# July 20, 1990
# National Intelligence Daily for Friday, 20 July 1990

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## Summary:

The CIA's National Intelligence Daily for 20 July 1990 describes the latest developments in South Korea, China, the Soviet Union, Hungary, Haiti and Persian Gulf.

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Director of Central Intelligence

# NATIONAL INTELLIGENCE DAILY



**Friday, 20 July 1990**

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*20 July 1990*

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## Tough Choices for P'yongyang

Seoul's proposal will undermine a key element in North Korea's longtime strategy for dealing with the South—winning points by offering contacts it can count on Seoul to reject. In crafting a response, the North Koreans will want to regain the propaganda advantage, but they face tough choices. P'yongyang increasingly fears outside influences will destabilize the regime and thus will want to prevent average North Koreans from approaching Panmunjom. The North Koreans will also be anxious for an excuse to prevent large groups of South Koreans from entering the North without tight screening and control.

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**SOUTH KOREA: Calling the North's Bluff**

***President Roh, in a move that puts new pressure on North Korea, today announced Seoul will open the border at Panmunjom from 13 to 17 August for free travel between North and South.*** [redacted]

The announcement goes far beyond P'yongyang's offer earlier this month to open a small area on its side of the border on 15 August for a nationwide reunification rally. Roh called on the North to allow unrestricted travel during the period and proposed regularly opening the border on major Korean holidays. [redacted]

**Comment**: Roh's counteroffer represents a significant policy reversal; Seoul has rejected P'yongyang's past invitations to open the border and has blocked dissidents who tried to stage marches to the North. The turnabout almost certainly is a result of Roh's eagerness to keep the North-South dialogue on track. [redacted] the South is trying hard to deny the North any excuse to cancel the prime-ministerial talks tentatively scheduled for early September in Seoul. Roh probably believes his overture will absolve him from any blame for a breakdown if P'yongyang reneges now. [redacted]

Seoul probably expects that, if P'yongyang accepts the offer, the North will not allow ordinary North Koreans to go to the South. The South Koreans may be trying to encourage a visit to the South by some of the 2,500 pro-North Korean emigrés—many from Japan—who plan to participate in the reunification rally. Roh may hope to impress the emigrés—or any other group of carefully selected North Korean loyalists—with the relative openness and affluence of the South. Likewise, anyone from the South allowed to visit the North could be a conduit for information on the spread of democracy in Eastern Europe. [redacted]

Roh undoubtedly hopes his announcement will pay domestic dividends by diverting attention from the uproar over the combative legislative session that just adjourned. And he clearly hopes to undercut the radical student movement, which accuses him of intransigence on the North-South dialogue. Roh apparently believes the political value of the offer far outweighs any intelligence risk. [redacted]

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**CHINA: Mutes Criticism of US Shift on Cambodia**

The Foreign Ministry's spokesman yesterday reacted to the US shift on Cambodia without directly criticizing the decision. He said that Beijing would continue aiding the resistance and that withdrawal of UN recognition of the Khmer resistance would not promote a Cambodia settlement. Meanwhile, a senior official of the non-Communist resistance told reporters China had promised to compensate for any US aid cuts to the resistance with twice the US amount.

**Comment**: Beijing's low-key public reaction is evidence it wants to avoid further complicating relations with Washington. But it is certain to view the US shift on UN representation—and Canada's announcement that it too probably will not support the resistance in the UN—as a serious blow to its efforts to get Hanoi and Phnom Penh to accept a role for the Khmer Rouge in a settlement. Beijing may opt to increase support to the Khmer Rouge and press for more cooperation between the resistance factions to put pressure on Hanoi. At the same time, it is likely to continue to leave the door open for dialogue with the Vietnamese to avoid being left out of the settlement process.

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**USSR: Republics Forcing Pace on Union Relations**

Gorbachev's Presidential Council is to meet today to discuss republic sovereignty, a new union compact, and accelerated economic reforms. According to Soviet press reporting, the Supreme Soviet will consider a draft treaty on a new national pact at its session to convene next month, earlier than planned.

