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FOR NSC
E.O. 12065 GDS 2/11/87 (THOMAS, CHARLES H.)

TAGS: NATO, PORG, XC, XD, XE, UR

SUBJECT: ASIA EXPERTS' MEETING, FEBRUARY 18-20

REF: USNATO 00162

1. FOLLOWING IS US PAPER REQUESTED RETTEL FOR FEBRUARY 18-20, EAST AND SOUTH ASIA EXPERTS' MEETING. TABLE OF CONTENTS OF OUR PAPER:

- PART I. GENERAL TRENDS AND MAIN EVENTS
- PART II. PAKISTAN
- PART III. AFGHANISTAN
- PART IV. INDIA
- PART V. SOUTHEAST ASIA
- PART VI. CHINA
- PART VII. JAPAN
- PART VIII. NORTH KOREA AND SOUTH KOREA
- PART X. (SOVIET POLICY AND ITS CONSEQUENCES)

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BY LOJ, NARA, DATE 12/13/07



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2. PART IX ON THE NON-ALIGNED MOVEMENT MEETING IN NEW DELHI WILL BE SUBMITTED LATER.

3. US PAPER FOLLOWS:

PART I. GENERAL TRENDS AND MAIN EVENTS

4. SOUTHERN ASIA. SOUTHERN ASIA IS EXPERIENCING THE DOMESTIC UNREST THAT IS A CONSEQUENCE OF SOCIAL CHANGE. THIS DEVELOPMENT IS MOST MARKED IN AFGHANISTAN, WHOSE MARXIST RULERS HAVE ATTEMPTED TO IMPLEMENT RADICAL ALTERATIONS IN THE TRADITIONAL WAY OF LIFE. ELSEWHERE IN THE REGION, THE RELATIVELY MODEST RATES OF MODERNIZATION PROTECT THE POLITICAL SYSTEMS FROM THE MASSIVE POPULAR CHALLENGES THAT WOULD THREATEN TO DEMOLISH THE EXISTING POLITICAL ORDER. WHILE THE POLITICAL ELITES OF INDIA, PAKISTAN, BANGLADESH, SRI LANKA, BHUTAN AND NEPAL FACE VARYING DEGREES OF OPPOSITION, NONE ARE IN IMMEDIATE DANGER OF LOSING POWER.

5. INDIA IS THE PREEMINENT REGIONAL POWER AND ALL OF ITS SOUTH ASIAN NEIGHBORS ARE SUSPICIOUS THAT NEW DELHI IS SEEKING TO ESTABLISH ITS HEGEMONY OVER THE AREA. MRS. GANDHI, WHO IS LESS ACCOMMODATING TO INDIA'S NEIGHBORS THAN WERE HER JANATA PARTY PREDECESSORS, HAS EXACERBATED THE FEARS OF THE SOUTH ASIAN STATES ON THIS SCORE. NEW DELHI IS PARTICULARLY OPPOSED TO THE EFFORTS OF NEIGHBORING STATES TO GET OUTSIDE BACKING IN THEIR CONDUCT OF RELATIONS WITH INDIA. IN LINE WITH THIS APPROACH, INDIA HAS VOICED ITS IRRITATION WITH NEPAL'S ZONE OF PEACE PROPOSAL, WITH BANGLADESH'S RAISING THE DISPUTED INDO-BANGLADESH WATER SHARING AGREEMENT IN INTERNATIONAL FORA, AND WITH PAKISTAN'S EFFORTS TO ACQUIRE WESTERN ARMS.

6. THE SOVIET INVASION OF AFGHANISTAN HAS RAISED THE SPECTER OF SUPERPOWER CONFRONTATION WITHIN THE REGION. ALL THE STATES WANT THE SOVIETS TO LEAVE, BUT THEIR TACTICS DIFFER. PAKISTAN BELIEVES THE ISSUE REQUIRES AN INTERNATIONAL POLITICAL SOLUTION, THOUGH ITS FRONT LINE POSITION HAS MADE ISLAMABAD CAUTIOUS IN PURSUING THIS POLICY. INDIA ON THE OTHER HAND MAINTAINS THAT THE QUESTION SHOULD BE HANDLED BY POLITICAL NEGOTIATIONS AMONG THE CONCERNED PARTIES (I.E., IRAN, PAKISTAN AND AFGHANISTAN). THE SMALLER SOUTH ASIAN STATES TEND TO BACK PAKISTAN'S APPROACH, BUT THEIR SENSITIVITY TO INDIA'S VIEWS HAS INDUCED THEM TO ADOPT A LOW-PROFILE ON THE QUESTION.

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7. SOUTHEAST ASIA. THE FOCUS OF ATTENTION IN SOUTHEAST ASIA CONTINUES TO BE THE PROBLEM OF KAMPUCHEA. THE VIETNAMESE INVASION, SUBSEQUENT OCCUPATION BY 200,000 TROOPS, AND SUPPORT OF A PUPPET REGIME (THE PEOPLE'S REPUBLIC OF KAMPUCHEA) IN PHNOM PENH HAS BEEN STRONGLY CONDEMNED BY THE OTHER STATES OF THE REGION -- WITH THE EXCEPTION OF VIETNAM'S ALLY, LAOS -- AND THEY HAVE STEADFASTLY REFUSED TO ACCEPT VIETNAMESE HEGEMONY THERE.

8. THE ASEAN STATES ARE MAINTAINING STRONG POLITICAL COHESION IN THE FACE OF VIETNAMESE PRESSURE AND INCREASING CHINESE AND SOVIET INFLUENCE IN THE REGION. ASEAN'S UNITY RESULTED IN THE OCTOBER UNGA RESOLUTION ON KAMPUCHEA AND IN THEIR CONTINUING EFFORTS TO PRODUCE A SATISFACTORY SOLUTION TO THE KAMPUCHEAN PROBLEM. THE UNGA RESOLUTION CALLED FOR THE CONVENING OF AN INTERNATIONAL CONFERENCE TO ARRANGE FOR THE WITHDRAWAL OF FOREIGN TROOPS AND UNSUPERVISED ELECTIONS IN KAMPUCHEA. THE UNGA ALSO VOTED
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TO SEAT POL POT'S DEMOCRATIC KAMPUCHEA RATHER THAN THE
HENG SAMRIN REGIME IN PHNOM PENH.

9. VIETNAM STILL REFUSES TO AGREE TO AN INTERNATIONAL
CONFERENCE ON KAMPUCHEA, CONTENDING THAT THE SITUATION
THERE IS "IRREVERSIBLE." BUT WITH THE PRK, LAOS, AND THE
SOVIET UNION, HANOI HAS PROPOSED THE HOLDING OF A REGIONAL
CONFERENCE TO SETTLE PROBLEMS OF REGIONAL SECURITY, WITH-
OUT SPECIFICALLY MENTIONING THE KAMPUCHEAN SITUATION.

10. CHINA CONTINUES TO SUPPORT THE ASEAN POSITION AND
APPEARS RESOLVED TO CONTINUE ITS EFFORTS TO PRESSURE THE
VIETNAMESE OUT OF KAMPUCHEA. THE FUTURE DIRECTION OF
CHINESE POLICY ON THIS QUESTION, HOWEVER, REMAINS UN-
CERTAIN.

11. THE RATE OF NEW REFUGEE ARRIVALS AND THE RESIDUAL
POPULATION OF REFUGEE CAMPS IN SOUTHEAST ASIA DIMINISHED
DURING THE PAST SEVERAL MONTHS. THE REFUGEE SITUATION
REMAINS SERIOUS, HOWEVER. SHOULD THERE BE AN INCREASE
OF FIGHTING (NOW ESSENTIALLY DORMANT) IN KAMPUCHEA, A NEW
WAVE OF REFUGEES COULD BE GENERATED, THEREBY FURTHER
THREATENING THE STABILITY OF THE REGION.

12. NORTHEAST ASIA. THE POLITICAL AND ECONOMIC PROSPECTS

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FOR NORTHEAST ASIA, OVER THE MID-TERM AT LEAST, GENERALLY APPEAR TO BE GOOD. THE REGION AS A WHOLE SEEMS DESTINED TO PLAY AN INCREASINGLY IMPORTANT ROLE IN WORLD AFFAIRS DURING THE 1980S.

13. JAPAN HAS ACHIEVED AN IMPRESSIVE LEVEL OF ECONOMIC GROWTH, MATCHED ONLY BY ITS ABILITY TO MASTER -- AND, INDEED, PIONEER -- ADVANCED TECHNOLOGY WITHOUT DOING GREAT DAMAGE TO ITS OWN CULTURAL ROOTS. IN THE MEANTIME, US-JAPANESE RELATIONS WILL CONTINUE TO BE CLOSE. ONE KEY ISSUE JAPAN WILL FACE DURING THE NEXT FEW YEARS IS HOW ITS DESIRE TO PLAY A GREATER INTERNATIONAL ROLE WILL AFFECT ITS FOREIGN POLICY IN POLITICAL AND ECONOMIC TERMS.

14. CHINA'S REFORMERS HAD HOPED TO IMPLEMENT A SERIES OF WIDE-RANGING REFORMS TO MODERNIZE THE NATION. ECONOMIC AND POLITICAL DIFFICULTIES, HOWEVER, HAVE FORCED THEM TO DRAW BACK SOMEWHAT FROM THEIR AMBITIOUS PROGRAM. NEVERTHELESS, THEY HAVE REAFFIRMED THEIR DETERMINATION TO CARRY OUT THE REFORMS ONCE CURRENT OBSTACLES HAVE BEEN OVERCOME.

15. IN TERMS OF ITS EXTERNAL RELATIONS, CHINA CONTINUES TO CULTIVATE CLOSE TIES WITH THE US AND OTHER WESTERN STATES. RELATIONS WITH THE USSR ARE STILL ICY, BUT NEITHER COUNTRY WANTS TO SEE THEM STRAINED FURTHER; OCCASIONAL INCIDENTS ALONG THE HEAVILY-ARMED SINO/SOVIET BORDER WILL PROBABLY BE HANDLED GINGERLY BY BOTH SIDES. CHINA STILL INSISTS THAT TAIWAN BE UNIFIED WITH THE MAINLAND, BUT IT WILL NOT RESORT TO FORCE TO ACHIEVE THIS GOAL. FOR ITS PART, TAIWAN IS STABLE AND PROSPEROUS.

16. TENSIONS PERSIST IN THE KOREAN PENINSULA, BUT NEITHER PYONGYANG NOR SEOUL IS LIKELY TO PICK A FIGHT. PRESIDENT CHUN HAS IMPROVED POLITICAL STABILITY IN THE SOUTH, AND THE PROSPECTS LOOK GOOD THAT HE WILL BE ABLE TO MAINTAIN THIS SITUATION OVER THE SHORT TERM. WHILE SOUTH KOREA DOES FACE SERIOUS ECONOMIC PROBLEMS, CHUN PROBABLY WILL MAKE HEADWAY COPING WITH THEM. NORTH KOREA REMAINS SOMETHING OF AN ENIGMA: RELATIVELY LITTLE IS KNOWN ABOUT POLITICAL AND ECONOMIC DEVELOPMENTS THERE. IT SEEMS FAIRLY CERTAIN, HOWEVER, THAT KIM CHONG-IL WILL FOLLOW HIS FATHER'S HARD LINE WHEN AND IF HE SUCCEEDS HIM.

PART II. PAKISTAN

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17. PAKISTAN HAS CONTINUED ON A QUIESCENT AND RELATIVELY STABLE COURSE OVER THE PAST SIX MONTHS. GENERAL ZIA'S REGIME REMAINS BASICALLY UNPOPULAR, BUT UNCHALLENGED. BOTH GOOD FORTUNE AND ZIA'S POLITICAL ASTUTENESS HAVE COMBINED TO DENY THE MARTIAL LAW REGIME'S OPPONENTS AN ISSUE AROUND WHICH THEY CAN RALLY SUPPORT. THE ECONOMY IS EXPANDING AT RATES UNEQUALED SINCE PRESIDENT AYUB'S "GOLDEN DECADE" IN THE 1960S AND PAKISTANIS IN GENERAL APPEAR LOATH TO UPSET THE APPLE CART NOW.

