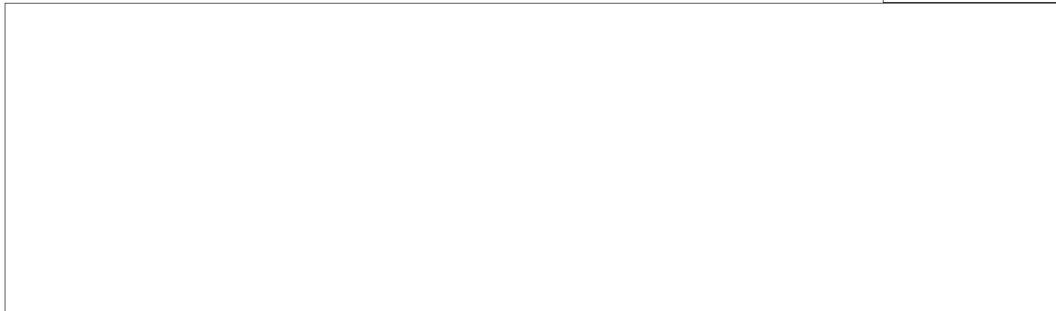
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~~Top Secret~~**In Brief****USSR**

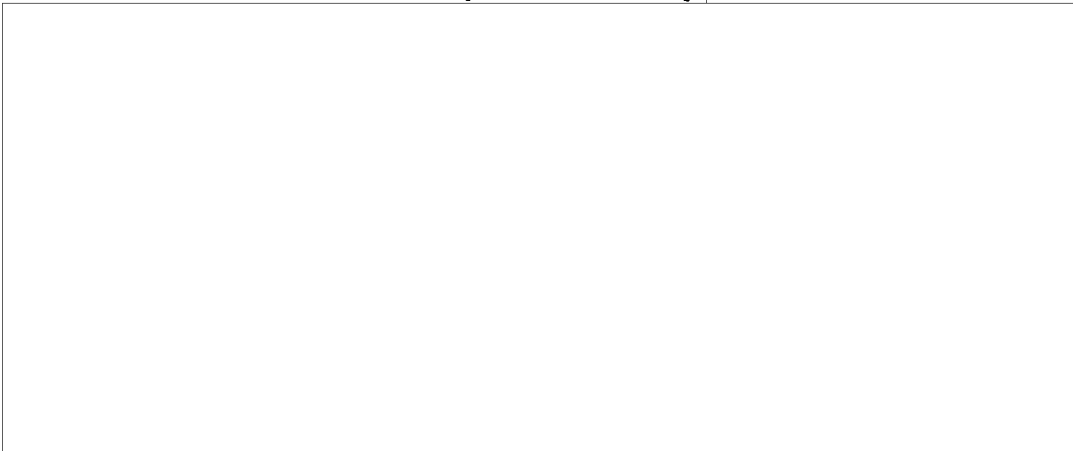
— Yevgeniy Shaposhnikov named Soviet Air Force Chief, Deputy Defense Minister . . . young, "rising star" . . . fourth high-level military appointment this summer . . . retirement of World War II veterans likely in other services. [redacted]

— Gorbachev has put new Soviet Politburo member Yanayev in charge of Japanese affairs, Japanese media report . . . apparently has broad Asian portfolio . . . Presidential Council trio Yakovlev, Shevardnadze, Primakov likely to overshadow him. [redacted]

**Europe**

— Yugoslav Premier Markovic forming first countrywide non-Communist opposition party to contest elections expected by yearend . . . trying to build support for Yugoslav unity . . . faces uphill battle against regionally based nationalist parties. [redacted]

— Hungarian officials nullified referendum for direct election of president because of low voter turnout . . . preserves deal cut by government coalition partners . . . Acting President Goncz likely to be confirmed by National Assembly. [redacted]

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Iraq: Economic Ties That Bind

Baghdad's dependence on other countries for imports, credits, economic facilities, and water fuels Saddam Husayn's sense of vulnerability and his determination to achieve self-sufficiency and to exert greater control in the region. OECD countries supply about 70 percent of Baghdad's civilian imports—mostly manufactures, including high-technology items that are generally unavailable from non-Western countries, as well as food. They also supply at least three-fourths of new credit available to Iraq:

- Japan agreed late last year to reopen a \$2.8 billion credit line and to provide \$245 million in new credits in return for payment of arrears, although the two sides have not agreed on a timetable for disbursement.
- Turkey offered \$800 million in new export credits earlier this year.
- The US made available \$700 million in agricultural and export credit guarantees in fiscal year 1990.
- The UK guaranteed nearly \$400 million in trade credits in FY 1990.

