

CLASSIFIED



**Foreign Intelligence
and
National Security Policy Developments
October-December
1983**

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LATE ADDITION

February 17, 1984

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Konstantin Chernenko, confirmed on February 13 as the new Soviet General Secretary, is an old Brezhnev protege who lost out to Andropov in a bid for power 15 months ago. A full Politburo member since 1976, he has specialized in internal CPSU ideological responsibilities and has had little involvement in foreign affairs. When he visited the U.S. in 1974 to attend the U.N. General Assembly, [REDACTED]

In selecting Chernenko, the Politburo appears to have decided to preserve the status quo. This holding action could stimulate resentment among middle-level party officials and lead in time to more overt politicking within the leadership. Some sort of power-sharing arrangement may in fact have been the price agreed to by Chernenko for gaining the party's top post.

Chernenko's age (72) and reputed ill health (he has emphysema) also argue for his having been chosen as a transitional leader. Thus, we now think he is unlikely to have much latitude or inclination for moving the Soviet Union in new directions on either the domestic or foreign fronts.

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BY RWS NARA DATE 12/16/10

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Overview of the Period

The last quarter of 1983 was dominated by continuing bloodshed and political violence in Lebanon; the beginning of the deployment of a modern Western nuclear deterrent in Western Europe; an abrupt Soviet pullout from all talks with the West on arms limitation agreements; a successful U.S.-led rescue of Grenada from chaos and growing Communist influence; continued military stalemate in both the Iran-Iraq war and in the guerrilla war in El Salvador; and increasing anti-Sandinista insurgent activity in Nicaragua.

Terrorism in its ugliest form erupted in Beirut in October when Iranian-backed Shia Moslem extremists used truck bombs to kill more than 240 U.S. Marines and 50 French troops trying to keep the peace in the war torn Lebanese capital. Other terrorist organizations around the world seemed to be activated by the Beirut bombing.



The Iran-Iraq war continued with no end in sight. Iraqi leader Saddam Husayn cannot afford to be locked into a war of attrition with Iran and has been seeking a diplomatic solution. If Iran continues to reject such a solution, and we think it will, Saddam Husayn may feel obliged to go at Iran's jugular--its oil industry--thereby seriously risking a widening of the war and a possible shutoff of Persian Gulf oil exports to the West.

The USSR walked out of arms control talks following the beginning of NATO's deployment of INF missiles in Europe. There has been no letup in Moscow's war of words on INF, and the Soviets continue to try in every way they can to drive wedges between the U.S. and its Western European allies on this subject. Meanwhile, the Soviets have begun implementing a policy of taking military countermeasures to INF in Eastern Europe and off the U.S. coasts. This has gone forward despite Andropov's absence since August from public view, because of serious illness. Ill though he may be, he apparently has remained in charge throughout the period.


The successful rescue mission in Grenada by military forces of the U.S. and six Caribbean nations in late October may well have

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saved the lives of some 1,000 Americans on the island and certainly reversed Grenada's plunge into bloody chaos and growing Communist influence. Castro later dealt harshly with two Cuban officials he blamed for his defeat in Grenada. Although Cuban and other Marxists were certainly not dissuaded by Grenada from their goal of area domination, they clearly were jittery for a time about whether the U.S. might intervene elsewhere.

 in-
sistent U.S. pressure may finally have induced the Salvadoran government to begin acting against the death squads. Elsewhere in Latin America, Mexico, Jamaica, and much of South America continue to be plagued by severe foreign debt problems. IMF conditions for financial help are causing domestic political problems for several leaders. Newly-elected governments in Venezuela and Argentina will have a particularly tough time in restoring order in their countries' economies.

Elsewhere, political turbulence and economic troubles continued to crop up in a number of areas important to us. In the Philippines, President Marcos appears to have weathered--for now--the domestic unrest precipitated by his government's clumsy handling of the Aquino assassination case. South Korean President Chun narrowly escaped death in a bomb blast in Rangoon engineered by North Korean agents. And in Nigeria, the recently re-elected government of President Shagari was ousted in a military coup led by Maj. Gen. Buhari, whose new government is already the target of yet more plotting by other military elements. (S)

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Major Developments at a Glance

USSR-Europe

- o NATO's deployment of Pershing II and ground launched cruise missiles got under way in West Germany, the United Kingdom, and Italy in December. The USSR responded by walking out of INF talks and allowed the latest round of START and MBFR talks to recess without setting dates for resumption. (U)
- o Soviet leader Andropov dropped out of public sight in August, perhaps because of a serious kidney ailment, and has yet to reappear. [REDACTED]

Middle East

- o Lebanon continued to be plagued throughout the period by factional fighting, the emergence of radical Shia terrorism against the Multinational Force presence in Beirut and the Israelis in south Lebanon, and the beginning of talks in Geneva among the contending Lebanese factions to seek a general political accord. (U)
- o The Iran-Iraq war continued stalemated on the ground, but Iraq's acquisition of high-potential Super Etendard jet aircraft from France late in the year raised the risk that Baghdad, frustrated by its inability to end the war any other way, would use them against Iran's oil export facilities. The widened war that could result might threaten the West's access to the Persian Gulf oil supplies so important to it. (S)
- o The PLO late in 1983 experienced what may well be a permanent split between its radical and moderate elements and a permanent break between PLO Chairman Arafat and Syrian President Assad. Syrian-backed elements very nearly succeeded in militarily eliminating Arafat and his followers before they finally allowed him to leave Lebanon by ship for Tunisia. (S)

Latin America-Caribbean

- o Military forces of the United States and six Caribbean nations assumed control of Grenada in late October shortly after Prime Minister Bishop was murdered by left-ist extremists and chaos erupted on the island. Despite some resistance, mostly from Cuban military and paramilitary elements, the occupying forces were able to rescue some 1,000 U.S. citizens on the island, restore order, and help a responsible, democratic provisional government get established. (U)

Asia

- o The Soviets conducted an intensive search of the ocean area where Korean Airlines Flight 007 is believed to have been downed. [REDACTED] the Soviets evidently are dissatisfied with some aspects of their air defense apparatus' performance during the incident and are trying to improve them. (S)
- o Anti-Marcos demonstrations last fall in the wake of the Aquino slaying have severely damaged the government and helped bring to a head a serious financial situation that would soon have become obvious in any case. Marcos may hang on until the end of his term in 1987, health permitting, but is no longer as powerful as he once was. (S)
- o North Korean agents exploded a bomb during a wreath-laying ceremony in Rangoon in October, killing several Republic of Korea cabinet ministers and narrowly missing President Chun. (S)

Africa

- o Senior armed forces officers overthrew the elected government of Nigerian President Shagari on December 31 and installed Major General Muhammad Buhari as leader of a new government that is already being criticized by junior officers for its indecision. (S)

International

- o A growing number of countries with large foreign debt burdens are seeking easier repayment terms on new and restructured loans from banks. Rescue packages coordinated by the IMF have averted a major disruption of the international financial community, but continued success in this regard will depend on maintaining the current OECD economic upturn and keeping domestic political opposition to austerity measures in the debtor countries at manageable levels. (U)