18. GENERAL ZIA HAS MANAGED TO REMAIN ATOP THE COUNTRY'S INTERNAL POLITICAL SCENE. HIS OPPORTUNITIES TO APPEAR AS A STATESMAN ON THE WORLD STAGE HAVE ENHANCED HIS IMAGE IN PAKISTAN WITHOUT, HOWEVER, CONTRIBUTING TO HIS POPULARITY. HIS ACTIONS HAVE BEEN CHARACTERISTICALLY INCONSISTENT AND UNPREDICTABLE, THEREBY KEEPING HIS OPPOSITION OFF BALANCE. FOR EXAMPLE, HE SINGLEMINDEDLY PURSUED NEGOTIATIONS TO CREATE A POLITICAL CABINET WITH SEVERAL SENIOR POLITICIANS PRIOR TO HIS DEPARTURE FOR THE US AND EUROPE, AND SEEMED TO BE NEARING SUCCESS. YET THE TALKS WERE SUSPENDED AND NEVER RESUMED FOLLOWING HIS RETURN. IN FACT, ZIA ADOPTED A HARDER LINE TOWARDS THE POLITICIANS ONCE HE GOT BACK.
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19. ONE ASPECT OF HIS NEW HARD LINE WAS HIS DECLARATION THAT ELECTIONS IN THE NEAR FUTURE, REPORTEDLY A KEY CONCESSION DEMANDED OF ZIA BY ALL OF HIS POLITICAL INTERLOCUTORS, WOULD BE "SUICIDAL." INSTEAD, ZIA HAS ONCE AGAIN RAISED THE POSSIBILITY OF TURNING TO NON-POLITICAL SOLUTIONS FOR DEALING WITH THE REGIME'S UNREPRESENTATIVE NATURE. HE HAS RECENTLY HINTED THAT A PROPOSED FEDERAL ADVISORY COUNCIL, FIRST BROACHED LAST YEAR, MIGHT BE CONSTITUTED BEFORE THE END OF FEBRUARY. THE COUNCIL ZIA ENVISIONS WOULD CONSIST OF ABOUT 250-300 MEMBERS AND WOULD INCLUDE ONE REPRESENTATIVE FROM EACH OF THE NATIONAL ASSEMBLY CONSTITUENCIES AS WELL AS REPRESENTATIVES FOR WOMEN, MINORITIES, AND PROFESSIONAL SOCIETIES. ZIA HAS ALSO ONCE AGAIN RAISED THE POSSIBILITY OF HOLDING A NATIONAL REFERENDUM ON PAKISTAN'S ISLAMIZATION. ZIA SAID THE PROPOSED REFERENDUM WOULD ALLOW THE PEOPLE TO GIVE THEIR OPINION ON WHETHER THEY WANT AN ISLAMIC OR

SECULAR PAKISTAN, BUT THE PROPOSAL HAS RAISED SUSPICIONS THAT ZIA WOULD USE A VOTE IN FAVOR OF AN ISLAMIC STATE TO CLAIM SOME SORT OF MANDATE FOR HIS OWN ADMINISTRATION. CRITICS OF THE PROPOSAL OBSERVE THAT PAKISTAN IS ALREADY AN ISLAMIC REPUBLIC AND THEREFORE NO FURTHER VOTE ON THE ISSUE IS NECESSARY.

20. POLITICIANS HAVE NOT BEEN ENTIRELY SUPINE IN THE

FACE OF ZIA'S ACTIVITIES. LONGSTANDING EFFORTS TO BRING THE PAKISTAN PEOPLES PARTY (PPP) INTO SOME FORM OF COALITION WITH THE OTHER POLITICAL PARTIES SEEMS TO HAVE FINALLY BORNE SOME FRUIT. MRS. BHUTTO HAS APPARENTLY DROPPED HER DEMAND THAT THE OTHER PARTIES APOLOGIZE FOR THE ROLE THEY PLAYED IN BRINGING DOWN HER LATE HUSBAND'S GOVERNMENT BEFORE SHE WOULD AGREE TO JOIN ANY ANTI-ZIA COALITION. THE PPP HAS REPORTEDLY BEEN REPRESENTED AT RECENT MEETINGS CALLED TO DISCUSS A DRAFT DECLARATION CHALLENGING THE MARTIAL LAW REGIME. THE LATEST PROPOSAL REPORTEDLY DEMANDS ZIA'S RESIGNATION, THE WITHDRAWAL OF MARTIAL LAW, THE NAMING OF AN INTERIM GOVERNMENT, AND ELECTIONS WITHIN THREE MONTHS.

21. -HERE IS SOME EVIDENCE THAT OPPOSITION POLITICIANS BELIEVE THAT ZIA CAN BE BROUGHT DOWN IN 1981. BUT THE POLITICIANS THEMSELVES REMAIN DISUNITED, MUTUALLY SUSPICIOUS, ANTAGONISTIC, AND CONTINUALLY EMBARRASSED BY THEIR WILLINGNESS TO ABANDON THEIR "PRINCIPLED OPPOSITION" TO THE ZIA REGIME WHENEVER THE OPPORTUNITY TO JOIN THAT REGIME IS PRESENTED. IN FACT, THE POLITICIANS THEMSELVES ARE SCARCELY MORE POPULAR THAN ZIA AND THIS REMAINS ONE OF THE REGIME'S STRONGEST ASSETS. BARRING THE DEVELOPMENT OF AN ISSUE WHICH WILL PROVOKE THE GENERAL POPULATION TO DEMAND ZIA'S OUSTER, IT IS UNLIKELY THAT THE POLITICIANS WILL BE ABLE SERIOUSLY TO ENDANGER HIS SURVIVAL.

22. PAKISTAN'S RELATIONS WITH ITS CLOSEST NEIGHBORS, ALWAYS THE PRINCIPAL MOTIVATING FORCE IN PAKISTANI FOREIGN POLICY, PROVIDED A FEW ROUGH MOMENTS IN RECENT MONTHS. PAKISTAN CONTINUED TO DEVOTE MOST OF ITS ATTENTION TO THE AFGHAN CRISIS. THE PAKISTANIS HAVE ADOPTED A TWO-PRONGED APPROACH TO DEALING WITH THE ISSUE BY SEEKING TO MAINTAIN PRESSURE ON THE SOVIETS WHILE, AT THE SAME TIME, NOT BACKING THEM INTO A CORNER. ON THE ONE HAND, MAJOR EFFORTS WERE DEVOTED

TO GUIDING AFGHAN RESOLUTIONS THROUGH THE UN GENERAL ASSEMBLY IN NOVEMBER, AND, MORE RECENTLY, THE ISLAMIC CONFERENCE SUMMIT MEETING IN SAUDI ARABIA. ON BOTH OCCASIONS, PAKISTANI EFFORTS HAVE MET WITH SUCCESS. AT THE SAME TIME, THE PAKISTANIS HAVE LED THE FIGHT TO INTRODUCE INTO THE VARIOUS AFGHAN DEBATES AND RESOLUTIONS A NOTE OF FLEXIBILITY IN THE HOPE OF BRINGING THE SOVIETS AND AFGHANS TO THE NEGOTIATING TABLE AND

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THEREBY REDUCING SOVIET PRESSURE ON PAKISTAN.

23. THIS PAKISTANI APPROACH APPEARED TO BE GAINING SUCCESS EARLY THIS YEAR WHEN THE SOVIETS AND AFGHANS IMPLIED THAT THEY, TOO, WERE MODERATING THEIR POSITION ON NEGOTIATIONS. AFTER PREVIOUSLY REJECTING ANY BASIS FOR TALKS OTHER THAN THE UNACCEPTABLE AFGHAN MAY 14 PROPOSALS AND RESISTING THE APPOINTMENT OF A UN SPECIAL REPRESENTATIVE, THE SOVIETS WERE SAID TO HAVE ACCEPTED THE IDEA OF NEGOTIATIONS AMONG THE PAKISTANIS, IRANIANS, AND AFGHAN RULING PARTY WITH THE PARTICIPATION OF A UN SPECIAL REPRESENTATIVE ON AFGHANISTAN AS CALLED FOR IN THE UNGA NOVEMBER 20 RESOLUTION. AT THIS TIME, IT IS UNCERTAIN WHETHER THESE TALKS UNDER UN AUSPICES WILL BE HELD.

24. PAKISTAN'S RELATIONS WITH INDIA PROVIDED THE SECOND PROBLEM FOR THE PAKISTANIS. BEGINNING WITH LAST FALL'S HYSTERICAL MEDIA COVERAGE OF THE COMMUNAL RIOTS
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IN INDIA AND THE PAKISTANI REACTION TO THOSE RIOTS,
AND CULMINATING IN THE TALK OF WAR SURROUNDING THE
BREZHNEV VISIT TO NEW DELHI IN DECEMBER, ANXIETIES ABOUT
EACH OTHER'S INTENTIONS WERE RAISED TO A FEVER PITCH.
THE INDIANS ACCUSED PAKISTAN OF VIOLATING THE SIMLA
AGREEMENT AND INTERFERING IN INDIA'S INTERNAL
AFFAIRS, WHILE THE PAKISTANIS ACCUSED INDIA OF LOOKING
FOR AN EXCUSE TO ATTACK PAKISTAN AND OF PRESSURING
PAKISTAN IN ORDER TO PLEASE THE SOVIETS. BOTH SIDES
NOW APPEAR TO RECOGNIZE THAT THEIR FEARS AND ACCUSA-
TIONS WERE EXAGGERATED. A RECENT EXCHANGE OF LETTERS
BETWEEN PRESIDENT ZIA AND PRIME MINISTER GANDHI
REITERATING THEIR COMMITMENT TO THE SIMLA PROCESS
AND TO BUILDING BILATERAL RELATIONS SEEMS TO HAVE
COOLED OFF THE ATMOSPHERE SOMEWHAT AND MAY PRESAGE THE
RETURN TO A LESS CHARGED POLITICAL ATMOSPHERE.

25. FINALLY, THIS PERIOD OF TENSION IN PAKISTAN'S
RELATIONS WITH NEARBY POWERS, AS WELL AS A SENSE OF
DISAPPOINTMENT IN BOTH THE NON-ALIGNED MOVEMENT
AND THE ISLAMIC STATES, AND THE ELECTION OF PRESIDENT
REAGAN, HAVE BROUGHT ABOUT A PERIOD OF REEVALUATION
OF RELATIONS WITH THE US. ONE SIGN OF THE REEXAMINATION
WAS THE DEBATE WHICH CROPPED UP LATE IN THE YEAR IN
TWO OF PAKISTAN'S LEADING ENGLISH-LANGUAGE NEWSPAPERS.
A LATE NOVEMBER ARTICLE IN THE GOVERNMENT-CONTROLLED
PAKISTAN TIMES ARGUING FOR IMPROVED RELATIONS WITH THE
US BASED ON A REALISTIC APPRAISAL OF THE NATIONAL

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INTEREST. THE ARTICLE ARGUED THAT THE "ONLY POWER WHICH IS EQUIPPED TO MEET THE SOVIET UNION ON AN EQUAL FOOTING IS THE US," WHICH CURRENTLY SHARES WITH PAKISTAN A "NATURAL COMMUNITY OF INTERESTS." A "RESPONSE" APPEARED IN A SECOND NEWSPAPER SHORTLY AFTERWARD POINTING OUT THAT SUCH A RETURN TO CLOSE RELATIONS WITH THE US WOULD INCUR A SIGNIFICANT POLITICAL COST ON PAKISTAN, THAT THE US AND PAKISTAN CONTINUE TO HOLD DIFFERING PERCEPTIONS ON A NUMBER OF KEY ISSUES AND ARGUING THAT PAKISTANI "EUPHORIA" OVER PRESIDENT REAGAN'S ELECTION NEEDS TO BE TEMPERED BY "REALISM" AND "MATURITY."

PART III. AFGHANISTAN

26. ALTHOUGH SOVIET FORCES HAVE BEEN ENGAGED IN ACTIVE COMBAT ALMOST CONTINUOUSLY SINCE LAST FALL, THE MILITARY SITUATION IN AFGHANISTAN REMAINS A STALEMATE. THE BABRAK GOVERNMENT, UNDER SOVIET SUPERVISION, IS REDOUBLING ITS EFFORTS TO BROADEN ITS POLITICAL BASE BY PUSHING THE ESTABLISHMENT OF A NATIONAL FATHERLAND FRONT. THERE IS NO SIGN, HOWEVER, THAT THE REGIME IS ATTRACTING SUPPORT AND INDEED, BABRAK'S OWN SPEECHES INDICATE INCREASING DISARRAY WITHIN PARTY AND GOVERNMENT RANKS. FURTHERMORE, THE RESISTANCE GUERRILLA FIGHTERS HAVE NOT ONLY REMAINED ON THE OFFENSIVE, BUT APPEAR TO HAVE BECOME EVEN MORE AGGRESSIVE IN SOME AREAS IN RECENT WEEKS. EVEN KABUL, WHICH HAS BEEN RELATIVELY STABLE DUE TO THE OVERWHELMING SOVIET MILITARY PRESENCE, IS CURRENTLY EXPERIENCING AN UPSURGE OF VIOLENCE, PERHAPS BECAUSE WINTER IS THE TRADITIONAL FIGHTING SEASON FOR AFGHAN TRIBESMEN. IN THE INTERNATIONAL ARENA, THERE HAVE BEEN SOME HINTS OF SOVIET FLEXIBILITY WITH REGARD TO NEGOTIATIONS, BUT NO CONVINCING SIGNS THAT THEY ARE READY TO ABANDON BABRAK KARMAL OR WITHDRAW THEIR TROOPS FROM AFGHANISTAN.