Baghdad also depends heavily on neighboring countries for economic facilities and water:

- Iraqi oil pipelines through Turkey and Saudi Arabia currently carry nearly 90 percent of Baghdad's oil exports and account for about 70 percent of its current export capacity.
- Iraq continues to rely on ports in Jordan, Kuwait, and Saudi Arabia while expanding its ports at Umm Qasr and Khawr az Zubayr.
- Iraq relies on water from the Tigris and Euphrates Rivers, which lie upstream in Turkey and Syria.

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Special Analysis

IRAQ:

Baghdad's Economic Woes

President Saddam Husayn's efforts to extort financial aid from Kuwait and to force OPEC discipline reflect his unwillingness to abandon his guns-and-butter strategy employed since the end of the Iran-Iraq war. The new OPEC accord alone will do little to relieve Baghdad's cash-flow problems, and Saddam probably will use intimidation to secure more money from Kuwait as well as OPEC concessions in the future.

Iraq lost more than \$1 billion in oil revenues during the first half of the year because of the decline in oil prices. Oil receipts will be about \$16 billion this year if the world average price remains near \$18 per barrel—several billion short of what Iraq projected before the price decline.

The revenue shortfall and a heavy repayment schedule this summer on its \$45 billion non-Arab foreign debt have exacerbated Baghdad's serious financial problems. Iraq faces an estimated deficit in its foreign payments position of \$4-5 billion this year. Its foreign exchange reserves of \$3 billion are enough to cover only about three months of civilian imports.

Financial Straits Impede Plans

Saddam's ambitious postwar economic recovery plan is being slowed. Large new industrial projects intended to boost export revenues, support military industrialization, and provide jobs for demobilized soldiers have been delayed. Concerned about delays in expansion of the oil sector, Iraq even invited Western firms this spring to finance development of its oilfields in return for payment in oil but has had no offers. Growth in industry and agriculture remains flat because of shortages of imported raw materials and equipment, according to press reports.

Lack of improvement in living standards, which deteriorated significantly during the Iran-Iraq war, has contributed to popular discontent and rumors of coup plots. Annual inflation is about 40 percent, and the ban of nearly 80 "nonessential" imports last month has further reduced limited supplies of consumer goods. Iraqis are particularly disgruntled about bearing economic hardship while the government spends on frivolous items, including Saddam's new palace in Baghdad.

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Guns and Butter at Any Cost

Saddam is determined not to let financial constraints stand in the way of military buildup and economic development; he fired the Finance Minister last fall partly because the official told Saddam that Baghdad could no longer afford a guns-and-butter strategy, according to press reports:

- The President probably refuses to consider decreasing expenditures to modernize the armed forces and to develop military industries.
- Saddam also is loath to reduce spending on key foreign-exchange earning projects, particularly in the oil sector.
- He probably is concerned that additional cutbacks in consumer imports would fuel popular discontent.
- Baghdad cannot boost oil exports because it is producing near its maximum sustainable capacity.

Saddam probably took drastic steps now to boost oil prices and to extort money from Kuwait because he believes that the economic situation is grave and that his only other option is to abandon his ambitious military buildup and stall economic recovery.

Intimidation Likely in the Future

The magnitude of Iraq's economic problems and the success it has already gained from bullying tactics probably will lead Saddam to use these methods in the future to obtain financial aid from his neighbors and concessions on OPEC production and pricing policies. Even if Iraq receives \$4-5 billion in aid from Kuwait and other Gulf states in the near term—enough to cover its financing gap this year—it almost certainly will press later for billions of dollars in additional bilateral or multilateral assistance needed to invest in reconstruction and development, boost imports to levels of the early 1980s, and service its massive foreign debt. In addition, Baghdad probably will lead OPEC's price hawks in opposing any increase in the cartel's production ceiling until oil prices reach near \$25 per barrel.

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Gorbachev and Yel'tsin Try To Set Aside Animosity

Gorbachev and Yel'tsin claim they want businesslike dealings; while each hopes to maneuver the other to his advantage, the momentum seems to be shifting toward Yel'tsin.