Country and Regional Developments



Soviet Interests and Activities Abroad, 1983

A recently-published DIA summary of Soviet developments and activities in 1983 shows both significant gains and losses for Moscow in its dealings with other countries during the year. Soviet gains included:

- o A qualitative change in the depth of the Syrian-Soviet relationship, thanks largely to Moscow's sending the Syrians the advanced SA-5 antiaircraft missile system as well as some 2,400 to 3,200 Soviet troops needed to man the sites.
- o Moscow evidently secured its role as India's major military supplier by working out arrangements for the production of Soviet T-72 and T-80 tanks in India and for providing New Delhi with advanced jet fighter aircraft.
- o Headway was made in improving relations with China, albeit only on a superficial level. Trade was up between the two countries, as were promises of increased cultural, technical, and commercial contacts. Beijing is pressing for movement on more meaningful issues, but Moscow has stonewalled on these so far.
- o Greater Soviet influence in the Seychelles probably resulted from Moscow's military shows of support for the Rene regime and increasing Soviet military involvement there.
- o Argentina granted Aeroflot landing rights in Buenos Aires, a minor but potentially important gain for Moscow that probably was facilitated by the U.S. decision to back the British in the Falklands war.

On the other side of the ledger, Moscow suffered several sharp reverses and potential setbacks during the year:

- o The U.S.-Caribbean rescue operation in Grenada was a blow to Soviet as well as Cuban interests

- o Through the first 10 months of 1983, some 165 Soviets were expelled--or left voluntarily--from 19 countries where they were accused of espionage or other illegal activities. The total was up from 49 expulsions in 1982 and 27 in 1981. (See separate item.)
- o For the first time, a Marxist client regime, the dos Santos regime in Angola, appeared to be in deep trouble and in danger of being ousted, thanks to a stepped-up and effective guerrilla (UNITA) campaign against it. Moscow and Havana felt obliged to pour in more military aid.

- o The USSR made few if any lasting gains against the insurgency in Afghanistan, where Soviet force levels remained at about 105,000.

- o Soviet-Iranian relations, cool to begin with, worsened when Moscow ended its arms embargo to Iraq and Tehran jailed leaders and members of the pro-Moscow Tudeh (Iranian communist) party. (TSC)

Soviet Views on Relations With the U.S.

After a period of internal discussion, the Soviets appear to have rejected the option of hunkering down and freezing bilateral relations with Washington through this year's Presidential election campaign period.

[REDACTED] a period of heightened debate on prospects for U.S.-Soviet relations began in Soviet power circles in September. One side argued that there was no hope for improvement any time soon in relations with Washington.

- o Andropov expressed a view close to this on September 28, saying that recent events had dispelled "once and for all" any "illusions" about the possibility of an evolution for the better in U.S. policy.
- o Another Soviet commented that current U.S. policy was really a reflection not just of the President's wishes, but rather of those of the U.S. ruling "oligarchy."

The somewhat less gloomy view of other Soviets was that Washington's policies were subject to moderating influences, such as pressures from the American public, the Congress, and West European leaders.

- o [REDACTED] was among those noting the potential influence of public concern on Administration policy, although he was less sanguine than some about its near-term effects.

A major reconsideration of Soviet policy toward the United States may have taken place around the end of November.

[REDACTED] If such a reconsideration did take place, the view that apparently prevailed was a synthesis of the two views outlined above.

- o The Soviets recently have seemed to be trying to maintain a dialogue with us on secondary issues, leaving the door open for a new U.S. initiative on arms control while expressing doubt that real progress is likely.

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- o Toward the end of December the Soviets informed us they were ready to resume the interrupted talks on improving the direct Moscow-Washington communications link.
- o Bilateral talks on nonproliferation issues are continuing.

At the same time, Moscow has stuck to a hard public line about chances for any real breakthrough, particularly on arms control. Gromyko, for instance, speaking shortly before his Stockholm meeting with Secretary Shultz, characterized U.S. appeals for a resumption of arms control talks as "hypocrisy" and "propagandistic dope." He reiterated Andropov's condition of November 24 that the U.S. must show willingness to revert to the pre-INF deployment situation in order for talks to resume.

Nevertheless, Moscow has continued to indicate it does not want a deep freeze in the bilateral relationship. A Moscow television commentator said on December 25 that the Soviets are "ready to deal with any U.S. President." And a prominent political observer wrote in a well-known Soviet journal on January 4 that it would be "premature" to say that hope for an arms agreement has collapsed. (S)

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Foreign Affairs Note



United States Department of State
Washington, D.C.

EXPULSIONS OF SOVIETS WORLDWIDE, 1983

January 1984

According to public accounts, host governments have expelled approximately 135 Soviets for inappropriate activities during 1983, a sharp increase from 49 in 1982 and 27 in 1981. The most notable cases occurred in France (47 Soviets were declared *persona non grata*) and Bangladesh and Iran (18 expulsions each). But governments in all regions of the world acted to deport Soviet intelligence operatives posing as diplomats, newspaper correspondents, translators, employees of Aeroflot and Morflot (the Soviet merchant marine organization), trade representatives, and business officials. Most were expelled from countries (United States, France, Italy, Ireland, Japan, Canada, Thailand, Great Britain, Norway, and Spain) for engaging in traditional forms of espionage. Some were deported for active measures: complicity in local coup plotting (Liberia); support of and interference with segments of the West European antinuclear movement (Switzerland); passing money to antigovernment opposition movements (Bangladesh); and conspiring against employees of government ministries (Jamaica).

EXPULSIONS OF SOVIETS, 1981-1983

	1981	1982	1983
Africa	2	*	1
Asia/Pacific	6	7	41
Europe	*	23	82
Middle East	9	*	*
Western Hemisphere	10	19	11
TOTAL	27	49	135

*No expulsions publicly announced.

Because many governments prefer not to publicize such expulsion actions, the total number of expellees, as in previous years, is higher than the public record would indicate.

AFRICA

Liberia

November 22, 1983: Soviet Ambassador to Liberia Anatoliy Ulanov was declared *persona non grata* and given 48 hours to leave the country on charges of complicity in antigovernment coup plotting. On November 21, Liberian Head of State Samuel Doe asserted that a "foreign mission" accredited near Monrovia was aware of an impending plot to overthrow the People's Redemption Council, headed by Doe, and promised to support the operation by providing "money, arms, and drugs."

ASIA/PACIFIC

Australia

April 22, 1983: Soviet Embassy First Secretary Valeriy Ivanov, identified by Foreign Minister William Hayden as a KGB operative, was expelled on espionage charges. Foreign Minister Hayden said that Ivanov "threatened Australia's national security" and in an April 29 interview charged Ivanov with "seeking to recruit spies."

