

December 14, 1989
National Intelligence Daily for Thursday, 14
December 1989

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Summary:

The CIA's National Intelligence Daily for Thursday, 14 December 1989 describes the latest developments in China, Poland, Western Europe, India, Bulgaria and USSR.

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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

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Thursday, 14 December 1989

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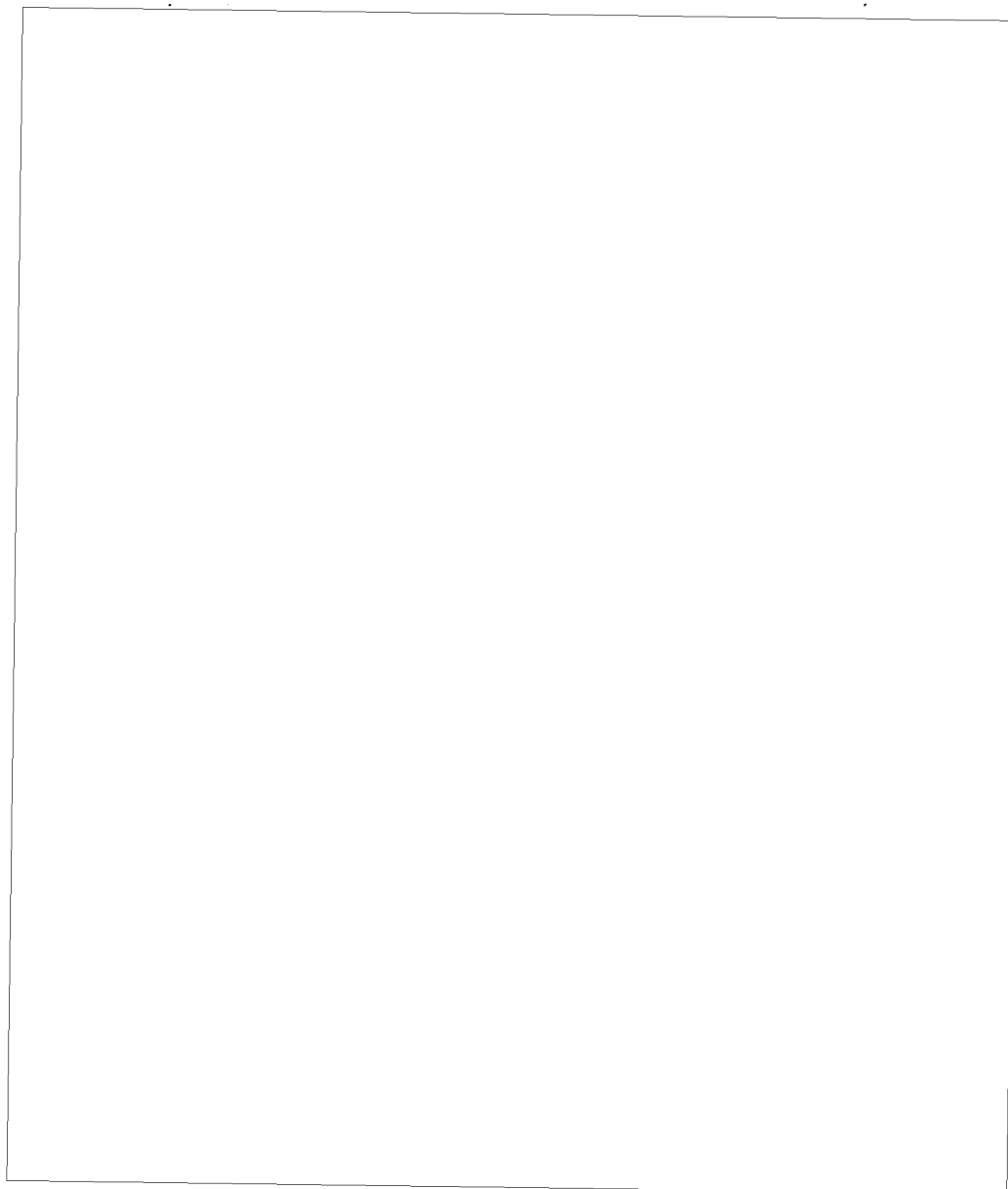
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~~Top Secret~~**India: Parliamentary Election Results
(525 out of 525 seats announced)**

Party	Political Orientation	
National Front Allies		
Janata Dal	Centrist	141
Communist Party (Marxist)	Leans to Beijing	32
Communist Party of India	Leans to Moscow	12
Forward Bloc	Communist	3
Revolutionary Socialist Party	Socialist	4
Bharatiya Janata Party	Conservative Hindu chauvinist	86
Others		6
Congress Allies		
Congress Party	Centrist	195
All-India ADMK	Tamil-language chauvinist	11
National Conference	Kashmir-based Muslim party	3
Others	(Includes minor tribal parties and Sikh faction)	32

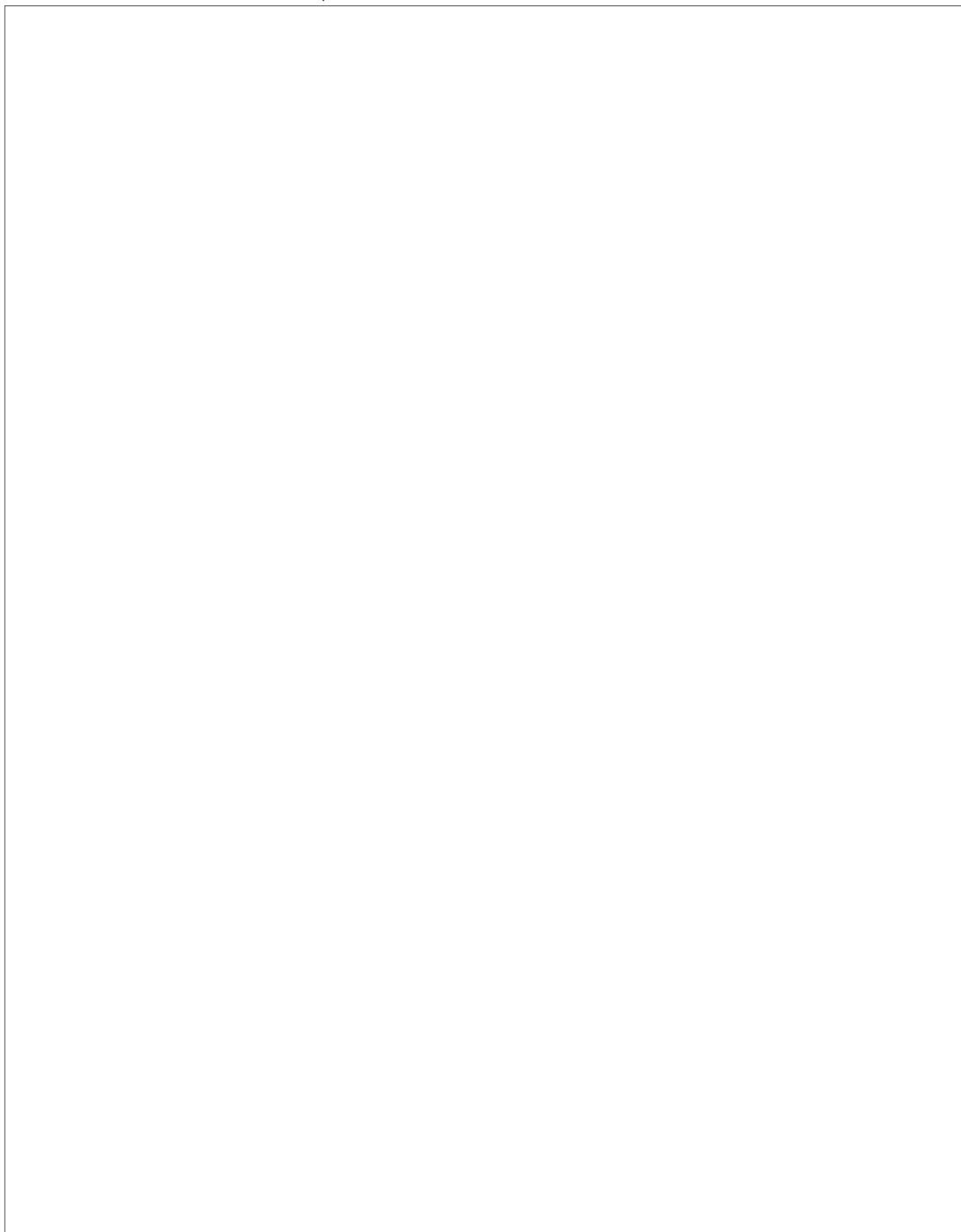
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~~Top Secret~~**CHINA: Tightening Central Control Over Economy**