27. SOVIET MILITARY: THE SOVIET MILITARY FORCE LEVEL AND STRUCTURE REMAINED ESSENTIALLY UNCHANGED DURING THE PAST SIX MONTHS. SOVIET OPERATIONS HAVE FEATURED THE USE OF HELICOPTER GUNSHIPS, AIRBORNE COMMANDO TROOPS AND GUERRILLA-TYPE TACTICS INCLUDING AMBUSHES. MINING OPERATIONS HAVE BEEN EXTENSIVE BOTH ALONG THE BORDERS TO PREVENT CROSS-BORDER MOVEMENT AND AT POTENTIAL RESISTANCE AMBUSH SITES. SOVIET FORCES HAVE OPERATED IN EVERY PROVINCE OF AFGHANISTAN

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BUT HAVE CONCENTRATED PARTICULARLY ON RESISTANCE STRONGHOLDS WHICH PROVIDE ACCESS TO KABUL OR THREATEN THE LIFE-LINE MAIN ROAD TO KABUL FROM THE SOVIET BORDER; THE PAKISTANI AND IRANIAN BORDER REGIONS; AND THE OUTLYING AREAS OF HERAT CITY.

28. IN NO AREA DO THE SOVIETS APPEAR TO HAVE QUELLED THE INSURGENCY, ALTHOUGH THEY POINT TO THE BREAK-UP OF LARGE INSURGENT BANDS IN THE EASTERN PROVINCES AS A SIGN OF PROGRESS, IN FACT THE RESULTING MORE NUMEROUS SMALLER UNITS ARE FAR MORE EFFECTIVE IN GUERRILLA WARFARE. THE SOVIETS' REPEATEDLY UNSUCCESSFUL ATTEMPTS TO TAKE THE PANJSHIR VALLEY NORTH OF

KABUL ARE A MEASURE OF THE DIFFICULTIES INVOLVED IN TRYING TO ERADICATE TOUGH, ELUSIVE AND DETERMINED MUJAHIDIN WARRIORS IN PROTECTED MOUNTAINOUS TERRAIN.

29. THERE ARE NO INDICATIONS THAT THE SOVIETS
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PLAN EITHER TO EXPAND THEIR FORCE IN AFGHANISTAN OR TO WITHDRAW IT. CONSTRUCTION OF PERMANENT MILITARY FACILITIES CONTINUES. RECENT REPORTS OF A JANUARY 18 AGREEMENT THAT AFGHAN TROOPS WILL TAKE OVER ALL ANTI-INSURGENT FIGHTING HAVE NOT BEEN CONFIRMED OR CLARIFIED, BUT WOULD TALLY WITH CURRENT EFFORTS TO PORTRAY AN IMAGE OF INCREASING NORMALCY.

30. MILITARY-AFGHAN: THE AFGHAN MILITARY CONTINUES TO BE PLAGUED BY AN ACUTE MANPOWER SHORTAGE WHICH REFLECTS THE ALMOST TOTAL OPPOSITION OF THE AFGHAN PEOPLE TO THE REGIME. DRACONIAN CONSCRIPTION METHODS HAVE FAILED TO PRODUCE SUFFICIENT RECRUITS.

31. THE DEMORALIZATION CAUSED BY THE SOVIET TAKE-OVER EXTENDS INTO THE HIGHEST RANKS OF THE MILITARY ESTABLISHMENT. AFGHAN FORCES MAY HOLD OUT AN OLIVE BRANCH TO THE WARRING TRIBESMEN BUT THE LATTER ARE UNLIKELY TO AGREE TO A TRUCE AND MAY BE ENCOURAGED BY SUCH A SIGN OF WEAKNESS TO PRESS ON WITH EVEN GREATER DETERMINATION.

32. THE RESISTANCE: RESISTANCE BANDS, ORGANIZED ALONG TRIBAL LINES, HAVE CONTINUED TO MULTIPLY AND APPEAR TO BE REASONABLY WELL EQUIPPED, ALTHOUGH REPORTEDLY THERE IS A LARGE RESERVOIR OF POTENTIAL

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FIGHTERS WHO LACK ARMS. RESISTANCE FORCES HAVE REMAINED ON THE OFFENSIVE DURING THE LAST SIX MONTHS ATTACKING SOVIET MILITARY UNITS, SUPPLY CONVOYS, COMMUNICATIONS LINES, FUEL SUPPLIES, ECONOMIC TARGETS, GOVERNMENT INSTALLATIONS, AND PARTY PERSONNEL. ALTHOUGH WINTER SNOWS HAVE BROUGHT A LULL IN SOME MOUNTAINOUS AREAS, IN OTHER REGIONS THERE APPEARS TO HAVE BEEN A RECENT UPSURGE OF ACTIVITY.

33. THE VITALITY OF THE RESISTANCE MOVEMENT INSIDE AFGHANISTAN HAS NOT, HOWEVER, LED TO ANY IMPROVED COOPERATION AMONG THE EXILE ORGANIZATIONS BASED IN PAKISTAN. IN SPITE OF THEIR DIFFERENCES, HOWEVER, THESE EXILE GROUPS DO PLAY AN IMPORTANT SUPPORT ROLE FOR CLIENT BANDS OPERATING INSIDE AFGHANISTAN.

34. POLITICAL LEADERSHIP: AT THE UPPER LEVELS OF THE PEOPLE'S DEMOCRATIC PARTY FOR AFGHANISIAN (PDPA), THE UNEASY TRUCE BETWEEN THE RIVAL KHALQ AND PARCHAM FACTIONS APPEARS TO BE HOLDING, CLEARLY BECAUSE OF SOVIET PRESSURE TO MAINTAIN AT LEAST A SEMBLANCE OF PARTY UNITY. ALL HIGH LEVEL KHALQIS REMAIN IN PLACE. AT THE LOWER LEVELS OF THE PARTY, HOWEVER, THERE ARE STILL PERIODIC REPORTS OF VIOLENT CLASHES.

35. GOVERNMENT OPERATIONS: THE PARALYSIS IN THE GOVERNMENT CAUSED BY INTRA-PARTY FEUDING AND OPPOSITION TO THE SOVIET OCCUPATION HAS BEEN A MAJOR CAUSE OF CONCERN TO THE SOVIETS AND THE BABRAK REGIME. DURING THE PAST SIX MONTHS, BABRAK HAS MADE TWO IMPORTANT SPEECHES STRONGLY CRITICIZING THE LACK OF EFFECTIVE GOVERNMENT AND CALLING FOR A FUNDAMENTAL CHANGE IN ATTITUDES.

36. THE NUMBER ONE PRIORITY OF THE GOVERNMENT CONTINUES TO BE TO BROADEN ITS BASE OF SUPPORT AND TO LEGITIMIZE THE LEADERSHIP OF BABRAK. THE LATEST FOCUS OF THIS EFFORT IS THE NATIONAL FATHERLAND FRONT, WHICH WAS LAUNCHED AT A LARGE CONVENTION IN KABUL ON DECEMBER 26 AND 27. THE REGIME IS TRYING TO CREATE THE IMPRESSION THAT THE FRONT WILL BE AN ELECTED ASSEMBLY AND WILL, IN FACT, CONSTITUTE A LOYA JIRGA I.E., THE TRADITIONAL AFGHAN ASSEMBLY OF TRIBAL LEADERS. ALTHOUGH THERE IS NO INDICATION OF

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POPULAR SUPPORT FOR THIS MOVE, THE BABRAK GOVERNMENT AND THE SOVIETS ARE POINTING TO THE CREATION OF THE FRONT AS PROOF OF A STABILIZING SITUATION IN AFGHANISTAN.

37. THE ECONOMY: THE AFGHAN ECONOMY CONTINUES TO DETERIORATE DUE TO THE COUNTRY-WIDE DISLOCATION CAUSED BY THE WAR. UNEMPLOYMENT IS HIGH, CAPITAL INVESTMENT HAS VIRTUALLY CEASED, AND FACTORIES HAVE SHUT DOWN. ECONOMIC ENTERPRISES AND RESOURCES ARE A PRIME TARGET OF THE MUJAHIDIN. REPORTING ON THE AGRICULTURAL SECTOR HAS BEEN MIXED. THERE APPEARS TO HAVE BEEN A GOOD FALL HARVEST IN MOST OF THE COUNTRY. THE SOVIETS HAVE KEPT THE MAJOR CITIES SUPPLIED WITH FOOD AS A DELIBERATE POLICY TO FORESTALL URBAN UPRISINGS. THE AFGHAN ECONOMY HAS BECOME INCREASINGLY TIED TO THE SOVIET ECONOMY AND AS THE NEED TO IMPORT MORE FOOD AND OTHER BASIC COMMODITIES INCREASES, AFGHANISTAN WILL BECOME INCREASINGLY DEPENDENT ON SOVIET SUBSIDIES. THE SOVIETS ARE CLEARLY CONCERNED ABOUT THIS DRAIN ON THEIR RESOURCES, AND A MAJOR THEME OF BABRAK KARMAL'S SPEECHES, FOLLOWING HIS OCTOBER TRIP TO MOSCOW, WAS THE OVER-RIDING NEED TO GET THE ECONOMY

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38. FOREIGN RELATIONS: RELATIONS WITH NEIGHBORING PAKISTAN AND IRAN REMAIN POOR AS BOTH COUNTRIES CONTINUE TO GIVE SAFE HAVENLAND VARYING DEGREES OF SUPPORT TO THE AFGHAN RESISTANCE FIGHTERS. ON NOVEMBER 20, THE UNITED NATIONS GENERAL ASSEMBLY ONCE MORE CALLED FOR THE WITHDRAWAL OF SOVIET TROOPS, THIS TIME BY AN INCREASED MARGIN OF 111-22. THE ISLAMIC CONFERENCE SUMMIT MEETING HAS RECENTLY AGAIN NAMED THE SOVIETS AS AN AGGRESSOR IN AFGHANISTAN.

39. THE SOVIETS HAVE SHOWN SOME FLEXIBILITY IN RECENT WEEKS, ALTHOUGH WITH CONSIDERABLE BACKING AND FILLING. THEY PROBABLY BELIEVE THAT THE EVENTUAL APPOINTMENT OF A SPECIAL UN REPRESENTATIVE IS INEVITABLE AND ARE TRYING TO LIMIT THE DAMAGE BY: OFFERING THE BARE MINIMUM NECESSARY TO APPEAR COOPERATIVE; PLACING IT IN THE CONTEXT OF THE MAY 14 PROPOSALS; AND IN THE PROCESS TRYING TO DRAW THE PAKISTANIS INTO BILATERAL TALKS WITH BABRAK KARMAL. THE PAKISTANIS, FEELING INTERNATIONALLY ISOLATED AND CONCERNED ABOUT THE GROWING REFUGEE POPULATION, WHICH HAS NOW REACHED ALMOST ONE AND A HALF MILLION, ARE VULNERABLE TO THE CURRENT SOVIET CARROT AND STICK APPROACH.

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PART IV. INDIA

40. MRS. GANDHI CAME TO POWER IN EARLY 1980 PLEDGED TO RESTORE "A GOVERNMENT THAT WORKS," BUT SHE HAS OFFERED NO NEW DIRECTIONS TO THE COUNTRY. LITTLE HAS BEEN DONE TO TACKLE SUCH FUNDAMENTAL PROBLEMS AS INFLATION, INEFFICIENT PUBLIC ADMINISTRATION, A SLUGGISH ECONOMY AND ETHNIC UNREST. GANDHI HAS ONCE AGAIN DEMONSTRATED THAT SHE IS RELUCTANT TO STRIKE OUT ON NEW POLICY PATHS UNLESS CONFRONTED BY AN IMMEDIATE AND THREATENING CHALLENGE TO HER POLITICAL AUTHORITY.