Bangladesh

November 29, 1983: Eighteen Soviet diplomats were ordered out of Bangladesh and the Soviet Embassy in Dhaka (the largest in the country) was told to close its cultural center, according to press reports. The expulsion order, which cut in half the level of Soviet diplomatic representation in Bangladesh, came 1 day after violent clashes between security forces and antimartial-law demonstrators. The Soviets were accused of interfering in the country's internal affairs, providing funds to antigovernment groups, and otherwise interfering in Bangladesh's political processes. Some Soviet diplomats also were expelled from Bangladesh in 1981 and 1982.

Iran

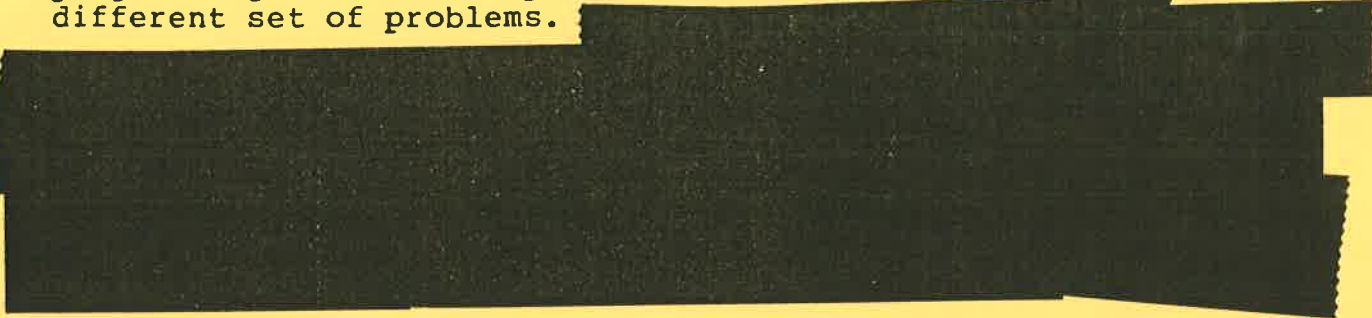
May 7, 1983: Eighteen Soviet diplomats—Nikolai Kozyrev (counselor), Gennadiy Avrilov (first secretary), Anatoliy Kachekov (counselor), Guseyn Guliyen (first secretary), Valeriy Samanyan (second secretary), Valeriy Markov (third secretary), Vyacheslav Zarya (first secretary), Viktor Kiselev (third secretary), Vladimir Kabalev (attache), Col. Yevgeniy Sherifanov (military attache), Col. Andrey

State-Sponsored and Other Terrorism

The most ominous development in terrorism in 1983 was the increase in state support of terrorist activity. Paralleling this growth was a probably related increase in the lethality of terrorist attacks. Middle Eastern terrorists did the most damage, the primary incidents of course being the simultaneous bombings of the U.S. and French MNF headquarters buildings in Beirut on October 23.

- o The MNF bombings were actually carried out by radical Shia Moslems of different nationalities, almost certainly instigated and supported by Iran and Syria.

Access to the resources of sovereign governments greatly enhances terrorist groups' capabilities to plan, organize, and carry out their operations. Governments trying to devise counterterrorism programs against state-sponsored terrorism are faced with a very different set of problems.



While the Middle East continues to be the principal setting for international terrorist activity, it holds no monopoly, as is attested by these recent events:

- o Harrod's Department Store in London was bombed by the provisional IRA just before Christmas, costing five lives.
- o The Carlos group in France claimed responsibility for the New Year's Eve bombings of the Marseilles railroad station and a train en route from Paris to Marseilles. They said the bombings were to retaliate for French attacks on Shiite terrorist bases in Lebanon.

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- o In Spain, Basque separatists became increasingly active in 1983, and their terrorist operations spilled over the border into France, as Spanish police chased activists who had fled there.
- o The Sendero Luminoso (Shining Path) guerrilla group in Peru maintained a high level of activity throughout 1983 but failed to achieve its goal of disrupting elections in November.

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INF Developments

Intermediate-range missile basing began on schedule in West Germany, the U.K., and Italy late last year.

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The Belgian and Dutch Governments are continuing cruise missile site preparations, although neither government has yet made a basing decision. Each country is to receive a total of 48 missiles. (S)

Soviet Reaction

The Soviets have broken off the INF talks and recessed the latest START and MBFR rounds without setting dates for their resumption. They also have announced and have begun implementing planned countermeasures.

- o Additional SS-20s are being deployed in the western USSR.
- o Longer-range "operational-tactical" missiles are to be based in East Germany and Czechoslovakia.
- o They are stationing missiles on submarines off U.S. coasts.

None of these measures will be an effective military counter to NATO's P-IIIs and GLCMs. They probably are intended as much for their political effect as for the increase in military capabilities they provide.

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The Soviets apparently hope that uncertainties over the future of arms control talks and their own counterdeployments will create an atmosphere of "gloom and doom" in the West. In a National Estimate completed in November, the Intelligence Community concluded that Moscow will continue to try to influence European governments and public sentiment to pressure us to alter our INF policy and to put maximum stress on NATO. The Soviets will continue to focus on West Germany and could at some point dangle the possibility of improved intra-German relations in return for Bonn's distancing itself from Washington. (S)

East European Reaction

The Soviets have run into varying degrees of resistance from the East European countries to Moscow's countermeasures, even though all except Romania publicly endorsed Andropov's speech on counterdeployments on November 24.

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East European governments are concerned that there will be greater limits on their contacts and cooperation with the West and that there will be increased Soviet demands for greater contributions to Warsaw Pact defense costs. (S)

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Andropov's Illness

The Soviet leader dropped out of public sight in August 1983.

[REDACTED]

Nevertheless, pains were taken to create the impression that he remained in charge, making decisions, approving statements in his name, and initiating key personnel moves.

[REDACTED]

His Politburo colleagues knew in 1982 when they chose him to succeed Brezhnev that his health was not robust. That they selected him anyway probably reflected their desire for firm, decisive leadership and an end to the drift of the later Brezhnev years.

- o We cannot yet tell, however, whether the one major change in leadership style introduced by Andropov--an insistence on order and discipline to make the existing Soviet system work--will survive his death. (S)

KAL Shootdown Aftermath

On September 1, Soviet air defense forces shot down a Korean Airlines 747 aircraft which had strayed into their airspace during a flight from Anchorage to Seoul.

Soviet search and recovery operations began within three and one-half hours after the shootdown, concentrating in an area north of Moneron Island. The U.S. Navy searched in an area about 12 miles west of the Soviet site, where "pinging"--believed to be from the flight data and cockpit voice recorders--had been detected. By the end of September most Soviet ships had abandoned their search and concentrated instead on harassing the U.S. effort. Soviet search activity intensified in mid to late October,

-----REDACTED-----

The U.S. ended its search in early November. By the end of the month the Soviets had dramatically reduced their efforts. By mid-December, REDACTED

the Soviets had ended their effort.

o

- o [REDACTED]
- o The Soviets turned over crates of debris to U.S. and Japanese officials on Sakhalin Island in September and December. The debris included small pieces of aircraft wreckage and personal effects of some victims.

The Soviets probably are dissatisfied with the performance of their air defense personnel during the incident, but they apparently find no fault with their procedures for handling errant civil aircraft. In a recent article the Air Force Chief of Training appears implicitly to criticize the actions of Soviet personnel without acknowledging any Soviet culpability.