For the first time in 10 years, China's State Planning Commission has increased the proportion of output that the coal, steel, and other key industries must sell to the state, beginning next year. Currently less than 50 percent of China's coal and steel is produced under central plans. Enterprises failing to meet the higher state quota reportedly will face cuts in state-supplied inputs and will be prohibited from selling out-of-plan production on the free market. New joint ventures must allocate production to the state in proportion to the state's investment in their firms.

Comment: The new measures are the latest effort by hardliners, including Vice Premier Yao Yilin, who heads the State Planning Commission, to reassert central control over state enterprises. By reducing the share of raw materials sold outside the plan, hardliners evidently hope to restrict the growth of private and municipally run factories. Local authorities, however, are strongly resisting Beijing's attempts to reassert control and will continue to divert raw materials from the state sector. In addition to tightening credit and reducing capital investment, the measures create new disincentives for raw material producers to boost output despite China's growing shortfalls.

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~~Top Secret~~**POLAND: Walesa Sounds Off on Reforms**

Solidarity leader Lech Walesa's call Tuesday for the government to have emergency powers to implement sweeping economic changes probably makes legislative approval of the government's reform package more likely. Premier Mazowiecki is to introduce some 20 major economic bills in the Sejm on Sunday, and debate opens next week on an austerity budget for next year. Walesa warned that conditions in the country are getting worse and that the public's patience is nearly exhausted.

Comment: Mazowiecki is not likely to seek such sweeping powers, but Walesa's statement probably will shore up support for the government bills in the Solidarity-led coalition and make Communist delegates more chary of trying to stall them. Warsaw needs these measures approved quickly to facilitate agreements with the IMF on an adjustment program, which is a key condition of much Western aid. Walesa's remarks, probably made without consulting the government, show his fear that reforms are moving too slowly, his sensitivity to criticism that he is not giving the government enough support, and his eagerness to remind the government that he remains a key player.

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Special Analysis

WESTERN EUROPE:

Reacting to Soviet-Proposed CSCE Summit

Most West European leaders are likely to follow French President Mitterrand in accepting the USSR's call for a summit in 1990 of the 35-member Conference on Security and Cooperation in Europe, even though some suspect Soviet motives. Most NATO members, including France, would probably also support Belgium's proposal of a meeting of the 23 Conventional Forces in Europe (CFE) participants to sign a treaty before a CSCE summit.

The Soviets propose that, by advancing the Helsinki II summit by two years, the agenda could cover a broad range of issues affecting change in Europe. Mitterrand endorsed the proposal at a press conference with President Gorbachev in Kiev on 6 December. France, the neutral nations, and some of the smaller NATO nations believe they have greater influence in the CSCE forum where the power of the alliances is diluted.

Suspicious of Soviet Motives

The UK and West Germany are probably the most suspicious of Soviet intentions, though for different reasons. In sharp contrast to France, the UK would probably first want NATO to coordinate the West's response to changes in the East. London would be willing to consider the Gorbachev proposal if the agenda were spelled out but is skeptical about a greater role for the CSCE as currently structured in handling possible crises resulting from the changes in Europe. At the conference, London probably would try to stall discussion of German unity. The UK, Spain, Canada, and Portugal are also probably concerned that a CSCE forum with an uncertain agenda might encourage the Soviets to raise issues most NATO leaders are opposed to discussing, like naval arms control or the establishing of links between CSCE and CFE.