41. GANDHI, WHO SEEMED TO LOSE INTEREST IN PUBLIC AFFAIRS FOLLOWING THE DEATH OF HER SON SANJAY IN MID-1980, BEGAN TO REASSERT HERSELF IN OCTOBER. SHE RESHUFFLED THE CABINET, VISITED TROUBLED AREAS, GRANTED PRESS INTERVIEWS AND SPOKE OUT ON NATIONAL PROBLEMS. THIS RENEWED ACTIVISM, HOWEVER, HAS BEEN GEARED MORE TO DISPELLING THE IMPRESSION OF DRIFT THAN TO TONING UP THE EFFECTIVENESS OF HER GOVERNMENT.

42. DESPITE WIDESPREAD DISCONTENT OVER THE STATE OF AFFAIRS, GANDHI'S POLITICAL POSITION REMAINS STRONG. HER CONGRESS (I) PARTY HAS AN OVERWHELMING MAJORITY IN PARLIAMENT AND IN MOST STATE ASSEMBLIES. THE OPPOSITION IS DIVIDED. NO OTHER POLITICAL FIGURE POSSESSES GANDHI'S NATIONAL STATURE, AND POLLS INDICATE THAT SHE IS STILL POPULAR.

43. LAW-AND-ORDER ISSUES HAVE RECEIVED MRS. GANDHI'S GREATEST ATTENTION, PARTICULARLY THE "ANTI-FOREIGN" AGITATION IN THE NORTHEASTERN STATE OF ASSAM. SOON AFTER ASSUMING OFFICE, SHE INITIATED TALKS WITH THE LEADERS OF THE ASSAMESE AGITATION OVER THE QUESTION OF DEFINING WHO IS A FOREIGNER. THE ASSAMESE, CONCERNED THAT THE MILLIONS OF MIGRANT BANGLADESHIS WILL THREATEN THEIR CULTURAL AND ECONOMIC POSITION, DEMAND THAT ALL "FOREIGNERS" ENTERING ASSAM AFTER 1951 BE DISENFRANCHISED AND DEPORTED. GANDHI HAS REJECTED THIS PROPOSAL BECAUSE THE NUMBERS INVOLVED ARE TOO LARGE, OTHER STATES WOULD NOT ACCEPT THEM, AND THE ADMINISTRATIVE PROBLEMS OF RESETTLING THEM WOULD BE STAGGERING. SHE HAS SUGGESTED,

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HOWEVER, THAT 1971 BE USED AS A CUTOFF DATE. GANDHI HAS HANDLED THE SITUATION WITH CONSIDERABLE RESTRAINT, DESPITE THE FACT THAT THE AGITATORS HAVE BLOCKED THE MOVEMENT OF SUCH MAJOR RESOURCES AS OIL, TEA AND TIMBER FROM THE STATE.

44. IN ADDITION, ETHNIC UNREST IN THE OTHER FIVE STATES AND UNION TERRITORIES OF INDIA'S NORTHEAST WORRIES THE CENTRAL GOVERNMENT. INDIGENOUS TRIBAL PEOPLES HAVE TURNED AGAINST OUTSIDE MIGRANTS IN SEVERAL AREAS. IN STILL OTHER PLACES, VARIOUS NATIVIST RESISTANCE MOVEMENTS, SOME EXPLICITLY SECESSIONISTS HAVE DEVELOPED. NONE OF THESE ARMED MOVEMENTS, POSE A SERIOUS THREAT TO THE CENTRAL GOVERNMENT, LARGELY BECAUSE THE INDIAN MILITARY MAINTAINS A STRONG PRESENCE IN THE REGION AND BECAUSE THE VARIOUS INDIGENOUS GROUPS HAVE SO LITTLE IN COMMON.

45. GANDHI FACES A RANGE OF STILL OTHER LAW-AND-ORDER PROBLEMS. HINDU-MUSLIM COMMUNAL TENSION, WHICH ERUPTED IN A WAVE OF RIOTS IN MID-1980, COULD AGAIN FLARE UP SINCE THE ECONOMICALLY DEPRESSED
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 MUSLIM COMMUNITY HAS BECOME INCREASINGLY ASSERTIVE
 IN DEMANDING GOVERNMENT ASSISTANCE. SIMILAR
 ASSERTIVENESS CAN BE SEEN ON THE PART OF LOW-CASTE
 HINDUS, AND THIS HAS PRODUCED CONSIDERABLE TURMOIL
 IN RURAL INDIA. SMALL-SCALE FARMERS IN MAHARASHTRA
 AND TAMILNADU, DEMANDING LOWER IRRIGATION AND
 ELECTRICAL RATES AS WELL AS HIGHER COMMODITY PRICES,
 HAVE ORGANIZED DEMONSTRATIONS AGAINST THE GOVERNMENT.
 THEIR ACTIVITIES HAVE BECOME A MODEL FOR FARMERS
 ELSEWHERE AND THE AGITATION IS BEGINNING TO SPREAD
 TO OTHER INDIAN STATES. FINALLY, LABOR STRIKES
 REMAIN ENDEMIC. GANDHI RESPONDED TO THE MOUNTING
 SOCIAL UNREST BY PUSHING THROUGH PARLIAMENT A
 NATIONAL SECURITY ACT THAT GIVES THE GOVERNMENT THE
 POWER OF PREVENTIVE DETENTION.

46. THESE PROBLEMS UNDERSCORE THE INCREASED
 WILLINGNESS OF SOCIAL GROUPS TO USE VIOLENCE TO PRESS
 THEIR DEMANDS. THIS DEVELOPMENT CAN BE TRACED
 TO THE DETERIORATION OF INDIA'S PARTY SYSTEM, WHICH
 NO LONGER EFFECTIVELY ARTICULATES GRIEVANCES. OTHER
 CONTRIBUTING FACTORS ARE THE ENHANCED POLITICIZATION
 OF THOSE AT THE BOTTOM OF THE SOCIO-ECONOMIC
 HIERARCHY, CONTINUING INFLATION AND HIGH RATES OF
 UNEMPLOYMENT, AND A SLUGGISH ECONOMY. GANDHI'S
 DOMESTIC PROBLEMS HAVE BEEN FURTHER EXACERBATED
 BY THE LACKLUSTER PERFORMANCE OF HER CABINET AND
 CONGRESS (I) STATE GOVERNMENTS.

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47. IN FOREIGN POLICY, GANDHI'S RECORD IS MIXED. SHE HAS BEEN LESS ACCOMMODATING WITH INDIA'S SOUTH ASIAN NEIGHBORS THAN WERE HER JANATA PREDECESSORS. BELLICOSE STATEMENTS EMANATING FROM NEW DELHI HAVE CREATED CONCERN AMONG THE PAKISTANIS, NEPALIS, BANGLADESHIS AND SRI LANKANS ABOUT MRS. GANDHI'S INTENTIONS. RAPPROCHEMENT WITH CHINA STALLED IN THE WAKE OF NEW DELHI'S RECOGNITION OF THE HENG SAMRIN REGIME IN KAMPUCHEA. GANDHI'S RELUCTANCE TO TAKE STEPS THAT MIGHT JEOPARDIZE SOVIET MILITARY, ECONOMIC AND STRATEGIC SUPPORT HAS RESULTED IN AN IMPROVEMENT IN THE ALREADY GOOD INDO-SOVIET TIES. THE PROJECTION OF US POWER IN ASIA HAS AROUSED APPREHENSIONS IN NEW DELHI THAT WASHINGTON MIGHT ACT IN WAYS DETRIMENTAL TO INDIA'S SECURITY. INDIA'S POLICY TOWARDS THE TWO SUPERPOWERS, HOWEVER, CONTINUES TO BE GUIDED BY THE PRINCIPLE THAT DIPLOMATIC FLEXIBILITY DEPENDS ON AMICABLE RELATIONS WITH BOTH.

48. THE FOCUS OF INDIAN FOREIGN POLICY IS SOUTH ASIA. NEW DELHI IS WORRIED THAT THE AFGHANISTAN ISSUE WILL RESULT IN SUPERPOWER CONFRONTATION IN THE REGION. WHILE GANDHIS REPEATEDLY CALLED FOR THE WITHDRAWAL OF FOREIGN TROOPS FROM AFGHANISTAN, SHE IS EQUALLY ADAMANT THAT A CONFRONTATIONAL APPROACH TO THE ISSUE WILL ONLY DELAY THE DEPARTURE OF SOVIET TROOPS. GANDHI SUPPORTS A POLITICAL SETTLEMENT BETWEEN THE REGIME OF BABRAK KARMAL AND AFGHANISTAN'S SOUTHERN NEIGHBORS OF PAKISTAN AND IRAN. HENCE, NEW DELHI HOPES THAT PAKISTANI FOREIGN MINISTER AGHA SHAHI'S RECENT EFFORTS TO INITIATE POLITICAL TALKS WITH KARMAL WILL SUCCEED.

49. INDO-PAKISTANI RELATIONS HAVE AGAIN BEGUN TO SHOW SOME SIGNS OF IMPROVEMENT AFTER SEVERAL MONTHS OF ACRIMONIOUS CHARGES BY BOTH SIDES. EACH BELIEVES THAT THE ARMS PURCHASED BY THE OTHER WILL BE USED AGAINST IT. GANDHI FOR HER PART BELIEVES THAT ARMS TO PAKISTAN WILL MAKE PRESIDENT ZIA LESS WILLING TO RESOLVE BILATERAL AND DOMESTIC PROBLEMS. PAKISTANI STATEMENTS IN INTERNATIONAL FORUMS REGARDING COMMUNAL TENSION IN INDIA AND THE STATUS OF THE DISPUTED STATE OF KASHMIR ARE VIEWED IN NEW DELHI AS VIOLATIONS OF THE 1972 SIMLA AGREEMENT IN WHICH THE TWO SIDES AGREED TO SETTLE PROBLEMS ON A BILATERAL BASIS. PAKISTAN FOR ITS PART IS APPREHENSIVE THAT INDIA AND THE USSR MAY WORK TOGETHER TO UNDERMINE PAKISTANI SECURITY. IN EARLY 1981, GANDHI WROTE A

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LETTER TO PRESIDENT ZIA THAT WAS APPARENTLY INTENDED TO REDUCE PAKISTANI WORRIES ABOUT INDIA'S INTENTIONS. IN THAT LETTER, SHE POINTED OUT THAT HER GOVERNMENT SUPPORTED PAKISTAN'S INTEGRITY, SOVEREIGNTY AND

NATIONAL UNITY.

50. THE MOMENTUM BEHIND SINO-INDIAN RAPPROCHEMENT, STALLED SINCE INDIA'S RECOGNITION OF HENG SAMRIN, MAY BE PICKING UP AGAIN. GANDHI TOLD PRESIDENT BREZHNEV DURING HIS DECEMBER VISIT TO INDIA THAT NEW DELHI INTENDED TO IMPROVE RELATIONS WITH BEIJING. CHINA FOR ITS PART GAVE GANDHI HIGH MARKS FOR HER HANDLING OF BREZHNEV'S VARIOUS PROPOSALS. HOWEVER, NO REAL FORWARD MOVEMENT CAN TAKE PLACE UNTIL THE TWO SIDES RESUME HIGH LEVEL TALKS BETWEEN THEIR FOREIGN MINISTERS. THE CHINESE ARE APPARENTLY NOT PREPARED TO ACT ON THIS QUESTION UNTIL AFTER THEY CAN ASSESS INDIA'S PERFORMANCE AT THE FEBRUARY 9 - 12 NONALIGNED MEETING IN NEW DELHI. THE CHINESE ARE PROBABLY PLEASED BY INDIA'S EFFORTS TO SET
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 A BALANCED TONE AT THE NONALIGNED MEETING.

51. INDIA REMAINS EXTREMELY IMPORTANT TO THE USSR, AND THE SOVIETS CONTINUE TO USE ECONOMIC AND MILITARY ASSISTANCE TO MAINTAIN GOOD INDO-SOVIET RELATIONS. PRESIDENT BREZHNEV DURING HIS RECENT VISIT TO INDIA PROMISED SUBSTANTIALLY MORE OIL TO INDIA (TO HELP REDUCE THE SHORTFALLS CREATED BY THE IRAN-IRAQ WAR) AS WELL AS NEW ECONOMIC CREDIT FOR HEAVY INDUSTRY. THE SOVIETS EARLIER HAD AGREED TO SUPPLY THE INDIANS \$1.6 BILLION WORTH OF MILITARY EQUIPMENT, WHICH IS ESTIMATED BY SOME OBSERVERS TO BE WORTH APPROXIMATELY FOUR TO FIVE TIMES THAT AMOUNT. INDIRA GANDHI FOR HER PART HAS REPEATEDLY NOTED THAT THE GOVERNMENT OF INDIA CAN RELY ON SOVIET HELP. TO ENSURE THE CONTINUATION OF SUCH ASSISTANCE, SHE REFUSES TO CONDEMN PUBLICLY THE SOVIETS FOR THE INVASION OF AFGHANISTAN AND IS CAREFUL TO BALANCE ANY CRITICISM OF THE SOVIET UNION WITH CRITICISM OF THE WEST.