The article appears to reinforce earlier Soviet statements that straying airliners will be downed as a final resort if they do not respond to Soviet instructions. In January the Soviets proposed changes to the Chicago convention governing international air traffic that would assign culpability to an errant airliner should its violation of Soviet airspace result in its being downed.

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Lebanon

The last three months of 1983 were dominated by the persistence of Lebanese factional fighting, the emergence of radical Shia terrorism in Beirut and south Lebanon, and the beginning in November in Geneva of efforts to reach a general Lebanese political reconciliation.

The Fighting

Throughout most of the period there were almost daily battles between Shia militiamen and the Lebanese Army in and around southern Beirut. Druze militiamen also occasionally exchanged shellfire with Army units and Christian militia forces. During these running battles, the U.S. Multinational Force (MNF) contingent at Beirut's international airport often came under fire, sometimes purposely, but more often as a result of Shia and Druze attacks on nearby Lebanese Army positions.

Terrorism

The bombings on October 23 of the United States and French MNF headquarters were carried out by Shia radicals armed, trained and directed by Syria and Iran.

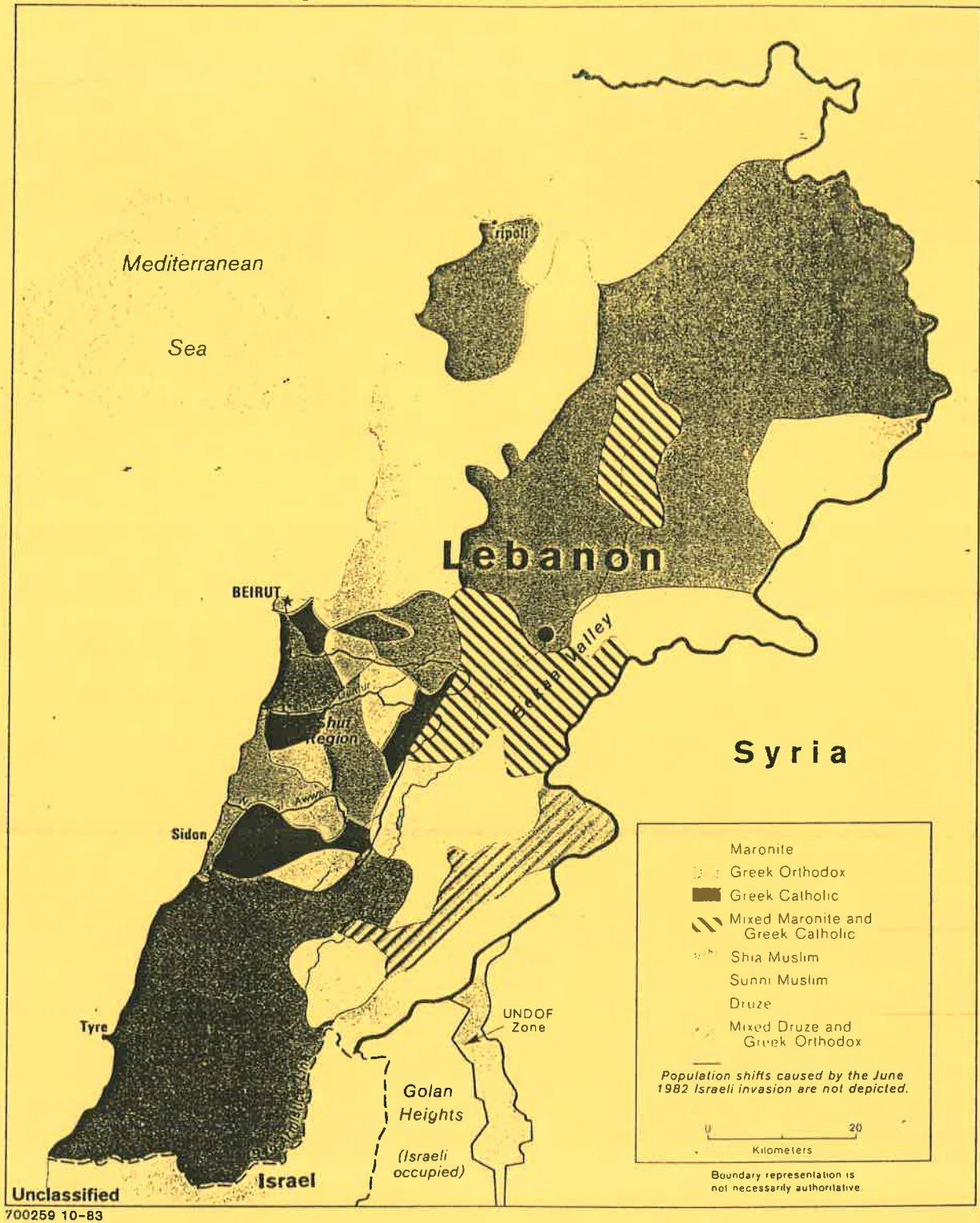
While every possible measure has been taken to improve the security of U.S. military and diplomatic personnel, Syria and Iran have concluded that terrorism works, and we must expect terrorist attacks to continue.

U.S.-Syrian Relations

Tensions between the United States and Syria increased dramatically in late November and early December when Syria fired on U.S. aircraft over Lebanon. When the United States retaliated with Naval gunfire and airstrikes against Syrian and Druze positions, two of our aircraft were downed with one U.S. airman killed and another captured. Through patient U.S. diplomacy and the visit to Damascus of Rev. Jesse Jackson, tensions with Syria were reduced somewhat and the captured U.S. flier was freed.

At the same time, Ambassador Rumsfeld sought to convince Syria, Israel, and Lebanon that only a political settlement based on

Figure 2
Predominant Lebanese Religious Groups



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compromises by all parties could lead to real stability and the departure of foreign forces from Lebanon. Syrian perceptions of wavering on the part of some MNF members produced a dramatic hardening of Damascus' position. In effect, the Syrians have concluded that the West "has short breath" and Syria can get what it wants in Lebanon without giving up anything. Ambassador Rumsfeld is working to change that Syrian perception, but pressures in Europe  for a pullout of the MNF have increased.

Lebanese Political Talks

A first round of talks among the various Lebanese political factions was completed successfully in Geneva in early November. Participants agreed to set up working groups to draft a political, social, and economic reforms package, but its completion has been held in abeyance pending formation of a Government of National Unity. U.S. diplomatic efforts have centered on advancing the Government of National Unity concept and on recovering the contending factions for a second round of talks in Geneva. Syria and pro-Syrian Lebanese are still blocking both these goals.