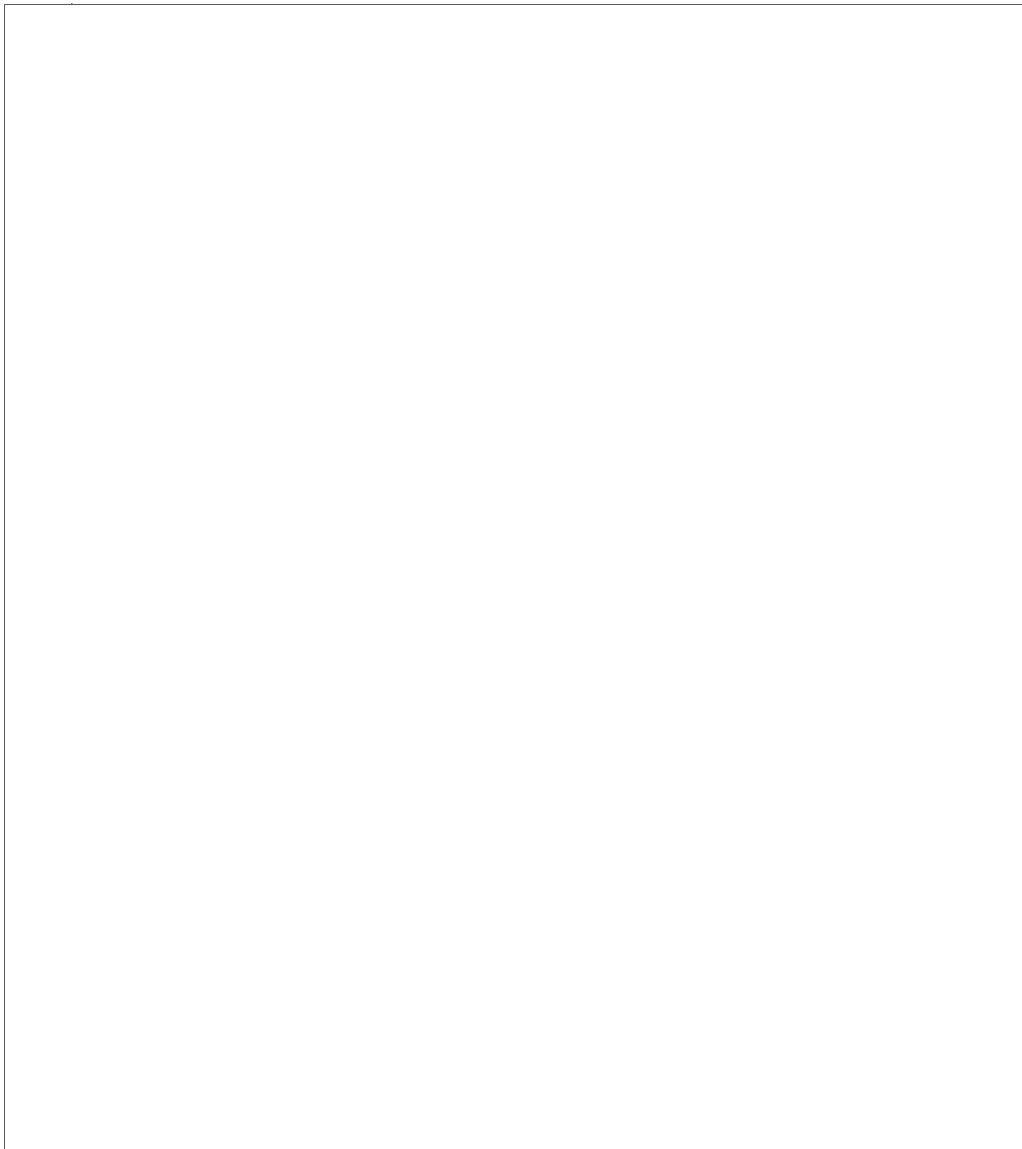
West Germany is in a bind as a result of its public support for CSCE. On the day before Gorbachev's call, Chancellor Kohl said in his 10-points speech that "the CSCE process has been and remains the centerpiece of this all-European architecture and must be sped up energetically." Kohl will now probably work to avoid any impression that movement toward reunification is subject to 35-nation approval. West German Foreign Minister Genscher will probably argue to Soviet Foreign Minister Shevardnadze in Brussels on 19 December that the summit should deal only with the broad outlines of unification.

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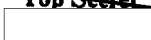
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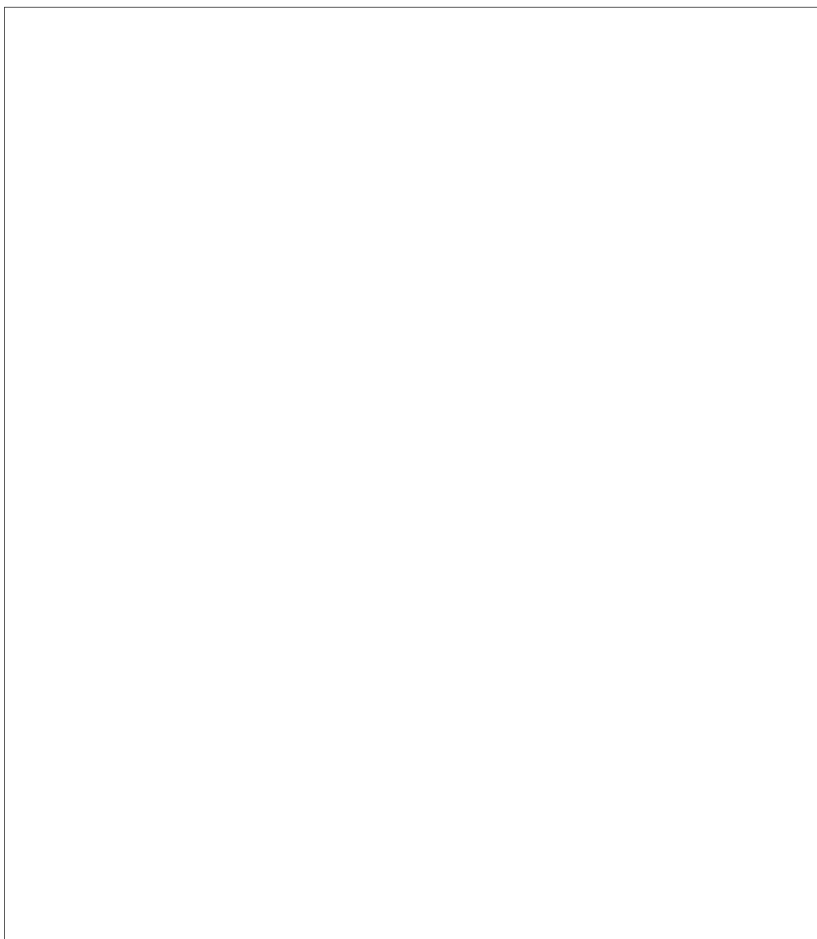