Yel'tsin regards the Soviet President as past his political prime and is embittered by Gorbachev's past efforts to block his career. But he has publicly promised to let bygones be bygones and to pursue more cooperative relations.

Both leaders have signaled at least some recognition of their mutual tactical dependency:

- While the Russian Republic has decided in principle on an independent bank, Yel'tsin has acknowledged the importance of central control over monetary policy and the issuance of currency.
- Gorbachev issued a decree yesterday for the Soviet Central Bank and republic banks to work out common policies, while asking that republic governments not take actions that would disrupt the financial system.
- Gorbachev recently called for a broad coalition to tackle pressing problems, although he did not appeal directly to Yel'tsin.

Yel'tsin believes that time and public opinion are on his side as regional forces become stronger and that Gorbachev eventually will prefer to deal with republic leaders like himself rather than with radical separatists. And Yel'tsin concedes that Gorbachev is a broader thinker and more flexible than other national politicians and preferable to any that might be installed by a traditionalist backlash.

Gorbachev knows there can be no new union treaty without an accommodation with the Russian Republic's leadership. Gorbachev will try to limit any concessions so as to protect his vision of a future union and to avoid enhancing the stature of a potential rival. He still controls many all-union assets and revenue that the republics claim a right to share, and he probably thinks he can pose as the honest broker in union talks on subjects that could pit the republics against one another on many issues that threaten fractious rivalry and disorder.

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Special Analysis

USSR: Yel'tsin Sets Pace for Economic Reform

Moscow's delay in adopting a comprehensive economic program has allowed Boris Yel'tsin to seize the initiative in promoting bold measures to reform the economy and redefine economic relations between the republics. Yel'tsin's assertive stance puts more pressure on Moscow to quicken the pace of reform and threatens its ability to manage the economy and control the evolution of the center's relations with the republics.

Yel'tsin's election in May as chairman of the Russian Supreme Soviet put an ambitious politician with a radical reform image at the head of the republic that dominates the Soviet economy. His hand was strengthened by the election of other reformers to critical Russian posts, including the chairman of the republic's Council of Ministers, Ivan Silayev, who has emerged as a strong proponent of republic rights.

Yel'tsin is arguing that the republic cannot wait for Moscow's lead to deal with the deteriorating economy. Acting on the broad declaration of sovereignty the Russian legislature adopted last month, he has vowed to introduce market reforms, take control of the republic's resources, and negotiate economic agreements with other republics.

Moving Toward a Market Economy

Yel'tsin's economic approach calls for a rapid transition to a market economy, starting with the transfer of most state-owned industrial and agricultural enterprises to joint-stock or private ownership. In a year or two, proponents of this approach claim, all the elements of a market economy are to be in place. The details are only beginning to be worked out, but the outlines permit a preliminary assessment.

Yel'tsin is likely to be most effective in promoting the privatization of the consumer sector, where local authorities already have been given a fairly free hand in determining policy. His agenda will also further efforts by the new mayors of Moscow and Leningrad and like-minded radical reformers to create market economies. The Russian legislature last week approved requests from a number of regions to have their territories designated free trade zones, including the cities of Leningrad and Vyborg; the Sakhalin, Kaliningrad, and Chita Oblasts; and the Maritime Kray.