Related to political reconciliation are the negotiations for a security arrangements plan for Beirut and adjacent areas. The plan would extend the control of the Lebanese Government into "unoccupied areas" now controlled by Druze, Shia, and Christian militias. Saudi Arabia, Israel, and Syria have been involved along with the United States in negotiations on the plan. The latest National Estimate on the subject concludes that at least portions of the plan are likely to go into effect, although its full implementation remains uncertain. Should full implementation occur, the Estimate concludes that a substantial but probably short-term boost to the Gemayel government would result. The threat of terrorist acts against MNF members will remain, however, even if the plan is fully implemented. (S)

Iran-Iraq War


The war remains stalemated on the ground and we expect it to remain so through the winter. Iran continues to wage a war of attrition, hoping that economic problems, continued military pressure, and subversion will bring down Iraqi President Saddam Husayn. Iraq is pursuing diplomatic initiatives aimed at isolating Iran, trying to ease its own economic problems, and preparing military moves against Iran's oil exports.

Iraq's Economic Woes

Closure of its Persian Gulf ports has caused a financial crisis in Iraq. In order to replenish its depleted treasury, Baghdad must choose either of two possible strategies:

- o Complete a partially-built pipeline connection through Saudi Arabia or Jordan to get more of its oil to world markets. This would take time. In the meantime, Iraq is supporting a Japanese diplomatic effort to get Iran to agree to a limited cease-fire in the Persian Gulf. We doubt Iran will agree.
- o Build new export pipelines. Iraq has reached agreement with Saudi Arabia to link up with the Saudi Trans-peninsula pipeline that terminates at the Red Sea, and Iraqi-Jordanian talks, facilitated by the United States, are under way on building a pipeline from Iraq to the Gulf of Aqaba. Again, these pipelines would require from one to three years to build.

If diplomatic moves fail, Baghdad has threatened to attack Iran's oil export facilities. Now that it has five new French-built Super Etendard aircraft and Exocet missiles, Iraq could do so.



Iran's Options

Tehran has announced that it would quickly retaliate should Iraq attempt to destroy Iran's petroleum facilities--particularly those on Khark Island. Should Iraqi attacks occur, Iran might respond with one or more of the following options:

- o Attack Kuwait or other Gulf state oil facilities.
- o Harass shipping in the Persian Gulf serving Iraq's Gulf state allies.
- o Undertake terrorist attacks throughout the Arab Gulf area or elsewhere including against U.S., French, and pro-Iraqi Arab targets.

- [REDACTED]
- o As a last resort, attempt to close the Strait of Hormuz
- [REDACTED]

Implications for the United States

American vital interests would be threatened by a serious escalation in the fighting or by a prolonged closure of the Gulf area to shipping.

- o While U.S. imports from the area are small (about 5 percent of our total), the Persian Gulf countries currently provide about 55 percent of the oil imports of the OECD countries.
- o Although small disruptions in supplies could be covered, a significant restriction in Gulf oil flows could trigger real shortages. In the worst case, such shortages could lead to sharp price increases and other economic disruptions for the United States and the Free World.
- o The Soviets would welcome any disruption of the Western economies, however, short-lived, caused by an interruption in Persian Gulf oil exports. They could also acquire additional hard currency from oil sales.

The United States has made it clear to Iran that any interference with international shipping would be unacceptable. We have had close consultations with major allies, particularly Britain and France, and with the Gulf Cooperation Council countries. [REDACTED] the Arab Gulf states are prepared to cooperate with us. [REDACTED]

Afghanistan

After more than four years of battling the Soviet invaders, the Afghan resistance remains an effective guerrilla force that controls much of the country. Despite more discussions late last year between Moscow and the insurgents, there is new Soviet resignation to a long-term military effort. [REDACTED]

[REDACTED] Current Soviet strategy emphasizes:

- o Securing Kabul and other cities.
- o Protecting a number of strategically located military installations.
- o Keeping open the main logistical links from the Afghan-Soviet border.
- o Breaking up resistance force concentrations.
- o Interdicting insurgent supply lines from Pakistan and Iran.

Moscow has partly succeeded in the first three, but has mostly failed in the last two.

The Intelligence Community concluded in a National Estimate last October that barring drastic changes in Soviet or Pakistani policy, the resistance is likely to continue at a high enough level to prevent any significant improvement in the Soviet position over the next two years. During that time the war will be a continuing--but bearable--drain on Soviet resources. (S)

Grenada

As a result of the deteriorating security situation on Grenada, our Special Situation Group directed on October 21 that contingency planning begin for the evacuation of the 1,000 American citizens from the island.

- o A National Security Decision Document directed that the U.S. be prepared to participate in a multilateral effort to restore order on Grenada and prevent further Cuban and Soviet intervention on the island.
- o U.S. military units were directed to move immediately to reduce response time for the conduct of noncombatant evacuation operations on Grenada, [REDACTED]

When an urgent formal request for U.S. military assistance came from the Organization of East Caribbean States on October 23, President Reagan decided that U.S. Marine and Army airborne forces would join with allied Caribbean forces in dawn landings on the island on October 25. Later that day, the President announced the landings, the reasons for U.S. involvement, and the primary objectives of the operation:

- o To protect innocent lives, especially those of the American citizens on the island.
- o To forestall further chaos.
- o To assist in restoring order and democratic government to the island.

The Cuban and Soviet governments were informed of our actions, and we offered safe passage off the island to their nationals there.

Order was largely restored on the island within a week, and Governor General Scoon appointed an advisory council to prepare the country for new elections by the end of 1984. Relations with the Soviet Union and Cuba were broken on November 1.

U.S. combat troops were withdrawn by December 15, but 250 American military personnel remained to assist with medical, logistical, and administrative services. A 500-man peace force

from six Caribbean nations also remained to provide security until a Grenadian police force can be formed.

U.S. action in Grenada had a ripple effect on other leftist governments in the Caribbean Basin:

- o Surinamese leader Lt. Col. Bouterse, fearing a similar U.S. move against him, told Cuban diplomats and technicians to leave his country within 24 hours.

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- o Castro later dealt harshly with two Cuban officials he held responsible for the Grenada defeat:

The Grenadians themselves have had a difficult time in getting down to business. Political apathy and growing concerns about security after U.S. forces complete their pullout are compounding the interim government's difficulties.

- o Unemployment has risen to about one-third of the work force.
- o The economic infrastructure, damaged by the fighting and by governmental neglect preceding it, needs repair and improvement.
- o The departure of the Cubans and other doctors, teachers, and technicians disrupted health and education services.
- o The interim government still has to decide how to deal with the imprisoned radical leaders of the Bishop regime, neutralize active remnants of the Army, and build a competent security force.

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None of these problems poses a threat to Grenadian stability in the near term, but domestic criticism of the interim government will intensify unless progress begins soon. Quick disbursement of U.S. project aid has allowed the government to begin attacking economic problems, but a great deal remains to be done. (TS)

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Central America

El Salvador

The military stalemate has continued, with each side sporadically taking the initiative and realizing temporary gains, only to suffer setbacks shortly afterward. The Army has been more aggressive, however, since Defense Minister Vides revamped its command structure in late November.

- o The General Staff has been strengthened through the appointment of better personnel.
- o More competent commanders have been assigned to major field commands.

The insurgents nevertheless remain a serious threat as underscored by last month's attack on a brigade headquarters and destruction of a key highway bridge.