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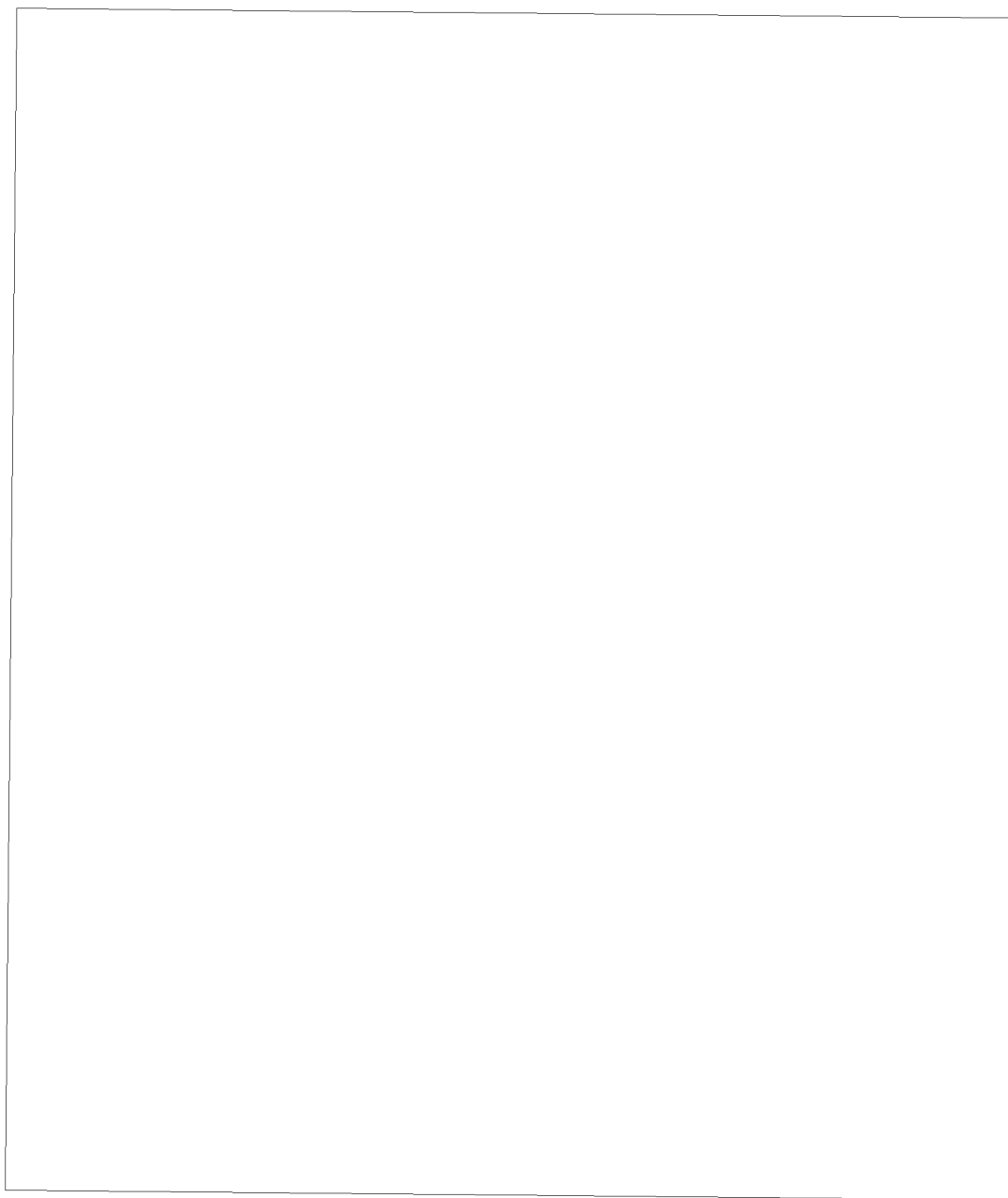
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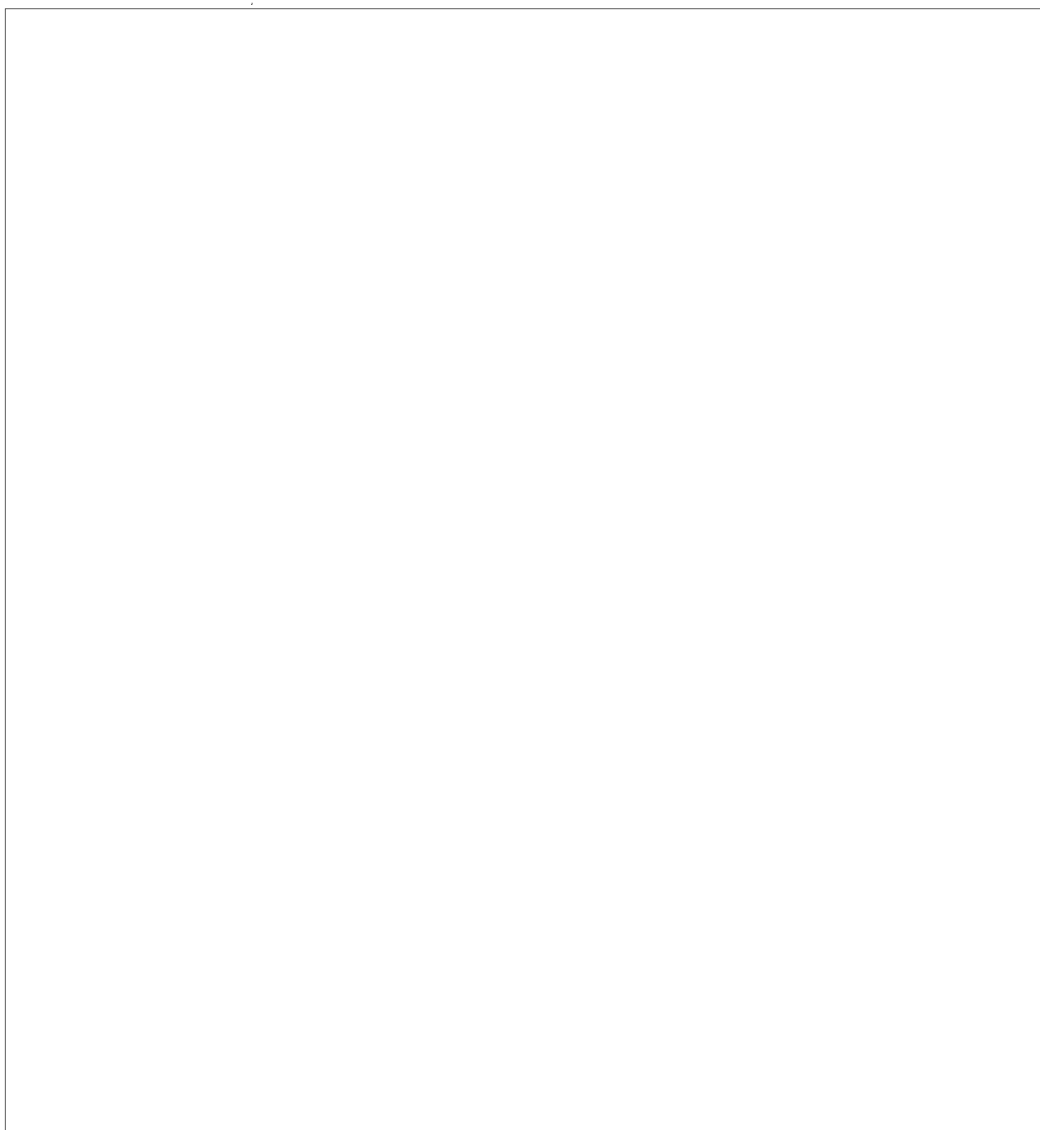
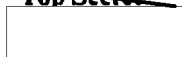
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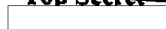
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Special Analysis

INDIA:**Government Mortgaged to Left and Right**

The minority government of newly elected Prime Minister V. P. Singh probably will be dominated by the difficulty of simultaneously satisfying the left- and rightwing parties whose votes in Parliament are crucial to its survival. Singh is likely to make few foreign policy changes and, at least initially, to devote most of his time to economic concerns.

Singh's National Front government, dominated by the centrist Janata Dal Party, commands less than 30 percent of the votes in the lower house of Parliament. Two major Communist parties and the rightwing Bharatiya Janata Party also support Singh, although they often have been at odds on critical economic and domestic issues, and each has refused to serve in the government with the other.