PART V. SOUTHEAST ASIA

52. ASEAN. THE ASEAN STATES DEMONSTRATED INCREASING POLITICAL COHESION DURING 1980, CULMINATING IN THE OCTOBER UNGA RESOLUTION ON KAMPUCHEA AND THEIR CONTINUING EFFORTS TO PROMOTE A SATISFACTORY SOLUTION TO THE KAMPUCHEA PROBLEM. SINCE 1971 THE ASEAN'S PROFESSED OBJECTIVE HAS BEEN TO DECREASE GREAT POWER RIVALRY PURSUING A ZONE OF PEACE, FREE-

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DOM AND NEUTRALITY (ZOPFAN). HOWEVER, CHINESE AND SOVIET INFLUENCE HAVE INCREASED AND ENCOURAGED THE ASEANS TO WORK TOGETHER TO FORGE COMPATIBLE POSITIONS ON ISSUES RELATED TO THEIR POLITICAL AND SECURITY CONCERNS. IN ADDITION TO EXTENSIVE ECONOMIC CONSULTATIONS, THERE IS EVIDENCE OF INCREASED INTELLIGENCE EXCHANGE AND EVEN DISCUSSION OF DEFENSE STRATEGY. THE US REGARDS ASEAN AS A SIGNIFICANT FORCE FOR STABILITY IN THE REGION AND ENCOURAGES THEIR EFFORTS TO BROADEN CONTACTS WITH OTHER REGIONAL GROUPINGS SUCH AS THE EUROPEAN COMMUNITY.

53. ASEAN HAS BEEN PREOCCUPIED WITH THE KAMPUCHEAN SITUATION. THE OCTOBER 22 UNGA RESOLUTION, OVERWHELMINGLY APPROVED BY A VOTE OF 97-23-22, CALLED FOR THE CONVENING OF AN INTERNATIONAL CONFERENCE TO ARRANGE FOR THE WITHDRAWAL OF FOREIGN TROOPS AND UN-SUPERVISED ELECTIONS. UNGA ALSO VOTED TO SEAT POL POT'S DEMOCRATIC KAMPUCHEA RATHER THAN THE VIETNAMESE-BACKED HENG SAMRIN REGIME IN PHNOM PENH. SINCE OCTOBER THERE HAVE BEEN A ROUND OF NEGOTIATIONS AMONG INTERESTED PARTIES, WHICH INCLUDED VISITS BY THE THAI AND SINGAPOREAN PRIME MINISTERS TO CHINA, AND THE THAI DEPUTY FOREIGN MINISTER TO MOSCOW AND SEVERAL EASTERN EUROPEAN CAPITALS. ASEAN SENIOR OFFICIALS MET IN MANILA IN JANUARY AND AGREED TO PRESS THE UN SECRETARY GENERAL TO CONVENE THE CONFERENCE. THERE ARE DIFFERING VIEWS ON POSSIBLE FALLBACK POSITIONS SHOULD THE CONFERENCE NOT TAKE PLACE, BUT A CONSENSUS HAS EMERGED THAT SON SANN WOULD BE SUPPORTED FOR THE PRESENT AS THE LEADER OF ALL THE KAMPUCHEAN OPPOSITION. ASEAN WILL NOT ACCEPT ELECTIONS OUTSIDE THE UNGA FRAMEWORK.

54. OTHER DIFFERENCES INCLUDE ATTITUDES TOWARDS CHINA AND THE SOVIET UNION. SINGAPORE AND INDONESIA HAVE YET TO OPEN FULL DIPLOMATIC RELATIONS WITH CHINA, ALTHOUGH SINGAPORE WILL EXCHANGE TRADE OFFICES IN 1981. ALL OF THE ASEAN STATES HAVE BEEN FIRM IN THEIR CONDEMNATION OF THE SOVIET INVASION OF AFGHANISTAN. MALAYSIA AND INDONESIA HAVE EXPRESSED PARTICULARLY STRONG FEELINGS BECAUSE OF THEIR ISLAMIC TIES. IN THE REGION, HOWEVER, INDONESIA, IN CONTRAST TO THAILAND, CONTINUES TO REGARD CHINA AS THE MAJOR THREAT AND IS DISTURBED BY SOVIET ACTIVITY PRIMARILY AS IT MAY AFFECT OIL EXPLORATION IN THE SOUTH CHINA SEA.

55. INDONESIA. THE CURRENT POLITICAL SCENE IS CHARACTER-

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IZED BY INCREASED DOMESTIC POLITICAL ACTIVITY IN ANTICIPATION OF THE 1982 ELECTIONS. THE "GROUP OF FIFTY" COMPOSED OF RETIRED GENERALS, OLDER NATIONALISTS, AND AN INCREASING NUMBER OF STUDENT AND MUSLIM LEADERS, CONTINUES TO PRESS THE SUHARTO REGIME FOR OPEN CAMPAIGN PROCEDURES. CRITICISM OF THE GOVERNMENT FOCUSES ON CORRUPTION AT HIGH LEVELS, INCREASED INCOME DISPARITY, AND THE LACK OF DEVELOPMENT OF THE INDIGENOUS OR PRIBUMI SECTOR OF THE POPULATION AS OPPOSED TO THE CHINESE. ANTI-CHINESE RIOTING BROKE OUT IN CENTRAL JAVA IN NOVEMBER AND SUCH DISTURBANCES CAN BE EXPECTED TO REOCCUR AS UNEMPLOYMENT CONTINUES AND ECONOMIC FRUSTRATIONS INTENSIFY DURING THE CAMPAIGN PERIOD. SUHARTO IS EXTREMELY SENSITIVE TO CRITICISM AND CAN BE EXPECTED TO FOCUS HIS REACTION ON THE CRITICS RATHER THAN THE BASIC ECONOMIC PROBLEMS. ISLAMIC ELEMENTS ARE MORE ACTIVE, BUT POLITICAL ORGANIZATIONS SUCH AS THE MUSLIM PARTY ARE DEEPLY DIVIDED AND THEREFORE NOT A STRONG OPPOSITION FORCE. WITH HIS BASE OF SUPPORT IN THE ACTIVE MILITARY APPARENTLY INTACT, SUHARTO SEEMS LIKELY TO BE REELECTED TO THE PRESIDENCY FOLLOWING THE PARLIAMENTARY ELECTIONS IN 1982.

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56. KEY ISSUES FOR THE LONG-TERM INCLUDE THE QUESTION OF A SUCCESSOR FOR SUHARTO; THE TRANSFER OF MILITARY AND POLITICAL LEADERSHIP FROM THE GENERATION OF 1945; THE DIVISION OF POWER BETWEEN THE MILITARY AND CIVILIAN; AND THE GROWING CONSCIOUSNESS OF THE MUSLIM COMMUNITY.

57. INCREASING OIL PRICES HAVE LED TO SIGNIFICANT INCREASES IN INDONESIA'S FOREIGN RESERVES AND EXPANDED INVESTMENT IN MAJOR DEVELOPMENT PROJECTS. EFFORTS ARE BEING MADE TO PROMOTE SMALL BUSINESSES AND SPREAD THE DISTRIBUTION OF INCOME, BUT SUCH PROGRAMS HAVE HAD MODEST IMPACT.

58. INDONESIA ACTIVELY SEEKS DEFENSE COOPERATION ARRANGEMENTS WITH A NUMBER OF COUNTRIES AND IS INTERESTED IN DEVELOPING THE DEFENSE INDUSTRIAL SECTOR. ACTUAL MILITARY MANEUVERS, HOWEVER, ARE LIMITED TO BILATERAL EXERCISES WITH ASEAN MEMBERS. INDONESIA STAUNCHLY BELIEVES THAT ASEAN IS NOT AND SHOULD NOT BE A MILITARY ENTITY REPLACING SEATO.

59. IN THE INTERNATIONAL ARENA, INDONESIA SEEKS TO PROMOTE ITSELF AS A MODERATE LEADER IN THE NON-ALIGNED MOVEMENT AND IS EAGER TO PLAY A MEDIATING ROLE IN WORLD

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CONFLICTS. AS WITH ITS ASEAN COLLEAGUES INDONESIA IS DISTURBED BY SOVIET ACTIVITIES IN THE REGION. HOWEVER, INDONESIA CONTINUES TO REGARD CHINA AS THE MAJOR LONG-TERM THREAT. DIPLOMATIC RECOGNITION OF THE PRC WILL NOT TAKE PLACE PRIOR TO THE 1982 ELECTIONS.

60. MALAYSIA. PRIME MINISTER HUSSEIN ONN'S GOVERNING POLITICAL COALITION CONTINUES TO PROVIDE EFFECTIVE GOVERNMENT WITH THE ONLY IMMEDIATE THREAT TO ITS CONTINUED STABILITY BEING THE PRIME MINISTER'S HEALTH. HEART SURGERY IS PLANNED FOR EARLY SPRING. HOWEVER, ANY CHANGE IN LEADERSHIP IS EXPECTED TO BE ORDERLY AND DEMOCRATIC. ELECTIONS ARE REGULARLY SCHEDULED FOR 1983.

61. THE NATIONAL FRONT COALITION IS PLEDGED TO A PROGRAM OF MAINTAINING COMMUNAL PEACE, ECONOMIC PROGRESS, AND SOCIAL JUSTICE. ECONOMIC POLICIES ARE DESIGNED TO BRING THE MALAYS INTO GREATER PARTICIPATION IN A GROWING MODERN ECONOMIC SECTOR. COMMUNAL DIFFERENCES CONTINUE TO EXIST AND FRUSTRATION OVER ECONOMIC CONDITIONS AS WELL AS INCREASED MALAY INTEREST IN ISLAMIC EXTREMISM ARE POTENTIAL DISRUPTIVE FACTORS. COMMUNIST INSURGENCY IS A NAGGING ANNOYANCE TO THE GOVERNMENT BUT NOT A MAJOR THREAT.

62. MALAYSIA'S FOREIGN POLICY REMAINS OSTENSIBLY NON-ALIGNED, HOWEVER ATTITUDES TOWARDS ITS DEFENSE POLICY HAVE BECOME INCREASINGLY PRO-WESTERN IN THE WAKE OF AFGHANISTAN AND INDOCHINA-RELATED DEVELOPMENTS. THE MASSIVE INFLUX OF PREDOMINANTLY ETHNIC CHINESE REFUGEES FROM VIETNAM WAS REGARDED AS A THREAT TO THE RACIAL BALANCE AND HIGHLIGHTED THE VULNERABILITY OF MALAYSIA'S EAST COAST. THE INVASION OF KAMPUCHEA AND INCREASED SOVIET INVOLVEMENT IN THE REGION HAVE LED TO REASSESSMENT OF MALAYSIA'S BASIC SECURITY POSITION. PLANS ARE UNDERWAY TO SIGNIFICANTLY EXPAND THE ARMED FORCES AND TO INCREASE ITS CAPABILITY TO DEFEND AGAINST EXTERNAL ATTACK.

63. ALTHOUGH A MEMBER OF THE NON-ALIGNED MOVEMENT AND THE ISLAMIC CONFERENCE, MALAYSIA IS A SIGNATORY OF THE FVVE POWER DEFENSE ARRANGEMENT AND HAS REACTED WITH ENTHUSIASM TO AUSTRALIAN PROPOSALS FOR EXERCISES IN 1981.

64. SINGAPORE. SINGAPORE REMAINS STABLE ECONOMICALLY AND POLITICALLY. THE PEOPLE'S ACTION PARTY LED BY PRIME

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MINISTER LEE KUAN YEW DOMINATES THE GOVERNMENT. IN THE PAST FOUR ELECTIONS IT HAS WON ALL SEATS IN PARLIAMENT

AND IN THE LAST ELECTION IN DECEMBER, 1980, APPROXIMATELY 75 PERCENT OF THE POPULAR VOTE.