- o Because of the continuing arms flow from Nicaragua and increased success in capturing weapons, the insurgents now have been able to arm some 9,000 to 11,000 persons.
- o They also have shown the ability to defeat the new small "hunter" battalions, including those trained by the U.S. in Honduras.

The government and the military have begun, at least partly as the result of sharp prodding for us, to take steps to quell rightist death squad activity. The armed forces will be susceptible to U.S. influence in this regard, but Salvadoran performance on human rights issues is likely to continue to be mixed.

With the presidential election set for late March, political maneuvering among the major parties is now in full swing. The guerrillas probably see the election as a major tool for their forces. We expect to see them resort to increased urban attacks and terrorism to try to disrupt the voting and demonstrate their strength.

- o U.S. facilities, particularly in San Salvador, may be seen as inviting targets.

o

Cuba is likely to provide the insurgents with enough supplies for an election offensive.

In a National Estimate published in December, the Intelligence Community concluded that the tactical stalemate is likely to continue at least through 1984. If outside support to both sides continues at current levels, neither is likely to gain a decisive advantage any time soon. And without further improvements in the military's capabilities, some resolution of attitudinal problems in the officer corps, preservation of existing economic and political reforms, and neutralization of extreme rightist influences, the government's prospects of winning the war will be poor in the long term. (S)

Nicaragua

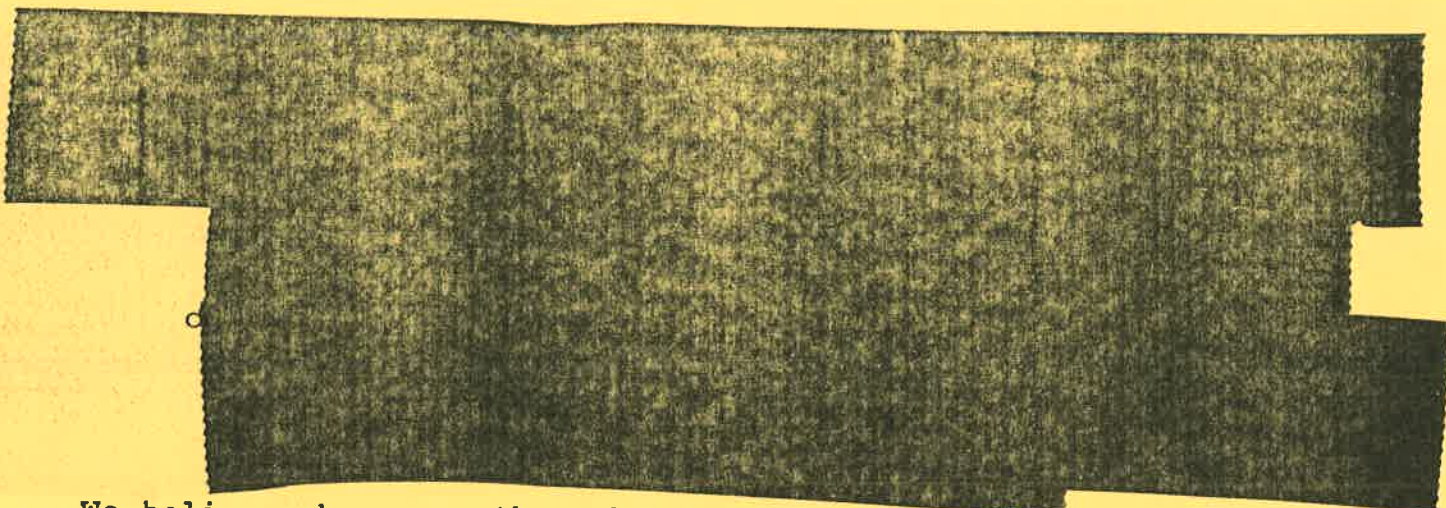
The recent relaxation of domestic repression and censorship by the Sandinista government seems calculated to remove a possible pretext for outside intervention and to ease internal pressures. How long such signs of progress last remains to be seen, as does the government's sincerity in promising an open and democratic election process.

The anticipated offensive by the anti-Sandinista Nicaraguan Democratic Force got under way in December in northern Nicaragua.

- o The insurgents evidently hope to seize high ground near the few main roads and cut off Sandinista military movements into the area.
- o In the east and south, Misura and Democratic Revolutionary Alliance guerrillas have continued intermittent harassment operations.

The fighting has damaged the fragile Nicaraguan economy, but evidently not as much as the Sandinistas are claiming.

- o They assert that the attacks have cost the country over \$100 million, but we believe the total does not exceed more than \$30 million, or about one percent of Nicaragua's output in 1983.
- o This is far less than the damage caused by the guerrillas in El Salvador.



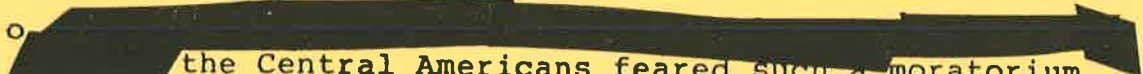
We believe, however, that the Sandinistas probably have concluded that they cannot defeat the Contras as long as the insurgents receive U.S. support and have a secure base in Honduras. (S)

Contadora Process

As the Contadora negotiations approached their first anniversary, the four sponsoring nations (Mexico, Panama, Venezuela, Colombia) apparently felt increased pressure to produce tangible results. At their December meeting in Panama, the Contadora foreign ministers drafted guidelines for implementing the 21-point "Document of Objectives" agreed to by the Central Americans in the fall.

- o The guidelines' emphasis on security and vague references to democracy and verification issues mirrored Nicaragua's approach to these issues.
- o Our Central American allies--the "Core Four"--were increasingly concerned that the mediators were taking a position which put the Core Four at a disadvantage.

Most of the Contadora guidelines were later accepted by the Central Americans, who did nevertheless successfully resist a Contadora suggestion that an immediate moratorium on arms acquisition be declared.

- o  the Central Americans feared such a moratorium would permanently tilt the military balance against them.

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The nine nations involved in the Contadora process are now to form working committees on military, economic and political issues that are to report by April 30 on their progress. (S)

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Philippines

Developments subsequent to the assassination of Benigno Aquino on August 21 have severely damaged the Marcos government and permanently changed Philippine politics. The participation of members of the business community, the middle class, and the Catholic Church in antigovernment demonstrations last fall is a pivotal development. Marcos' continuing efforts to play down the assassination and to sidestep the culpability issue are contributing to his credibility problem and to a popular conviction he is no longer the feared political force he once was.


He has made several concessions as the result of the protests, including acceptance of a succession mechanism, but he faces several critical near-term challenges:

- o He must ensure opposition participation in the May 1984 National Assembly elections.
- o He must maintain discipline within the ruling party at a time when his leadership is unpopular.
- o He must come up with a strategy for defusing serious financial, labor, and other economic problems.

The financial fallout of the Aquino assassination--capital flight and refusals by foreign banks to renew short-term loans--brought to a head a crisis Manila would have faced by 1984 in any case. In October the Central Bank announced a 90-day standstill on commercial bank repayments, and an advisory committee of creditors was established to reschedule the country's \$23 billion debt.