Economic Policy

Singh will be preoccupied by economic decisions for the next few months. Tight foreign exchange, a burdensome debt service ratio, and a burgeoning budget deficit will force him to make hard economic and political choices. To end the squeeze on foreign exchange, he will have to decide whether to reduce imports, endangering India's impressive economic growth, or to take an IMF loan. The austerity measures that probably would accompany an IMF loan, such as cutting agricultural subsidies, would make him break his campaign promises to the rural electorate. To reduce the budget deficit, Singh may also have to cut defense expenditures and reform the public sector; the left would oppose any reduction in the state controls.

Foreign Policy

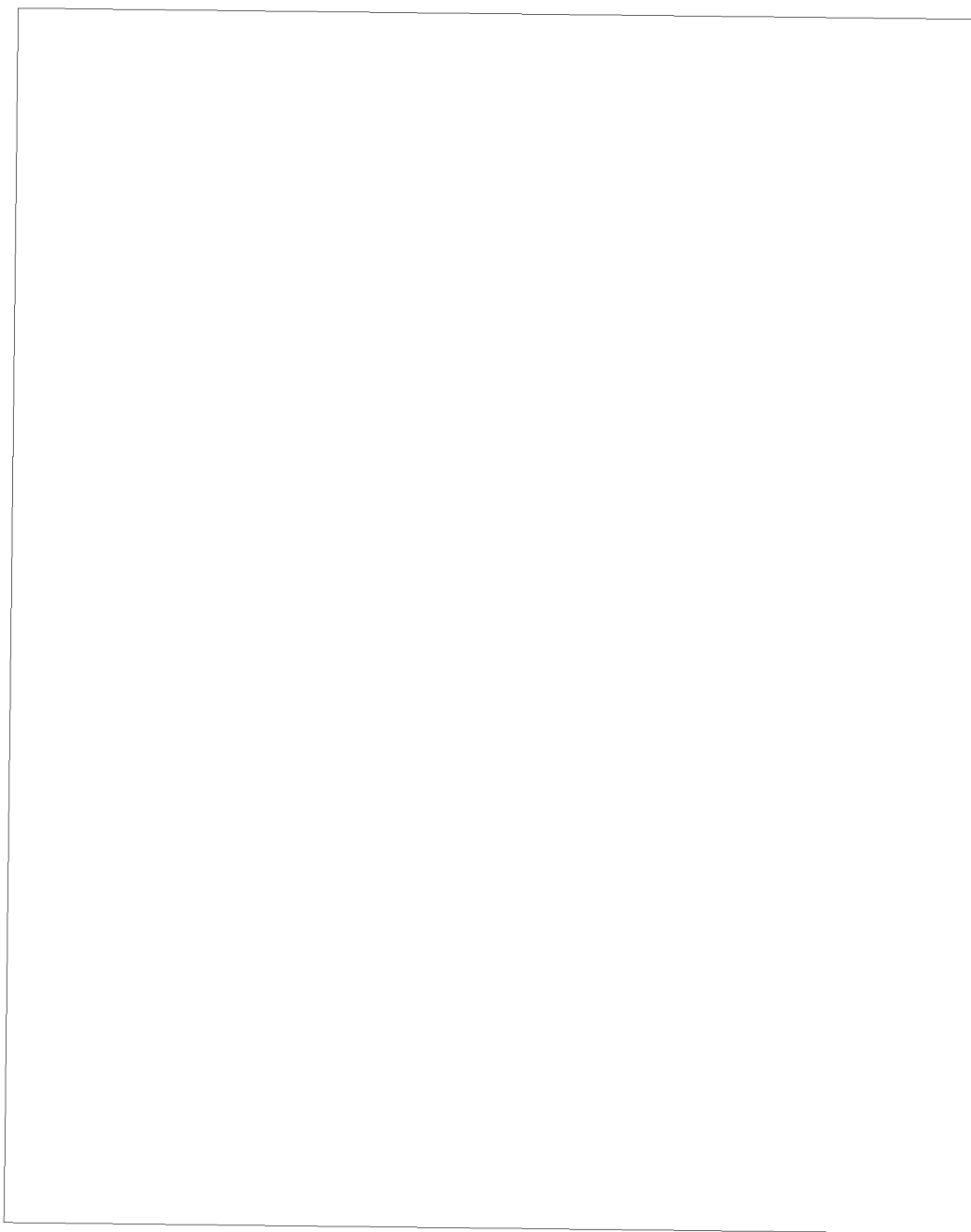
Regional issues probably will dominate Singh's foreign policy agenda in the near term. He has ordered the military to accelerate the troop withdrawal from Sri Lanka and has said he hopes to improve relations with Nepal. He probably will continue his predecessor's moves to improve relations with the US and other Western countries.

Singh has been cautious on more contentious issues, notably Pakistan. He has called for a nuclear dialogue with Pakistan but has said that Islamabad must take the initiative. Singh will be forced to

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~~Top Secret~~**BULGARIA:****Party Renounces Leading Role**

Bulgarian Communist Party leaders closed a Central Committee plenum yesterday by proposing more political and economic reforms; some will be enacted at a National Assembly session opening today.

The plenum renounced the party's leading role and proposed that the National Assembly repeal the applicable constitutional clauses. The party also expelled former General Secretary Zhivkov, his son, and his longtime confidant and former Politburo member Milko Balev. The Zhivkov family and organizations affiliated with them are under investigation for corruption.

General Secretary Mladenov outlined a short-term program to revive the staggering economy and said developing a market economy is a long-term goal. As a first step, he called for agricultural reforms and measures that emphasize the production of consumer goods and curb inflation, including budget reductions. More concrete proposals on these issues will be taken up at a National Assembly session set for January.

In another sign of change, a consensus on a more open policy toward the Turkish minority has emerged. Several Politburo members said a dialogue with nonparty groups, including ethnic Turks, is essential. A member of the Secretariat went further, saying a new policy is needed and declaring that ethnic Turks are "absolutely equal in rights and freedoms."

Comment: The plenum tried to give more substance to the regime's new reformist image and to head off popular demands for even more far-reaching reforms.

The National Assembly session almost certainly will delete the constitutional clauses guaranteeing the Communist Party's monopoly on power. It also is likely to enact legislation on the right to form independent groups, to assemble, and to demonstrate.

The immediate challenge facing Sofia is to revive the economy before growing hardships turn the population against the regime. Like other East European regimes, Bulgarian leaders ultimately will face the difficult choice of implementing sweeping economic reforms that will impose more hardships on the people in the short run or attempting piecemeal efforts that will fail to turn Bulgaria's economy around.