65. LEE KUAN YEW AND HIS COLLEAGUES ARE PREPARING A NEW GENERATION OF YOUNGER LEADERS TO TAKE OVER. YOUNGER MEMBERS ARE INCREASINGLY BEING INVOLVED IN PARTY POLICY MAKING. RECENT CABINET APPOINTMENTS WERE MADE TO GIVE LEADING CANDIDATES BROAD-BASED EXPOSURE TO GOVERNMENT. WHILE THE RIVALRY OVER LEE'S SUCCESSION MAY LEND SOME EXCITEMENT TO SINGAPORE'S NORMALLY BLAND POLITICAL SCENE IN COMING YEARS, IT IS BEING CAREFULLY ORCHESTRATED AND SHOULD NOT BE CONSIDERED A POTENTIAL DESTABILIZING FACTOR. THERE IS NO EVIDENCE THAT AN OPPOSITION TO LEE'S GOVERNMENT IS DEVELOPING.

66. THE PERFORMANCE OF SINGAPORE'S ECONOMY HAS BEEN REMARKABLE. NEITHER INFLATION NOR UNEMPLOYMENT ARE MAJOR PROBLEMS AND THE BALANCE OF PAYMENTS POSITION IS HEALTHY. WITH THE SECOND HIGHEST PER CAPITA INCOME IN ASIA, SINGAPORE HAS BEEN IDENTIFIED AS AN ADVANCED DEVELOPING COUNTRY OR NEWLY INDUSTRIALIZED COUNTRY RIPE FOR "GRADUATION" FROM THE STATUS OF DEVELOPING COUNTRY. FOR BOTH ECONOMIC AND BT

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 POLITICAL REASONS (INCLUDING ITS MODERATE ROLE IN THE NON-
 ALIGNED MOVEMENT) SINGAPORE HOPES TO RETAIN ITS DEVELOPING
 COUNTRY STATUS.

67. IN KEEPING WITH ITS PRO-WESTERN AND ANTI-COMMUNIST
 STANCE, SINGAPORE HAS BEEN AN OUTSPOKEN CRITIC OF SOVIET
 AGGRESSION, BUT IS ALSO ANXIOUS TO MAINTAIN DIALOGUE AND
 TRADE RELATIONS WITH OTHERS, INCLUDING THE SOVIETS.
 SINGAPORE HAS AGREED TO THE EXCHANGE OF TRADE OFFICES WITH
 BEIJING, BUT THE ACTUAL OPENING HAS BEEN DELAYED. SINGA-
 PORE WILL CONTINUE TO WAIT UNTIL INDONESIA ESTABLISHES
 DIPLOMATIC RELATIONS WITH THE PRC BEFORE DOING SO ITSELF.
 SINGAPORE IS SUSPICIOUS OF SOVIET AND VIETNAMESE INTENTIONS
 IN SOUTHEAST ASIA AND HAS OFTEN VOICED SUPPORT FOR CONTIN-
 UED US AND WESTERN PRESENCE IN THE REGION. IT HAS
 COOPERATED WITH ITS ASEAN PARTNERS IN REFUSING SOVIET
 NAVAL VISITS AND OVERFLIGHT REQUESTS AND ALLOWING US
 MILITARY ACCESS TO REPAIR AND TRANSIT FACILITIES.

68. THAILAND. THAILAND'S DOMESTIC POLITICAL SCENE IS
 REASONABLY STABLE UNDER PRIME MINISTER PREM'S LEADERSHIP
 AS THE HEAD OF AN OFTEN UNEASY BUT VIABLE COALITION OF
 POLITICAL INTERESTS. PREM CURRENTLY FACES NO SIGNIFICANT
 POLITICAL OPPOSITION, AND HAS THE VITAL SUPPORT OF THE
 ARMY AND THE PALACE. POLITICAL MANEUVERINGS AGAINST HIM
 ARE UNDERWAY AND RECENT PROTESTS OVER SUGAR SHORTAGE AND
 PRICE INCREASE, HOWEVER, REFLECT A GENERAL RESTIVENESS

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IN THAILAND.

69. SINCE TAKING POWER IN EARLY 1980, PREM'S MOST PRESSING PROBLEM HAS BEEN TO ALLEVIATE A DETERIORATING THAI ECONOMY. HE HAS TRIED TO AVOID THE DESTABILIZING EFFECTS OF THE SAME ECONOMIC DIFFICULTIES THAT DEFEATED FORMER PRIME MINISTER KRIANGSAK: INFLATION AND ESPECIALLY RISING FUEL COSTS, COMMODITY SHORTAGES, UNEMPLOYMENT, AND HIGH INTEREST RATES. DEPUTY PRIME MINISTER BUNCHU AND HIS TEAM OF EXPERTS ARE PERCEIVED AS BEING SLOW IN TACKLING THESE ISSUES. THE BITTER FACTIONAL DISPUTES BETWEEN LEADERS OF POLITICAL PARTIES TO WHOM THE ECONOMIC PORTFOLIOS IN THE CABINET HAVE BEEN ASSIGNED, IS PUBLIC KNOWLEDGE AND HEIGHTEN THE DISCONTENT OVER THE ABSENCE OF RESULTS. IGNORING PRESSURE FOR A MAJOR CABINET RESHUFFLE, PREM IN MID-JANUARY INSTEAD MADE A MINOR READJUSTMENT BY ROTATING THREE MINISTERS. IN SO DOING HE SEEMED TO BE DISPLAYING STRONG CONFIDENCE IN HIS CABINET AND ITS ABILITY TO WORK TOGETHER DESPITE RECURRENT SQUABBLES BETWEEN POLITICAL PARTIES AND INDIVIDUALS.

70. UNTIL RECENTLY, PREM'S LEADERSHIP ON ECONOMIC ISSUES HAS BEEN HESITANT. BUT, HE NOW SHOWS SOME SIGN OF TAKING THE INITIATIVE TO DEAL WITH THE SITUATION. HE HAS CREATED AND ASSUMED THE LEADERSHIP OF A NEW ECONOMIC POLICY COORDINATING AND SUPERVISORY COMMITTEE AND HAS BEEN CONDUCTING A PUBLIC RELATIONS CAMPAIGN TO EXPLAIN THAT THE GOVERNMENT CANNOT AFFORD TO CONTINUE SUBSIDIZING OIL AND UTILITY RATES, AND TO RALLY SUPPORT FOR A RICE PRICE SUPPORT PLAN WHICH WILL LEAD TO A PRICE RISE. RICE IS THE STAPLE FOOD IN THAILAND, AND A SUBSTANTIAL PRICE HIKE WILL BE UNPOPULAR. IN JANUARY THE GOVERNMENT ANNOUNCED INCREASES IN PETROLEUM PRICES AND THUS FAR THERE HAVE BEEN NO PROTESTS.

71. MANY HURDLES AND POLITICALLY UNPOPULAR DECISIONS REMAIN AHEAD BUT PREM WILL PROBABLY BE ABLE TO COPE WITH THEM. SHOULD HIS GOVERNMENT FALL, HOWEVER, KRIANGSAK IS THE MOST LIKELY REPLACEMENT NOW IN THE WINGS.

72. THE SITUATION IN KAMPUCHEAN CONTINUES TO BE THE FOCAL POINT OF THAILAND'S FOREIGN POLICY. THE CUMULATIVE EFFECT OF VIETNAM'S INVASION AND OCCUPATION OF KAMPUCHEA WITH 200,000 VIETNAMESE TROOPS (60 TO 70,000 OF THEM OPERATING

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NEAR THE THAI BORDER) HAS GRADUALLY LED TO INCREASED TENSIONS IN THE AREA. WHILE WE DO NOT CURRENTLY EXPECT A VIETNAMESE INVASION OF THAILAND, THE POSSIBILITY OF VIETNAMESE INCURSIONS IN PURSUIT OF DEMOCRATIC KAMPUCHEAN (DK) FORCES AND OF AN ATTACK ON A MAJOR THAI TARGET TO

RETALIATE FOR THAI SUPPORT OF THE DK CANNOT BE RULED OUT. ADDING TO THE TENSIONS IN THAILAND ARE SEVERAL THOUSAND KHMER REFUGEES WHO HAVE BEEN DRIVEN TO THE THAI-KAMPUCHEAN BORDER BY FIGHTING AND FOOD SHORTAGES AND WHOM THE THAI ARE RELUCTANTLY HARBORING.

73. IN RESPONSE TO THIS SITUATION, THE THAI HAVE CONTINUED TO MAINTAIN A FIRM STANCE, INSISTING ON WITHDRAWAL OF VIETNAMESE FORCES FROM KAMPUCHEA AND SELF-DETERMINATION FOR THE KHMER PEOPLE. FOR ASSISTANCE THE THAI HAVE LOOKED TO: OTHER ASEAN COUNTRIES FOR POLITICAL SUPPORT; THE CHINESE TO CREATE A MAJOR SECURITY DISTRACTION ALONG THE SINO-LAO AND SINO-VIETNAMESE BORDERS AND TO PROVIDE ARMS TO THE DK; AND THE INTERNATIONAL COMMUNITY FOR REFUGEE AND HUMANITARIAN RELIEF SUPPORT.

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74. THE THAI GOVERNMENT VALUES CLOSE, CORDIAL, AND COOPERATIVE RELATIONS WITH THE UNITED STATES AND HAS TURNED TO IT FOR POLITICAL SUPPORT, REFUGEE RELIEF, AND SECURITY ASSISTANCE. WITHIN THE LIMITS OF AVAILABLE RESOURCES, THE UNITED STATES HAS BEEN RESPONSIVE. ON A NUMBER OF OCCASIONS WE HAVE REAFFIRMED OUR SECURITY COMMITMENT TO THAILAND UNDER THE MANILA PACT AND WE HAVE INCREASED SECURITY AND ECONOMIC ASSISTANCE TO THAILAND. OUR MOST SIZEABLE EFFORT HAS BEEN THE SUPPORT FOR AND RESETTLEMENT OF INDOCHINESE REFUGEES AT A COST OF HUNDREDS OF MILLIONS OF DOLLARS AND ASSISTANCE TO THE INTERNATIONAL KHMER RELIEF EFFORT WHICH BOTH SAVES LIVES AND HELPS PREVENT MORE REFUGEES FROM COMING TO THE BORDERS.

75. THAI-CHINESE RELATIONS HAVE CONTINUED TO DEVELOP OVER A WIDE RANGE OF ECONOMIC, COMMERCIAL, AND CULTURAL ACTIVITIES. HIGH LEVEL VISITS BETWEEN THE TWO COUNTRIES HAVE BECOME THE NORM. RELATIONS WITH THE SOVIET UNION HAVE IMPROVED SLIGHTLY, PARTICULARLY AS THE RESULT OF DEPUTY FOREIGN MINISTER ARUN'S VISIT TO MOSCOW IN NOVEMBER, BUT THEY ARE STILL EFFECTED BY VIETNAMESE ACTIONS IN KAMPUCHEA AND THE MASSIVE SOVIET MILITARY AID TO VIETNAM AND INCREASING SOVIET INFLUENCE IN LAOS AND KAMPUCHEA.

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76. PHILIPPINES. PRESIDENT MARCOS LIFTED MARTIAL LAW JANUARY 17, ENDING THE STATE OF EMERGENCY HE IMPOSED IN 1972. ALTHOUGH THE LIFTING OF MARTIAL LAW DOES NOT SUBSTANTIALLY REDUCE MARCOS' AUTHORITARIAN POWERS, IT DOES CREATE A NEW POLITICAL ENVIRONMENT IN WHICH VARIOUS SECTORS OF THE SOCIETY WILL SEEK TO EXPLORE THE LIMITS

OF POLITICAL LIBERALIZATION IN THE POST MARTIAL LAW PERIOD. NATIONALIST AND ANTI-AMERICAN SENTIMENT WILL NOW LIKELY BE EXPRESSED AND MAY BE DIRECTED AGAINST THE AMERICAN MILITARY PRESENCE. IT IS NOT LIKELY, HOWEVER, THAT AMERICAN MILITARY PERSONNEL OR THE OPERATION AND SECURITY OF THE U.S. FACILITIES WILL BE ENDANGERED. MODERATE OPPOSITION GROUPS APPEAR WILLING TO ABIDE BY THE MILITARY BASES AGREEMENT WHICH RUNS THROUGH AT LEAST 1991 WITH A BILATERAL REVIEW SCHEDULED FOR 1983-84.