- o Negotiations on a \$650 million IMF standby agreement are still stalled, however, because negotiators discovered Manila had misrepresented its foreign reserve position by as much as \$600 million.

Although popular protests are now less frequent and moderate opposition forces remain organizationally weak, Marcos cannot yet be sure that he is out of the woods on the Aquino assassination. The new board investigating the incident has been demonstrating determination and independence.



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Marcos' health remains another question mark. His level of activity recently suggests improvement, but this condition seems to fluctuate daily and he appears debilitated. Further medical setbacks could seriously impair his ability to govern and generate intensified succession jockeying.

The Intelligence Community concluded in a recent National Estimate that Marcos' prospects of remaining in power through the National Assembly elections in May are reasonably good, but that he will be increasingly vulnerable to political challenges he formerly would have easily withstood. The Estimate judges his chances of staying in power to the end of his current term in 1987 as no better than even. (S)

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Rangoon Bombing

In an apparent attempt to assassinate Republic of Korea President Chun Doo Hwan, North Korean agents exploded a bomb during an October wreath-laying ceremony in Rangoon, killing several ROK cabinet members. President Chun was not present, however, having been delayed in traffic. Burmese authorities arrested three suspects, one of whom subsequently died of his wounds. During the trial of the two surviving terrorists, Burma publicly revealed North Korea's responsibility for the incident.

- o President Chun quickly named replacements for the slain men. The ROK government remained essentially intact, despite the loss of so many talented officials.

The bombing demonstrated how far Pyongyang will go in trying to eliminate its rivals in Seoul and to halt ROK political and diplomatic success. Outrage in the South over the bombing inevitably raised tensions on the peninsula.

Seoul acted with great restraint in the face of the assassination. Chun resisted strong pressures, particularly from younger military officers, to retaliate. Seoul's measured response added to the ROK's international stature, particularly with Beijing. The PRC is pursuing its interest in assuring stability on the peninsula and promoting North-South dialogue. (8)

LDC Debt Crisis: An Overview

During the past year and a half, rescue packages coordinated by the IMF have forestalled default by debt-troubled LDCs and have averted a major disruption of the international financial community. These packages have included debt restructuring, new commercial bank and IMF lending, and official bridging loans and export credits in return for which debtor countries have agreed to undertake stringent economic adjustment measures.

Creditors and debtors are negotiating 1984 debt relief packages. The strategy depends heavily on the cooperation of all parties and confidence that the LDCs' ability to service the debt is improving. Currently, confidence is bolstered by OECD economic recovery, improved LDC export prospects, and lower or at least stable interest rates. An expectation that domestic political opposition to austerity measures will remain manageable is also an integral part of maintaining banker cooperation.

An increasing number of debtor countries are seeking easier terms on new and restructured loans from banks, including longer grace periods and lower interest spreads. Some LDC officials perceive themselves to be in a stronger negotiating position this year following recent public statements by the IMF Managing Director and the U.S. Federal Reserve Chairman calling for lower bank fees. Still, heavily exposed banks probably will resist a substantial reduction in interest spreads charged to countries that have not demonstrated progress in improving their external positions.

For its part, the IMF must decide how stringent revised economic targets should be and how rigidly they should be enforced. On the one hand, the Fund risks losing the cooperation of debtors if they judge IMF demands as too harsh and likely to spur social and political unrest. On the other hand, creditors are looking to the Fund to oversee needed reforms before they will disburse new capital.

While most observers are optimistic that 1984 LDC financing packages will be completed, longer-term and more difficult aspects of the debt crisis such as needed changes in LDC development policies and ensuring world economic recovery remain. For many debtor nations, only a fundamental restructuring of domestic markets can ensure long-term growth and financial viability, but

such a restructuring will involve very difficult social and political decisions. For their part, the industrialized countries have a responsibility to resist strong protectionist sentiment and encourage LDC export expansion. Their monetary and fiscal policies will also be an important ingredient in sustaining the world economic recovery essential to LDC debt-servicing capabilities.

Major problems remain in Latin America, with the key problems in Brazil, Argentina, Venezuela, and Mexico. Brazil is attempting to negotiate a \$18.1 billion financing package for 1984. Brazil probably will take an increasingly hard line regarding financing terms.

Internal austerity measures will result in a difficult 1984 for the general population. We foresee continuing difficulties in implementing this year's program. If the domestic economy does not improve substantially in 1984, Brazil may have to risk its working relations with the IMF and international bankers to limit domestic unrest and opposition.

The Alfonsin government in Argentina has promised to be tough with international bankers in renegotiating foreign debt during 1984, and we expect this promise will be acted upon to generate domestic political support. Given a continuation of economic deterioration, 1984 could be the year in which a major confrontation arises between international lenders and Argentina. This situation appears to be the weak link in the Latin American debt problem.

President-elect Jaime Lusinchi of Venezuela has stated that he is opposed to additional concessions in future agreements with the IMF. Meeting proposed requirements by the international banking community will require basic domestic economic policy adjustments which may be impossible for Lusinchi to institute.

Although Mexico has regained favor with the international financial community, conditions in the country continue to be bleak. Unemployment remains high, the private sector is recovering very slowly and the long-term outlook is for a number of years of economic rebuilding. The ability of the de la Madrid government to control domestic events remains the key question mark. We anticipate gradual progress in Mexico throughout 1984.

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Two factors remain crucial in the 1984 international financial environment: first, the strength of the U.S. dollar; and second, the international oil pricing structure. The strength of the U.S. dollar has a dramatic effect on the ability of foreign economies to recover and on the growing U.S. trade deficit. As long as the dollar remains strong, foreign economies will have problems with a full and robust recovery and the U.S. trade deficit will grow to record levels. As long as the international price of oil is in a weak and gradually declining posture, oil exporting nations will have problems building reserves or investing in major projects, and the world economy will exhibit deflationary tendencies. We anticipate both a continuing strong U.S. dollar in 1984 and a weakening of international oil prices. (S)

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Other Areas of Increasing Concern

Angola

A major influx of new Soviet arms began in Angola in late 1983, coinciding with other indications that the Soviets, Cubans, and the ruling MPLA government in Luanda are worried about recent South African and UNITA successes. South African military forces conducted a successful operation against SWAPO forces inside Angola in December, but fairly heavy South African casualties (21 dead or missing) prompted press criticism at home. Aggressive Cuban resistance during the fighting may presage a more active role by Havana's forces than previously. The Soviet arms build-up, which will include 60 MI-25 helicopter gunships delivered over the next two years, will give the Soviet, Cuban, and eventually the Angolan forces there their most potent weapons yet against the UNITA insurgents. ~~(S)~~

Nigeria

Senior armed forces officers overthrew the elected government of President Shahu Shagari on December 31, defending the move as necessary to end the corruption and economic mismanagement of the Shagari administration. The new government, headed by Major General Muhammad Buhari, appears basically conservative and pro-West, and we are working to encourage it to respect human rights and undertake economic reform. It has a hard road ahead, since it must address the same tough economic choices its predecessor faced and also must cope with impatient younger officers. Rumblings of discontent and plotting among them are already cropping up, and, unless Buhari moves soon to end criticism of his drift and indecision, the climate for coup-plotting will be enhanced. ~~(S)~~