**Comment:** As the republics force the pace of change in the nature of the union, Gorbachev must hurriedly rally his centrist coalition to tackle complex constitutional and economic issues. Renewed high-level attention from Moscow probably will not placate most republics, which are already demanding massive transfers of resources and political authority to them on their terms. Local leaders probably will squeeze Moscow even harder as they sense its defensiveness and its attempt to placate constituents. Neither the republics nor Moscow, however, seem to have a clear idea of whether negotiations on a new national pact will proceed in a collective roundtable format or as individual bilateral talks, nor have firm timetables been set, although Gorbachev claims he wants to act by yearend.

**USSR: Fighting Escalates in Kirghizia**

The commander of Soviet Internal Troops (MVD) has been sent to Kirghizia, and MVD units have been redeployed to the regional center of Osh in response to reports of increasing violence between Kirghiz and ethnic Uzbeks. Eight persons were reported killed yesterday, making a total of 212 killed, 1,200 injured, and 400 missing since the violence began on 4 June. Soviet media are reporting that the city of Osh is paralyzed: streets are barricaded, shops and enterprises are closed, and transportation is at a standstill. The protesters, mostly Uzbek women, are demanding that the local government resign and that demonstrators previously arrested be released. Officials report continued attempts by citizens to seize weapons. Republic-level officials have arrived in Osh in an attempt to ease tensions.

**Comment:** The Osh dispute, like the one in Nagorno-Karabakh, is particularly intractable because it involves disputed rights of a large ethnic minority, the Uzbeks, living outside its titular republic. Local Kirghiz officials, like Azeri officials in the Armenian-populated Nagorno-Karabakh, have been particularly insensitive to the needs of the Uzbeks, who constitute half of Osh's population and a quarter of the population in the surrounding area. The governments of the two republics, unlike those in the Nagorno-Karabakh dispute, are currently cooperating.

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**HUNGARY: Assembly Ducks Responsibility for Austerity**

The Antall government's decision to implement an emergency economic program without the National Assembly's approval underlines the lack of consensus on how to reform the economy. The program, submitted to the Assembly last week, responds to IMF requirements for budget deficit reductions by calling for major price increases and reduced subsidies. The governing Hungarian Democratic Forum, however, withdrew the draft program from legislative review after opposition parties denounced it. Subsequently, Finance Minister Rabar announced that the government will comply with IMF measures and raised prices for selected consumer goods.

**Comment**: The Forum is anxious to convince the IMF as well as Western aid donors and potential investors that it is moving forward with economic reform; it recently leaked a list of firms targeted for privatization, another key aspect of the reform program. The price increases are being billed as the first "democratic price hikes," but the government's unilateral decision may undermine the popular consensus that will be needed to implement even more painful but necessary reforms. People may see the absence of legislative review as inconsistent with efforts to hold the government to a higher standard of accountability.

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**UN-HAITI: Opposition to Election Monitoring**

Third World countries are trying to block a Haitian request that the UN monitor Haiti's presidential election in November; they fear setting a precedent for UN intervention in their own domestic politics. These countries, led by Colombia, hope to preempt the UN Security Council by raising the issue in a special session of the General Assembly, which they believe would vote to take no action or to send only a token UN/OAS team. UN monitoring of elections in Haiti would be a first; to date UN election observers have served only in situations involving threats to international peace and security or to assist new states.

**Comment**: States with questionable or undemocratic electoral practices, such as China, Cuba, and to a lesser extent Mexico, oppose UN observers in Haiti because they fear domestic opponents would use this precedent to force UN monitoring of their elections or to challenge elections held without the UN. Some democratic states such as Brazil and Colombia consider UN monitoring in this instance an unwarranted expansion of the power of the Security Council. If Colombia fails to block a mission to Haiti, China may veto the operation in the Security Council if it is confident of solid Third World support.