77. THE END OF MARTIAL LAW WILL MEAN THE GRADUAL ABOLITION OF MILITARY COURTS AND THE TRANSFER OF DETAINEES FROM ARMY DETENTION CENTERS TO CIVILIAN JAILS. MARCOS HAS RESTORED THE WRIT OF HABEAS CORPUS THROUGHOUT THE COUNTRY EXCEPT IN THE MUSLIM AREAS IN THE SOUTH AND WITH REGARD TO SECURITY CASES. SINCE DECEMBER, HE GRANTED AMNESTY TO 3000 PRISONERS AND RELEASED SEVERAL HUNDRED OTHERS, ALTHOUGH "HARD-CORE SUBVERSIVES" REMAIN IN PRISON. DESPITE THESE ACTIONS, MARCOS HAS INSURED THAT HE RETAINS SUFFICIENT EMERGENCY RESERVE POWERS WITHOUT MARTIAL LAW TO CONTROL THE POLITICAL SCENE. AMENDMENT 6 OF THE 1973 CONSTITUTION EMPOWERS HIM TO TAKE ACTION WHENEVER A GRAVE EMERGENCY THREATENS THE COUNTRY. THE NATIONAL SECURITY CODE, AND ALL OTHER PRESIDENTIAL DECREES AND ORDERS ISSUED DURING THE MARTIAL LAW PERIOD REMAIN IN EFFECT, ALTHOUGH THE PRESIDENT HAS STATED THAT THEY CAN BE CHANGED BY THE COUNTRY'S TRANSITIONAL LEGISLATIVE BODY, THE INTERIM NATIONAL ASSEMBLY. MARCOS HAS FORMALLY TURNED HIS LEGISLATIVE POWERS OVER TO THE ASSEMBLY, ALTHOUGH HE IS STILL RESPONSIBLE FOR THE LEGISLATIVE PROGRAM OF THE COUNTRY AND CAN STILL ISSUE DECREES UNDER CERTAIN CIRCUMSTANCES.

78. THE MILITARY IS UNEASY ABOUT ITS ROLE POST MARTIAL LAW, BUT IS EXPECTED TO ACCEPT MARCOS' PLAN FOR LIMITED POLITICAL NORMALIZATION OF THE COUNTRY. IN ADDITION TO A TRADITION OF SUBORDINATION TO CIVIL AUTHORITY, MARCOS HAS BEEN CAREFUL TO ALLAY THE FEARS OF THE MILITARY. HE HAS STRESSED THEIR CONTINUING RESPONSIBILITY FOR THE

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PEACE AND SECURITY OF THE COUNTRY, PARTICULARLY IN THE MUSLIM AREAS. HE HAS ALSO ASSURED THE TROOPS OF IMMUNITY FOR OFFICIAL ACTS ZOMMITTED UNDER MARTIAL LAW, AND PROMISED IMPROVED BENEFITS AND PROMOTIONS.

79. CHALLENGES TO MARCOS' AUTHORITY WILL COME FROM OTHER SECTORS OF THE SOCIETY. OPPOSITION GROUPS, STUDENTS AND THE MEDIA WILL TEST MARCOS' PROMISES OF

GREATER FREEDOM OF THE PRESS AND ASSEMBLY. LABOR UNIONS WILL PROTEST THE BAN ON STRIKES IN VITAL INDUSTRIES WHICH THE GOVERNMENT IS NOW SAYING IT WILL CONSIDER LIFTING. A LOOSE ALLIANCE OF MODERATE OPPOSITION GROUPS HAS PREPARED AN ALTERNATE PLAN OF GOVERNMENT AND ASKED MARCOS TO STEP DOWN FROM POWER. FORMER SENATOR BENIGNO AQUINO, IN THE U.S. AS A FELLOW AT HARVARD, HAS URGED THE MODERATE OPPOSITION AND MARCOS TO HAVE A DIALOGUE ON A PEACEFUL TRANSITION PLAN. AQUINO'S STAY AT HARVARD IS SLATED TO END IN JUNE, AND BT

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HE HAS SAID THAT HE PLANS TO RETURN TO THE PHILIPPINES THEN. NEVERTHELESS HE REMAINS UNDER A DEATH SENTENCE PRONOUNCED IN 1977 AND HE MAY SEEK AN ACCOMODATION WITH MARCOS IN ORDER TO RETURN TO THE PHILIPPINES. MARCOS HAS RECENTLY RAISED THE POSSIBILITY OF PRESIDENTIAL ELECTIONS THIS MAY, AND AQUINO COULD BE A PRIME CONTENDER SHOULD HE BE ALLOWED TO RUN.

80. VIOLENCE BY RADICAL GROUPS HAS SUBSIDED IN RECENT MONTHS. IT CLIMAXED WITH THE OCTOBER 19 BOMBING OF A CONVENTION OF AMERICAN TRAVEL AGENTS IN MANILA WHICH SERIOUSLY EMBARRASSED MARCOS. THE GOVERNMENT CHARGED 59 PERSONS WITH INVOLVEMENT IN THIS AND OTHER APRIL 6 LIBERATION MOVEMENT BOMBINGS, AMONG THEM AQUINO AND SEVERAL OTHER PROMINENT FILIPINO EXILES LIVING IN THE US. MARCOS HAS APPARENTLY WEAKENED THE APRIL 6 LIBERATION MOVEMENT WITH ARRESTS OF 20 OF ITS MEMBERS. THE MOVEMENT'S THREAT AGAINST PRIME MINISTER SUZUKI OF JAPAN DURING HIS JANUARY VISIT PROVED HOLLOW. MARCOS, HOWEVER, REMAINS CONCERNED ABOUT THE POSSIBLE ROLE OF US DISSIDENTS IN VIOLENCE IN THE PHILIPPINES. HE HAS BEEN PRESSURING THE US FOR AN EXTRADITION TREATY. THE US HAS STRESSED TO THE PHILIPPINE GOVERNMENT ITS OPPOSITION TO TERRORISM AND ITS INTENTION TO PROSECUTE ANYONE INVOLVED WHO IS FOUND TO BE VIOLATING US LAW.

81. IN ITS FOREIGN RELATIONS, THE PHILIPPINES CONTIN-

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UES TO SHARE THE CONCERNS OF ITS ASEAN PARTNERS ABOUT SOVIET AND VIETNAMESE INTENTIONS IN KAMPUCHEA AND ELSEWHERE IN SOUTHEAST ASIA. OF PARTICULAR CONCERN ARE SOVIET MILITARY OPERATIONS FROM VIETNAM AND THEIR POTENTIAL THREAT TO THE REGIONAL SECURITY OF ASEAN. THE GOVERNMENT HAS BEEN PLACING GREATER EMPHASIS ON ITS RELATIONS WITH THE MIDDLE EAST. THE COUNTRY IS HEAVILY DEPENDENT UPON MIDDLE EAST OIL, AND SENDS A GROWING NUMBER OF LABORERS TO ARAB COUNTRIES. IN DECEMBER, SAUDI ARABIA THREATENED NOT TO RENEW A 10,000 BARREL-A-DAY CONTRACT WITH THE PHILIPPINE GOVERNMENT. IT WAS RESTORED APPARENTLY ONLY AFTER THE PERSONAL INTERVENTION OF MRS. MARCOS. SAUDI ARABIA AND OTHER MUSLIM COUNTRIES REMAIN CONCERNED OVER THE LACK OF PROGRESS IN NEGOTIATIONS BETWEEN THE PHILIPPINE GOVERNMENT AND THE SEPARATIST MORO NATIONAL LIBERATION FRONT (MNLF) REGARDING THE LONGSTANDING CONFLICT IN THE SOUTHERN PHILIPPINES. THE TALKS BROKE OFF IN 1977, AND PROSPECTS ARE DIM FOR A RENEWAL OF DISCUSSIONS. THE GOVERNMENT HAS BEEN SUCCESSFUL IN WINNING SOME REBEL COMMANDERS OVER TO ITS SIDE BUT NOT IN DISCOURAGING NEW MNLF RECRUITMENT.

82. THE PHILIPPINES CONTINUES TO ATTACH GREAT IMPORTANCE TO ITS BILATERAL SECURITY RELATIONSHIP WITH THE US; THE 1979 AMENDMENT TO THE BASES AGREEMENT IS WORKING WELL. THE GOVERNMENT EXPECTS IMPROVED RELATIONS WITH THE NEW US ADMINISTRATION WITH MORE EMPHASIS ON REGIONAL SECURITY ISSUES AND LESS ON HUMAN RIGHTS. IN NOVEMBER, A PROPOSED 5 MILLION DOLLAR CUT IN FOREIGN MILITARY SALES CREDITS WAS DELETED FROM THE FY 81 SECURITY ASSISTANCE AUTHORIZATION BILL FOR THE PHILIPPINES. US CONGRESSIONAL CONFEREEES AGREED INSTEAD TO INCLUDE LANGUAGE IN THE CONFERENCE REPORT INDICATING SERIOUS CONCERN ABOUT HUMAN RIGHTS PRACTICES. AT THE TIME OF THE 1979 AMENDMENT TO THE BASES AGREEMENT, THE ADMINISTRATION PLEDGED TO SEEK 500 MILLION DOLLARS IN SECURITY ASSISTANCE APPROPRIATIONS FOR THE PHILIPPINES DURING THE PERIOD 1979-84.

83. BURMA. WHILE BURMA IS STILL CAREFULLY ADHERING TO ITS DECLARED POLICIES OF NEUTRALITY ABROAD AND SOCIALIST DEVELOPMENT AT HOME, THE SRUB CONTINUES TO DEVELOP A LIMITED FLEXIBILITY WITHIN THESE COMMITMENTS. THE BURMESE ECONOMY AND ITS INTERRELATIONSHIPS WITH FOREIGN AID DONORS, INVESTORS, AND TRADE IS A PARTICULARLY FERTILE AREA FOR THIS FLEXIBILITY, WITHIN WHICH THE

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SRUB HAS ALREADY SIGNIFICANTLY MODIFIED ITS POLICIES FROM 1972 TO DATE. WE BELIEVE THERE ARE SOME INDICATIONS THAT FURTHER MODIFICATIONS MAY NOW BE UNDER CONSIDERATION, POSSIBLY INCLUDING REAL PROVISIONS FOR FOREIGN INVESTMENT AND EVEN SOME FORM OF ECONOMIC (THOUGH NOT POLITICAL OR MILITARY) ASSOCIATION WITH ASEAN. RECOGNIZING THE LIMITATIONS ON POTENTIAL SRUB MOVEMENT, WE NONETHELESS BELIEVE THAT SUCH FLEXIBILITY SHOULD BE ENCOURAGED. OUR NATO ALLIES MAY WISH TO CONSIDER DEVELOPING THEIR OWN TIES IN SOME LIMITED FASHION TO ENCOURAGE THE BURMESE TO CONTINUE MOVING OUT OF ISOLATION AND INTO INCREASED COOPERATION WITH THE WORLD COMMUNITY.

84. THE SITUATION IN KAMPUCHEA. THE VIETNAMESE CONTINUE THEIR OCCUPATION OF KAMPUCHEA WITH APPROXIMATELY 200,000 PAVN TROOPS ENGAGED IN MILITARY OPERATIONS THROUGHOUT THE COUNTRY. KHMER OFFICIALS STAFF THE HENG SAMRIN REGIME (PEOPLE'S REPUBLIC OF KAMPUCHEA) BUT THOUSANDS OF VIETNAMESE CIVILIAN ADVISORS DETERMINE POLICY AT ALL ADMINISTRATIVE

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85. TRADITIONAL KHMER ANTIPATHY TOWARDS THE VIETNAMESE MAY HAVE CAUSED SOME DEFECTIONS OF PRK OFFICIALS, BUT VIETNAMESE CONTROL HAS NOT FOSTERED SUFFICIENT INTERNAL OPPOSITION TO CHALLENGE HANOI'S GRIP OVER THE COUNTRY. KAMPUCHEA'S GRADUAL RETURN TO NORMALCY TOGETHER WITH THE AVERAGE KHMER'S FEAR OF POL POT AND HIS DEMOCRATIC KAMPUCHEAN (DK) REGIME HAS PERHAPS RESULTED IN A PASSIVE ACCEPTANCE OF THE PRK. PRK OFFICIALS HAVE REINSTITUTED TRADITIONAL RELIGIOUS AND CULTURAL ACTIVITIES BANNED UNDER POL POT, REINTRODUCED CURRENCY, AND ALLOWED LIMITED COMMERCIAL ACTIVITY. PRK OFFICIALS HAVE EITHER BEEN UNWILLING OR UNABLE TO TAX THE RURAL AREAS, THUS REMOVING A POSSIBLE SOURCE OF FRICTION. VIETNAMESE TROOPS AND ADVISORS HAVE, AS MUCH AS POSSIBLE, MAINTAINED A LOW PROFILE AND TAKEN CARE NOT TO INFLAME ETHNIC ANIMOSITIES. THE IMPROVED FOOD SITUATION HAS EVIDENTLY TEMPERED RESENTMENT CAUSED BY THE PRK'S CORRUPT AND INEPT HANDLING OF RELIEF DISTRIBUTION.