Ethiopia-Sudan

Mengistu's government continues deeply involved, along with Libyan elements, in arming and training Sudanese dissidents in Ethiopia and giving them safehaven from which to operate into southern Sudan. Sudanese President Nimeiri's diplomatic approaches to Mengistu to curb this activity have gotten nowhere, and, in turn, Sudan has begun to turn a blind eye to arms traffic through Sudan to Ethiopian insurgents in Eritrea and Tigre provinces. As both sides blame each other for increasing insurgent activities, tensions along their border are growing. ~~(S)~~

India-Pakistan

Relations between the two countries remain tense, particularly as the result of the internal disturbances in Pakistan in late 1983 and Mrs. Gandhi's paranoia about the U.S., China, and Pakistan "ganging up" on India. One result of the tension has been for both countries to become more coy about their respective nuclear programs.

[REDACTED]
[REDACTED] A National Estimate completed last March concluded that Islamabad was unlikely to explode a device before 1985. [REDACTED] us
[REDACTED] OC-

Cyprus

The Turkish Cypriot community on the island unilaterally declared its independence on November 15. We condemned the move, called for its reversal, regretted the Turkish Government's decision to grant recognition, and called on other nations to join us in withholding such recognition. We also have tried to promote and facilitate the U.N. Secretary General's good offices role. There recently have been some small hints from both Greek and Turkish Cypriots of possibilities for accommodation, but it is quite clear that the complex Cyprus situation is a long way from being resolved. We are greatly concerned over potential Congressional action against Turkey, and we continue to urge a more accelerated effort by U.N. Secretary General Perez de Cuellar. (C)

Poland

The country's economy continues to deteriorate, and the government is caught between the need to impose austerity measures and the fear of confrontation with the workers if it does. An announced price hike of 15 percent on foodstuffs to take effect January 1 was postponed to the end of the month because of the government's nervousness over Church and consumer protests. The potential for organized opposition to such measures appears low, but much will depend on how skillfully the government handles the localized and spontaneous protests likely to emerge. (C)

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Peru

Coordinated attacks in November and December throughout the country, especially bombings in Lima, portend stepped-up guerrilla activity in 1984 by the Sendero Luminoso terrorists. President Belaunde's inability to handle the problem is likely to lead to more military involvement in counter guerrilla operations. It probably will also stimulate more action coup-plotting by military officers convinced that all civilian administrations are incompetent. (S)

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Policy Events

The President's Far East Trip

The President's trip to the Far East further cemented the close ties between the U.S. and two of our most important allies--Japan and the Republic of Korea. In Japan, the President and Prime Minister Nakasone agreed that the U.S. and Japan, as the two greatest Free World economies, must cooperate more fully for the benefit of both of our countries and of the world. In order to do this, it is essential to settle some of the trade and economic issues between us. Prime Minister Nakasone understood this point clearly and said that he was determined, after his election in December, to take steps to help resolve our major economic problems.

In Korea, the President repeated the U.S. commitment to maintain ground forces in South Korea. This personal Presidential restatement of our firm resolve to come to the ROK's defense in case of aggression was particularly welcome, coming as it did on the heels of the KAL shootdown and the Rangoon killings. The President also placed emphasis in Seoul on our concern for human rights and our interest in seeing economic relations between the U.S. and the ROK further expanded. (S)

U.S.-PRC-Taiwan Relations

U.S. relations with the PRC have developed well over the past several months. Economic ties continued to expand and cooperation in the strategic area was maintained and strengthened. During the Weinberger visit to Beijing in late September, the exchange visits of Prime Minister Zhao and President Reagan were confirmed. These exchanges at the top level are indicative of the good relations that exist between Washington and Beijing.

While differences over Taiwan are what the Chinese call "a cloud over our relationship," we continue to repeat our position that the Shanghai Communique, the Normalization Communique, and the August 17, 1982 Communique remain the basis for our policy toward Taiwan.

As we move to secure our relations with China, we retain our close ties to the people of Taiwan and will honor our legal commitments to Taiwan under the Taiwan Relations Act (TRA). (S)

Vice President's Trip to Europe and North Africa

The Vice President's trip to Morocco, Algeria, Tunisia, Yugoslavia, Romania, Hungary, and Austria from September 11-21, was a resounding success. In each country he established a personal rapport with the primary leaders and contributed to the furtherance of our bilateral relations. He also succeeded in conveying both frankly and convincingly Administration views on significant bilateral and international issues.

Specifically in North Africa he discussed such issues as the Western Sahara, the Lebanon crisis, and prospects for a Middle East settlement, as well as bilateral trade and economic matters. In Eastern Europe, he expressed concern about the deterioration in East-West relations and pointed out U.S. flexibility in arms control and Soviet responsibility for lack of progress. He also reaffirmed that the U.S. will support, to the extent possible, East European efforts to resolve current economic problems.

- o The Vice President delivered a speech in Algiers which cogently affirmed U.S. support for a policy of genuine non-alignment and reiterated our position that the fostering of a free market economy represents the best hope for Third World economic development.
- o In Vienna, the Vice President delivered a speech before the Austrian Foreign Policy Association which provided the most authoritative exposition to date of the Administration's policy of differentiation toward the countries of Eastern Europe.

Some specific highlights of the trip include:

- o Algeria. As this was the first visit to Algeria of an American official of such high rank, the Algerians perceived it as a manifestation of our interest in intensified bilateral political dialogue.
- o Yugoslavia. The Vice President's visit was an important step in improving bilateral relations and was welcomed by the Yugoslavs as a reassurance of continued high-level U.S. support during a period of political and economic

strain. During the visit, an invitation from President Reagan was extended to President Spiljak to visit the U.S. in 1984.

- o Hungary. As this was the first Vice Presidential visit to Hungary, it was perceived as a further step in steadily improving bilateral relations.
- o Austria. The Austrians clearly appreciated the Vice President's visit--the first one at this level in many years. The visit succeeded in underscoring the importance we attach to close relations with leaders of the new coalition government. (C)

Secretaries Shultz's and Weinberger's Trip to NATO Meetings

Secretaries Weinberger and Shultz respectively participated in the annual NATO Defense and Foreign Ministers meetings in Brussels in early December. Both meetings focused on the need to maintain Western resolve on the vital INF question.

Following the favorable INF vote in the German Bundestag, the NATO meetings in a sense were anticlimactic. Both sessions reflected the calm strength and confidence that was shown by the Ministers.

At the urging of the Belgians, the Foreign Ministers agreed to undertake a NATO assessment of the East-West situation in the wake of deployment and the Soviet walkout from the various arms control fora. The NATO study is expected to reaffirm the twin pillars of defense and dialogue.

The Defense Ministers called for an acceleration of conventional improvements, both to give added impetus to the need for modernization and to turn the public focus away from the nuclear debate. (C)