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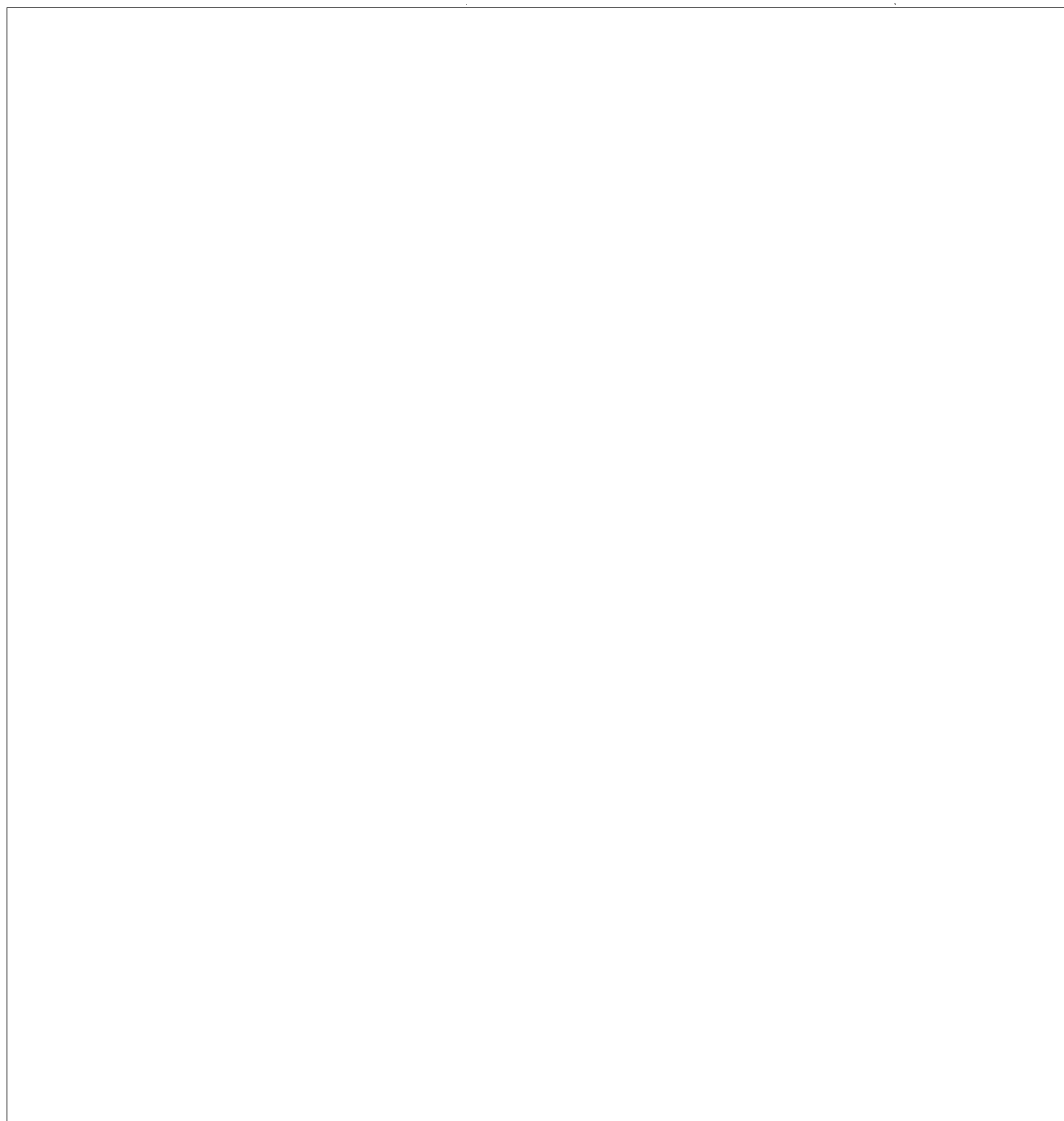
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reconcile his continuation of a nuclear policy of keeping options open with the BJP, which has favored a public nuclear weapons program. Nor is the BJP likely to support an agreement on the Siachen Glacier, which might involve giving up territory. [redacted]

Domestic Problems

Disagreements between the BJP and the Communists over domestic policies will complicate Singh's efforts to satisfy both. Among the thorny issues he has pledged to address are Sikh and Muslim separatism in Punjab and Kashmir, the reduction of communal conflict, and granting greater autonomy to state governments. [redacted]

The BJP is committed to strong central government and is likely to resist concessions to minority groups and demands for greater state autonomy. It has already demanded dismissal of the Muslim-dominated Kashmir government and can be expected to lobby for removal of Kashmir's special status. Communist parties strongly oppose the BJP's attempts to reduce safeguards for minorities such as job reservations and separate legal codes. [redacted]

Singh's first major test could come early next month when Hindus resume building a temple on a site claimed by Muslims in Uttar Pradesh. The communal clashes brought on before the election by militant Hindus' agitation to rebuild the temple were largely orchestrated by groups affiliated with the BJP. The BJP could easily arouse communal sentiment again to force Singh to meet its demands, but the Communists oppose the BJP position. Singh could lose the support of both groups—and with it, the votes needed to sustain his government—if he handles that problem poorly. [redacted]

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EC-US Trade Problems Dormant

Preoccupied with strengthening transatlantic unity in the face of the changes in Eastern Europe, the EC Commission is not likely to bring up bilateral trade disputes during the ministerial. And the Commission probably is hoping the improved EC-US trade balance—the US turned an \$8.4 billion deficit with the EC in the first half of 1987 into a \$1.5 billion surplus for the same period this year—will reduce pressure from the US on trade issues. Moreover, the Commission has already agreed to consult regularly with the US on GATT Uruguay Round and EC-92 trade issues in the hope of minimizing trade tensions. Ongoing talks in other areas, such as beef hormones, soybeans, telecommunications, Airbus, and rules of product origin, have kept these issues from becoming major problems, even though the Commission has refused to make important concessions.

EC-US trade tensions are likely to increase late next year as the Uruguay Round nears its conclusion. The EC is not likely to compromise until the last minute on its reluctance to accept more than minimal cuts in agricultural subsidies. In addition, elements in the Commission may interpret Washington's new emphasis on the need for European integration as a signal that the US will in general take a softer line on trade disputes with the EC, thus encouraging the Community to bargain harder.


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USSR: Party's Leading Role Guaranteed—for Now

The vote Tuesday at the Congress of People's Deputies on whether to debate the Communist Party's constitutionally guaranteed leading role reflects increasing polarization and radicalization of the Congress. Although the regime succeeded in preventing debate on the issue by a vote of 1,138 to 839, the outcome represents the highest number of antiregime votes on a key issue during the brief history of the Congress. Proestablishment deputies representing the Communist Party and other social organizations, comprising one-third of the 2,250 deputies, apparently were the backbone of Gorbachev's support. He probably won over moderate deputies who favor limiting the party's authority by indicating the issue might be reconsidered during the process of constitutional revision currently under way. Gorbachev's  tactics also helped divert discussion from the party's monopoly of power to the procedural question of changing the agenda.