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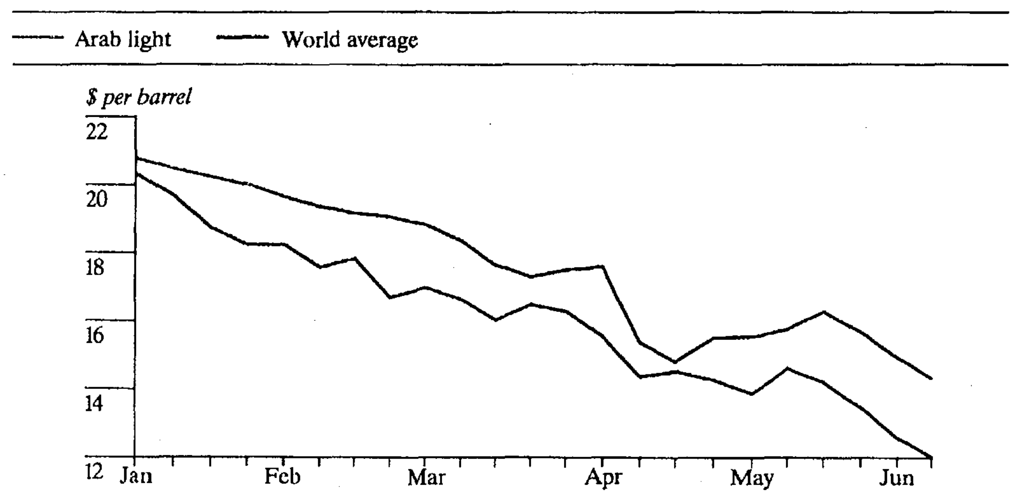
**Crude Oil Prices, 1990**

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## Special Analysis

**PERSIAN GULF: Tensions Rising Over Low Oil Prices**

***Low oil prices are taking a heavy toll on postwar recovery efforts in Iran and Iraq but have less impact on other Gulf producers. Prospects for restraining production over the longer term to support higher prices are dim despite Saddam Husayn's threat this week to take action against OPEC overproducers.*** [redacted]

The decline in world oil prices from $20 a barrel in January to about $14 last month has been particularly damaging to postwar reconstruction in Iran and Iraq. Iran's ambitious reconstruction plan for 1990-95 assumes average oil revenues of $16.2 billion a year, but earnings will reach only $11 billion this year unless there is a stronger price rebound than expected. Tehran's ability to make up for low prices by exporting more oil is limited; it is already producing near its maximum sustainable capacity of about 3.1 million barrels per day. Iran's response to the fall in prices this year has been relatively restrained, probably in part to avoid raising doubts about its creditworthiness among potential foreign lenders. [redacted]

The price decline has cost Iraq at least $1 billion in revenue so far this year. Like Tehran, Baghdad cannot increase exports because it is producing near its maximum sustainable capacity, about 3.3 million b/d. Iraq last month banned import of nearly 80 "nonessential" goods—including some food and clothing items—and wants to avoid more unpopular cuts in imports and reconstruction and development projects. Baghdad will have a foreign payments deficit of at least $4 billion this year, leading to serious problems in servicing its $45 billion non-Arab foreign debt and obtaining new credits. [redacted]

Iraq has increasingly vented its frustration at **Kuwait** and the **United Arab Emirates**, the largest overproducers in OPEC. Saddam on Tuesday threatened "effective action" against those states if words do not lead them to reduce output. Baghdad has accused Kuwait and the UAE of deliberately overproducing to support a perceived Western conspiracy to limit Iraqi revenues. [redacted]

### Less Pain for Other Gulf Producers

**Saudi Arabia** does not face economic problems as severe as those of Iran and Iraq even though soft oil market conditions are frustrating its efforts to reduce a budget deficit that has averaged 17 percent of GDP since 1983. Riyadh still has more than $60 billion in liquid

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assets, but the government has amassed more than $25 billion in domestic debt in recent years to maintain generous public programs, [redacted] Oil revenues last year were about $24 billion and will be about the same this year if prices remain near current levels. Riyadh trimmed domestic production in May by about 500,000 b/d to meet its OPEC quota and has admonished other cartel members to follow suit. [redacted]

Kuwait and the UAE are least affected by lower oil prices. Both continue to run large current account surpluses and earn significant income from their foreign investments, investments estimated at $70 billion and $40 billion, respectively. They are the largest overproducers in OPEC, exceeding their quotas by 300,000 b/d and 1 million b/d, respectively, before production cuts announced last week. [redacted]

**Recipe for Rising Tensions**

The uneven burden of low oil prices will further raise tensions in the region if OPEC fails to sustain its production restraint to prop up prices. Iran and Iraq probably will continue to press OPEC overproducers to limit output. Oil prices rose about $1.50 per barrel after the oil ministers of Saudi Arabia, Iraq, Kuwait, and the UAE met in Jiddah last week, but Saddam's rhetorical threats so far appear to have had little effect. [redacted]

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