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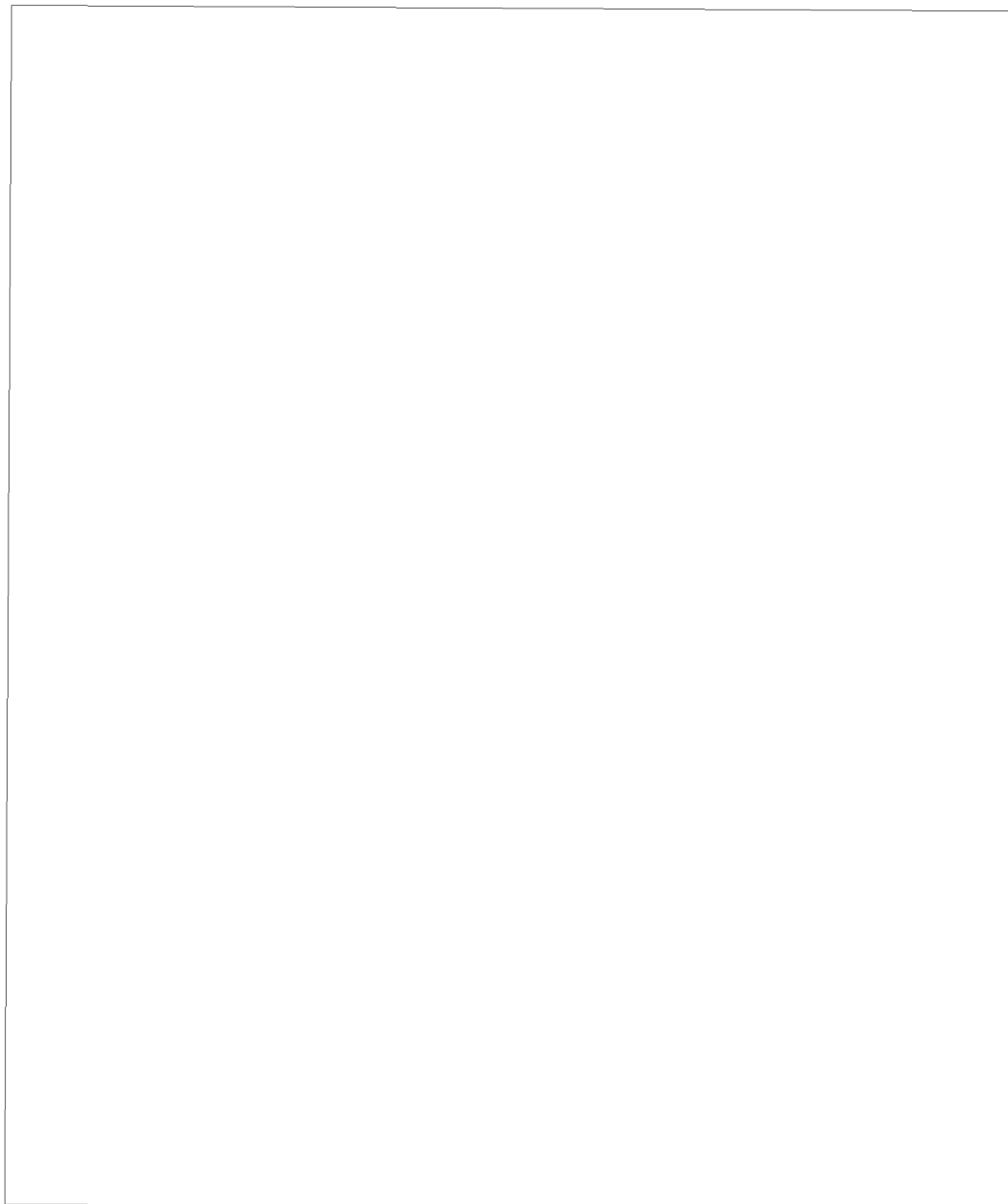
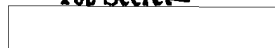
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The major flaw in Yel'tsin's approach to economic reform may be his ambiguity on the need for higher prices. Ultimately the state must surrender control of prices for Yel'tsin's privatization program to succeed. Meanwhile, he has gained popularity by promising all of the benefits but none of the costs of markets.

Redefining Central-Republic Relations

Yel'tsin's assertion that the republic has a right to determine its own economic policy and to establish market relations with other republics has also been popular. He says the Russian Republic has reached general agreements with the Ukraine, Belorussia, and other republics that could form the basis of the new union treaty that is to redefine center-republic relations.

In Yel'tsin's view, the responsibilities of national authorities should be limited primarily to national security; the USSR's economic infrastructure, such as the railroads and pipelines; certain major programs like space exploration; and an as-yet-undefined role in regulating monetary policy.

Challenge to Moscow

Russia's assertion of sovereignty over its natural resources and its threat to withhold payments to the central budget could greatly complicate Moscow's ability to fund vital national programs and redistribute resources to less developed regions. Premier Ryzhkov warned recently that the republics' declarations of sovereignty and refusal to carry out the demands of the union government were creating economic chaos by causing breakdowns in supplies and disruptions in production.

Yel'tsin's economic program has stolen the headlines and the economic initiative from Gorbachev. Last week's announcement of a series of presidential decrees on economic reform and the Presidential Council's discussion of a new union treaty suggest Gorbachev is trying to regain the limelight. The threat to the union posed by Yel'tsin may prompt him to press forward with reform at a faster pace and may give him the ammunition needed to persuade the foot-draggers.