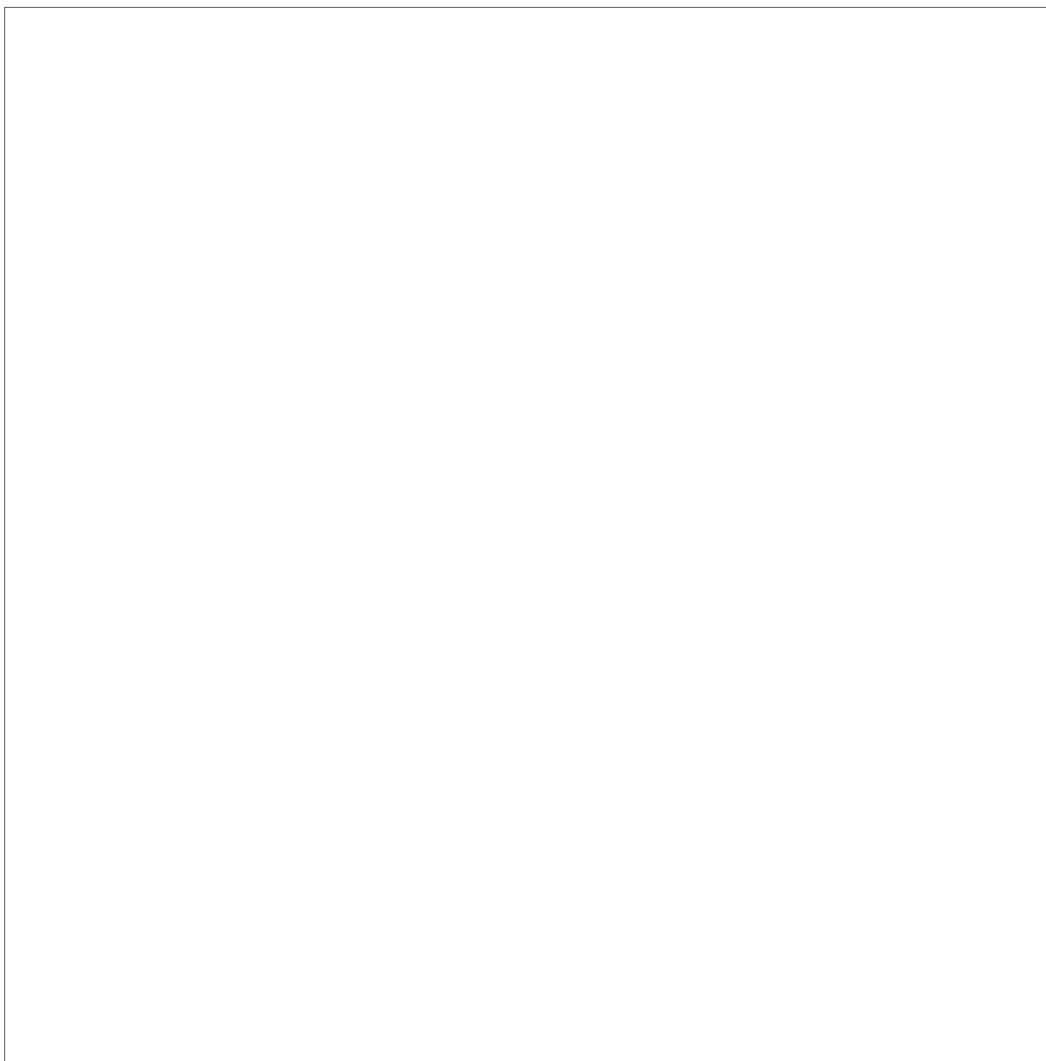
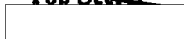
The party's privileged status could come under fire again as early as this weekend, when the Congress is scheduled to debate a Supreme Soviet recommendation to abolish guaranteed seats in the Congress for the CPSU and other public organizations. The Supreme Soviet last month decisively voted to abolish those seats. Given the radicalization of the Congress, this vote may present an even greater challenge to Gorbachev's ability to manipulate debate.

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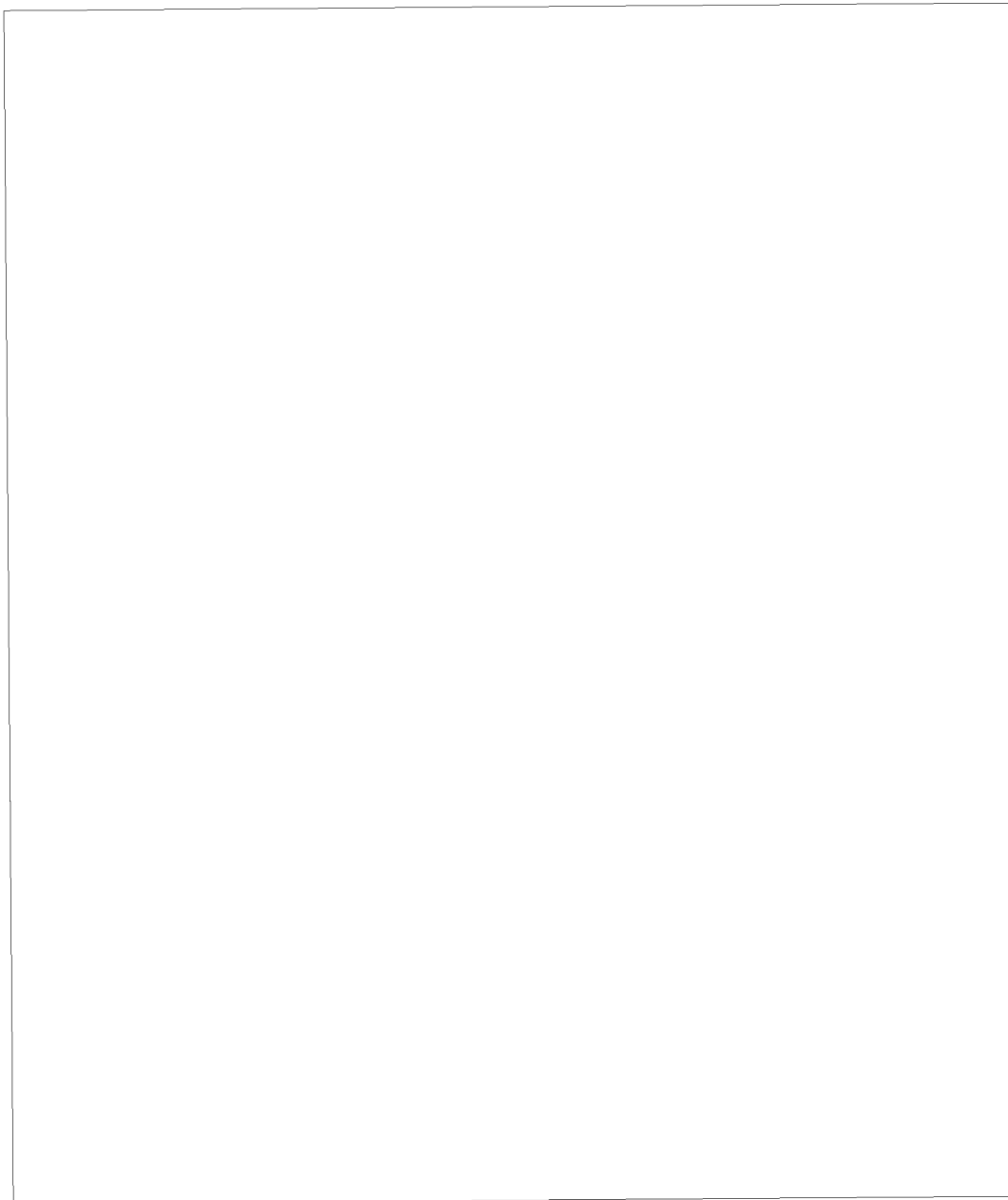
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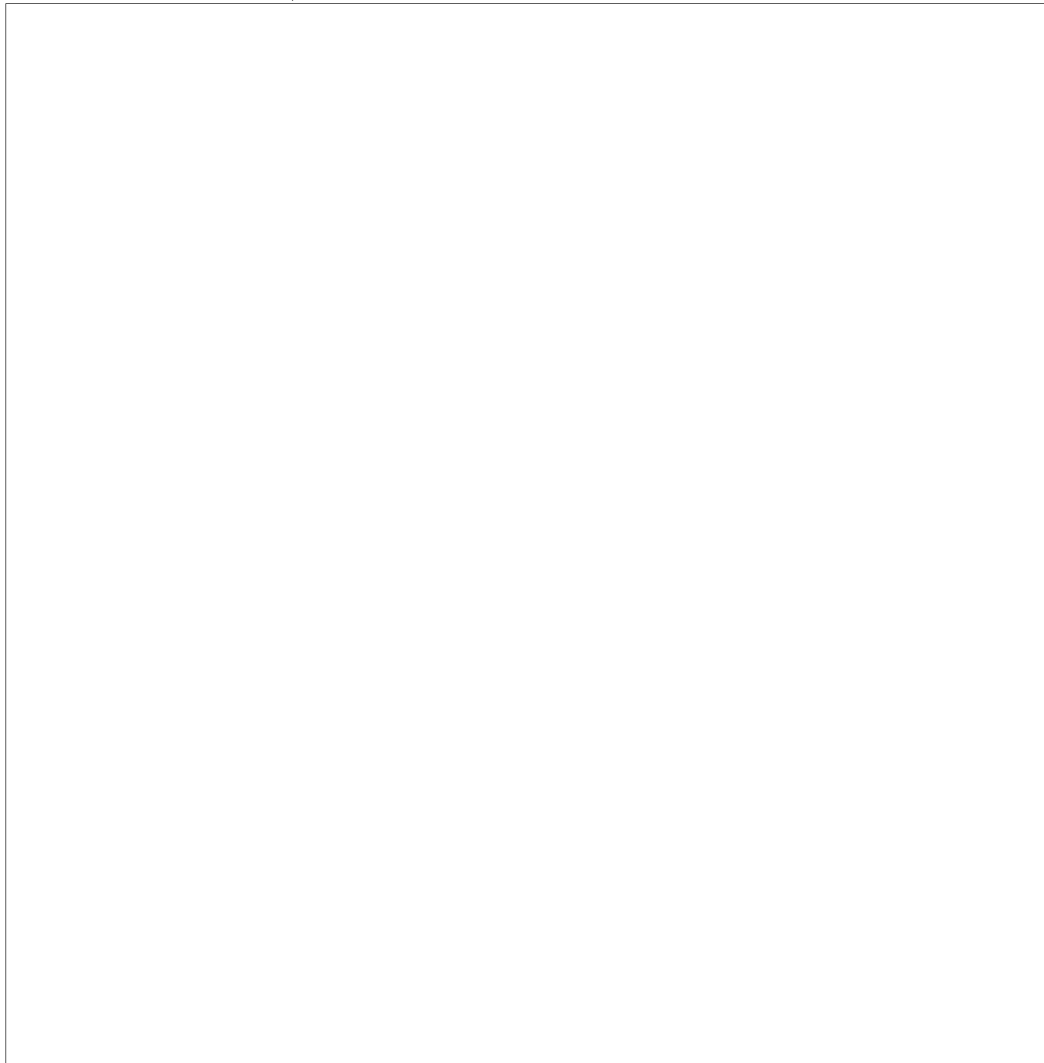


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USSR:

Setting a Course for the Economy

Premier Ryzhkov's report to the Congress of People's Deputies on the program for the economy through 1995 offers few new stabilization measures but commits the leadership to some market-oriented mechanisms and more resources for the consumer.

Ryzhkov characterized recent economic problems as grave, blaming the regime's own policy mistakes, a drop in labor discipline, and such unforeseen events as labor strikes and ethnic unrest. He outlined a program that calls for a two-stage approach to economic development and reform. During the initial stage (1990-92), the economy is to operate with a combination of old administrative methods and new market mechanisms, including market-determined prices in limited sectors.

In addition, a much larger share of the economy's resources are to go to improving consumer welfare, and the budget deficit is to be reduced from about 10 percent to 2-2.5 percent of GNP. In the second stage, state management of the economy is to be done mostly through fiscal and monetary tools, and economic development is to become more balanced with some investment redirected back to heavy industry. Overall, the economy is to grow by about 4 to 5 percent annually during 1991-95.

At the same time, Ryzhkov rejected some of the most contentious proposals such as a return to private ownership, full-scale rationing, and a confiscatory currency conversion. He did indicate that some form of parallel currency will be considered, which consumers could exchange for scarce consumer goods, and interest rates will be raised to encourage long-term savings and discourage wasteful investment projects. He also advanced a plan to introduce world market prices and a freely convertible currency in trade within CEMA in 1991.

Comment: The program laid out by Ryzhkov differs little from the blueprint prepared by Deputy Premier Abalkin's Commission on Economic Reform and discussed at several party conferences last month. The program commits the leadership to a schedule for stabilization and reform and diverts much-needed resources to consumer sectors. The uneasy marriage of traditional central planning and reform initiatives, however, seems unlikely to produce the high-growth targets. Although some of the increases in consumer goods production are to come from conversion of defense enterprises, Ryzhkov indicated that a conversion plan will not be ready until at least early next year.

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Shaping the Agenda

Apart from discussing German reunification and East European reform, the agenda is up for grabs. West Germany would like CSCE eventually to assume increased importance in managing change in Europe, and several Western nations probably would like to use the forum to discuss ground rules for aid to the East that would link reform to Western assistance. West Germany, Norway, Belgium, Denmark, and perhaps other smaller states can be expected to push for agreement on arms control negotiations beyond the current CFE talks; they probably would focus on issues like short-range nuclear forces and options for CFE-II.

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