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Soviet Jewish Immigrants to Israel

Thousand

12

10

8

6

4

2

0

J F M A M J J A S O N D

1989

J F M A M J^a

1990

^aJewish Agency reported 9,032 Soviet immigrants, while the United Israel Appeal reported 11,015 Soviet immigrants.

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~~Top Secret~~**Special Analysis****ISRAEL: Problems Mounting as Soviet Jews Pour In**

More than 100,000 Soviet Jews are likely to reach Israel by yearend, compounding economic and political problems and inflaming Arab-Israeli tensions. [redacted]

Immigration has leveled off at about 10,000 monthly for the past three months, probably because the transit routes through Eastern Europe are jammed. The influx almost certainly will hit Israel's economy hard later this year, when large numbers of immigrants complete mandatory language and vocational training and enter the job market. Unemployment, already more than 9 percent, is certain to rise. [redacted] some 50,000 immigrants will be added to the 35,000 new Israeli entrants to the labor market; last year the economy generated only 8,000 new jobs. [redacted]

Housing Crunch

Housing costs are skyrocketing as the newcomers, who receive a hefty housing grant from the government, compete with native Israelis for a rapidly dwindling housing supply. [redacted] special immigrant absorption centers are nearly full. The Israeli press is reporting growing public unrest over housing costs; some Israelis are setting up tent camps in public parks, one within sight of the Knesset. [redacted]

To help fund a \$1.5 billion budgetary supplement for Soviet immigration, the government is proposing cuts of \$250 million in funds for defense, religious institutions, and consumer subsidies. The proposed cuts are under attack from all quarters. Without the supplement, Israel would be unable to absorb even 50,000 immigrants, and the Knesset probably will approve the funding request. [redacted]

The Knesset is likely to reject most of the proposed budget cuts, however, rather than antagonize such powerful constituencies as the defense establishment and religious Jews. The government probably will borrow more to finance the increased budget deficit, fueling an annual inflation rate that is already near 17 percent. The current trend in Soviet immigration makes another supplemental request likely this year. Tel Aviv will increase pressure on Washington to transfer the \$400 million in US aid earmarked for Soviet immigrants to Israel, and it may even request more support. [redacted]

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Meanwhile, Construction and Housing Minister Ariel Sharon is trying to bulldoze his way through bureaucratic red tape holding up construction. Yesterday, Sharon presented to the Cabinet a \$13.5 billion five-year plan designed to cope with the influx of Soviet-Jews. His plan, debated for five hours, envisages importing 90,000 prefabricated and temporary housing units and building an additional 45,000 units this year and 60,000 in each of the next four years. Israel's Finance Minister, however, said the government could not afford Sharon's proposal and plans to present an alternative at a special Cabinet session on Thursday. This month, the High Court of Justice overturned Sharon's emergency orders to buy 3,000 prefabricated and temporary housing units.

Foreign Sensitivities

Sharon is serving as Tel Aviv's point man in trying to convince Moscow and Washington that Israel is not settling immigrants in the occupied territories, but Tel Aviv has not cut back the special economic incentives for all Israelis, including immigrants, to settle in the territories. A little more than 1 percent of Soviet Jews probably are going to the territories. Another 6 to 7 percent are moving into the eastern section of Jerusalem that Israel unilaterally detached from the West Bank and incorporated into the city after the 1967 war.

The numbers of Soviet Jews moving to the occupied territories, particularly to areas free of *intifadah*-related violence, probably will increase in the coming months. According to Israeli media, 160 Soviet Jews have settled in the Golan Heights in the past two months. the availability of relatively cheap apartments there and elsewhere in the territories probably will attract growing numbers of Soviet Jewish immigrants as well as other Israelis.

Arab rhetoric on the immigration issue remains harsh. Arab leaders, particularly King Hussein, are charging that immigration will displace large numbers of Palestinians from the territories to Jordan. Arab ire has persuaded Moscow to retain its ban on direct flights to Israel, which probably prevents immigration from exceeding current levels. Palestinian and Islamic extremists are increasing calls for attacks on Soviet Jewish immigrants, those en route to Israel and those in the occupied territories. Because the issue is so emotional for Israelis, Tel Aviv almost certainly would respond with strikes against terrorist bases and an even harsher crackdown in the occupied territories.

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