86. KAMPUCHEA WILL EXPERIENCE ANOTHER FOOD DEFICIT THIS YEAR BUT THE EXTENT OF THE FOOD SHORTAGE IS DIFFICULT TO CALCULATE. USING AN ESTIMATED POPULATION OF 5.6 MILLION, THE SHORTFALL COULD BE AS MUCH AS 200,000 METRIC TONS OF RICE. RECENT REPORTS INDICATE THAT THE AVERAGE YIELD PER HECTARE IS LOWER THAN NORMAL THUS INCREASING THE PROBABILITY OF A SIGNIFICANT RICE DEFICIT. THE PRK WILL DEPEND ON

INTERNATIONAL AID TO MAKE UP SHORTAGES. ANY REDUCTION IN AID WOULD NOT ONLY PLACE MANY KAMPUCHEANS NEAR STARVATION, IT WOULD ALSO FORCE THE PRK TO TAX THE RURAL AREAS TO FEED THE URBAN AREAS--A STEP THAT COULD DESTABILIZE THE REGIME.

87. IMPROVED CONDITIONS INSIDE KAMPUCHEA AND THE UNCERTAINTY OF LIFE ON THE THAI-KAMPUCHEAN BORDER HAVE EVIDENTLY PERSUADED A NUMBER OF KHMER TO LEAVE THE BORDER ENCAMPMENTS AND RETURN HOME. POPULATION OF THE BORDER ENCAMPMENTS IS NOW LESS THAN 150,000 COMPARED TO AN ESTIMATED 500,000 IN THE FALL OF 1979.

88. RESISTANCE FORCES ARE STILL ACTIVE ALONG THE THAI-KAMPUCHEAN BORDER. THE DK ARE THE LARGEST (EST. 30,000) AND MOST EFFECTIVE FIGHTING FORCE BUT EXCEPT FOR LIMITED GUERRILLA AND SABOTAGE ACTIVITY, THEY HAVE AVOIDED ENGAGING VIETNAMESE FORCES. NON-COMMUNIST RESISTANCE FORCES REMAIN FACTIONALIZED, POORLY ARMED AND POORLY LED AND ARE NO CHALLENGE TO THE VIETNAMESE. THE MOST SIGNIFICANT GROUP, SON SANN'S KHMER PEOPLE'S NATIONAL LIBERATION FRONT (KPNLF), HAS CONCENTRATED ON POLITICAL ORGANIZATION AND PROPAGANDA RATHER THAN MILITARY ACTIONS.

89. THE VIETNAMESE HAVE RECENTLY REORGANIZED THEIR FORCES AND HAVE INTENSIFIED SWEEP OPERATIONS ALONG THE BORDER. THEIR OBJECTIVES APPEAR TO BE TO DISRUPT RESISTANCE COMMUNICATION AND SUPPLY LINES AND TO CONTROL ACCESS TO THE BORDER. THERE HAVE BEEN A NUMBER OF SHALLOW VIETNAMESE INCURSIONS INTO THAILAND--PRIMARILY THE RESULT OF RECONNAISSANCE MISSIONS AND "HOT PURSUIT" OF RESISTANCE FORCES. NONE APPEAR TO HAVE BEEN AIMED AGAINST THAI INSTALLATIONS. STILL, TENSION ALONG THE BORDER REMAINS HIGH AND THE VIETNAMESE COULD POTENTIALLY MOUNT A FULL SCALE ATTACK AGAINST RESISTANCE BASED IN THAILAND AT ANY TIME.

90. VIETNAM'S CONTROL OF KAMPUCHEA HAS NOT ENABLED HANOI TO GAIN INTERNATIONAL RECOGNITION OF ITS CLIENT REGIME IN PHNOM PENH. PRK EFFORTS TO SUPPLANT THE DK AT THE UN FAILED LAST OCTOBER BY A GREATER MARGIN THAN IN 1979. EFFORTS TO GAIN PRK PARTICIPATION IN NON-ALIGNED MOVEMENT CONFERENCES HAS MET STIFF RESISTANCE. DESPITE THESE SETBACKS THE VIETNAMESE APPARENTLY FEEL THAT INTERNATIONAL RECOGNITION FOR THE PRK IS INEVITABLE. THE INDOCHINESE FOREIGN MINISTERS AT THEIR JANUARY CONFERENCE

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IN HO CHI MINH CITY INSISTED THAT THE PRK IS THE "SOLE LEGAL" GOVERNMENT OF KAMPUCHEA AND CALLED ON THE ASEAN STATES TO JOIN THEM IN REGIONAL CONFERENCE TO SETTLE PROBLEMS OF REGIONAL SECURITY.

91. VIETNAM REFUSES TO NEGOTIATE THE CENTRAL ISSUES OF ITS MILITARY OCCUPATION OF KAMPUCHEA AND REJECTED PARTICIPATION IN AN INTERNATIONAL CONFERENCE AS PROPOSED IN THE ASEAN-SPONSORED UN RESOLUTION WHICH WAS PASSED LAST FALL.

92. RECENTLY ASEAN MEMBERS AND THE PRC HAVE ENCOURAGED THE KPNLF TO FORM A UNITED FRONT OF ANTI-VIETNAMESE KHMER RESISTANCE FORCES, WITH SON SANN SUPPLANTING THE DISCREDITED DK LEADERS. THIS MOVE WOULD BE INTENDED TO IMPROVE THE DK'S IMAGE WITHOUT DAMAGING ITS MILITARY CAPABILITY OR ITS CLAIM TO KAMPUCHEA'S UN SEAT. SON SANN HAS BEEN RELUCTANT TO ASSOCIATE HIMSELF WITH THE DK, FEARING THIS WOULD SPLIT HIS NON-COMMUNIST SUPPORTERS. THE INCREASED ATTENTION TO SON SANN AND POSSIBLE CREATION OF A UNITED FRONT MAY FORCE PRINCE SIHANOUK OUT OF HIS SELF-IMPOSED
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"RETIREMENT." THE PRINCE HAS, UNTIL RECENTLY, REFUSED TO PARTICIPATE IN ANY UNITED FRONT EFFORT THAT INCLUDED THE DK. HE APPARENTLY REVERSED THIS POSITION IN STATEMENTS TO THE PRESS ON FEBRUARY 8 WHEN HE DECLARED HIS WILLINGNESS TO HEAD A UNITED FRONT.

93 THE SITUATION IN VIETNAM, THE MAJOR SOURCE OF CONCERN TO THE SRV UNDOUBTEDLY IS THE CONTINUING DECLINE IN THE VIETNAMESE ECONOMY DURING 1980, PARTICULARLY IN SUCH VITAL AREAS AS FOOD PRODUCTION. AS THE OFFICIAL PRESS SAID, 1980 WAS "A YEAR REplete WITH DIFFICULTIES." THE HIGH COST OF ITS DEFENSE ESTABLISHMENT (WHICH RECEIVES AN ESTIMATED 50 PERCENT OF THE TOTAL GOVERNMENT BUDGET), POOR MANAGEMENT, LACK OF QUALIFIED PERSONNEL, AND NATURAL DISASTERS ALL CONTRIBUTED TO WORSENING CONDITIONS. THE 1981 ECONOMIC PLAN, ANNOUNCED IN DECEMBER 1980, SETS LOW TARGETS FOR AGRICULTURAL AND INDUSTRIAL PRODUCTION. EVEN IF ACHIEVED, THE TARGET GROWTH RATES WILL BE FAR FROM GAINING ECONOMIC SELF-SUFFICIENCY LET ALONE APPRECIABLY HIGHER LIVING STANDARDS. THE VIETNAMESE ECONOMY REMAINS DEPENDENT ON FOREIGN AID, ESPECIALLY FROM ITS CEMA PARTNERS, ESTIMATED AT AROUND US DOLLARS 3 MILLION PER DAY IN ECONOMIC AID ALONE.

94. ACCORDING TO NGUYEN LAM, CHAIRMAN OF THE STATE PLANNING COMMISSION, PRODUCTION IN 1980 OF PADDY RICE AND SECONDARY FOOD CROPS REACHED 14 MILLION METRIC TONS (MMT), A 0.5 PERCENT INCREASE OVER 1979 BUT STILL 1 MMT

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SHORT OF THE TARGET. AT THE SAME TIME, POPULATION GREW AT A RATE OF 2.6 PERCENT TO OVER 53 MILLION PEOPLE. THE FOOD DEFICIT IN 1980 (BASED ON A SUBSISTENCE RATION OF 15 KG OF MILLED RICE/PERSON/MONTH) WAS ABOUT 2 MMT OF WHICH ONLY ABOUT ONE MMT WAS MADE UP IN IMPORTS. POOR HARVESTS IN THE NORTH AND A DECLINE IN GRAIN AVAILABLE THROUGH STATE DISTRIBUTION CHANNELS LED TO RATION CUTS. IN THE NORTH, OFFICIAL RATIONS REPORTEDLY WERE CUT FROM 18 KG/PERSON/MONTH TO 13KG. IN THE SOUTH, ONLY SOLDIERS AND CADRES RECEIVED RATIONS. THE URBAN AREAS ARE THE HARDEST HIT, AND, IN THE SOUTH CIVILIANS ARE FORCED TO RELY ON THE MORE EXPENSIVE FREE MARKET.

95. THE 1981 PLAN FOR AGRICULTURE CALLS FOR A 7 PERCENT INCREASE IN FOOD OUTPUT TO 15 MMT, WITH 12 MMT OF THE TOTAL IN PADDYRICE. EVEN ASSUMING A ONE-TO-ONE EQUIVALENCY BETWEEN RICE AND SECONDARY CROPS, THIS LEVEL

OF PRODUCTION WOULD JUST MEET THE SUBSISTENCE NEEDS OF AN ESTIMATED 54.4 MILLION PEOPLE IN 1981 AND NOT ALLOW ENOUGH FOR FEED, SEED, AND LOSS (ABOUT 2 MMT IN MILLED RICE EQUIVALENT). THE 1.8 MMT DEFICIT WILL HAVE TO BE MET BY IMPORTS OR AID. IN 1980, HOWEVER, MAJOR FOOD IMPORTS DECLINED 44 PERCENT, FROM 1.8 MMT. TO 1 MMT. SOVIET FOOD AID, WHICH MADE UP OVER 86 PERCENT OF TOTAL FOOD IMPORTS, DROPPED AN ESTIMATED 20 PERCENT. WESTERN AND INTERNATIONAL AID SHIPMENTS DID NOT INCREASE IN 1980; AND, GIVEN VIETNAM'S POOR RELATIONS WITH MAJOR PROSPECTIVE WESTERN, DONOR NATIONS AND ITS LOW FOREIGN EXCHANGE RESERVES (\$80.4 MILLION AT THE END OF 1980), THESE SOURCES CANNOT BE EXPECTED TO COVER ANY FURTHER DECREASES IN SOVIET AID.

96. INDUSTRIAL PRODUCTION DROPPED 10 PERCENT IN 1980 FROM THE 1979 LEVEL, ACCORDING TO IMF DATA. THE DECLINE STEMMED FROM ENERGY AND RAW MATERIAL SHORTAGES, SLOW ABSORPTION OF INVESTMENT FUNDS, AND INADEQUATE TRANSPORT. THE 1981 PLAN CALLS FOR 2.3 PERCENT GROWTH, WHICH CAN BE ACHIEVED ONLY IF SUPPLIES OF ENERGY AND AGRICULTURAL INPUTS IMPROVE. CONSUMER AND EXPORT SECTORS HAVE RECEIVED TOP PRIORITY IN TERMS OF INVESTMENT. MOST OF THE INDUSTRIAL PROJECTS FUNDED BY FOREIGN DONORS, INCLUDING A MAJOR HYDROELECTRIC PROJECT FINANCED BY THE USSR, WILL NOT START PRODUCING UNTIL AFTER 1981.

97. EXPORTS AND IMPORTS BOTH FELL 15 PERCENT IN 1980, DUE TO DECLINES IN COAL PRODUCTION SINCE 1978, LOSSES OF

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EXPORT CROPS AND SLOWDOWNS IN INDUSTRY. VIETNAM HAS VIRTUALLY NO CHANCE OF MEETING ITS GOAL OF A 25 PERCENT INCREASE IN EXPORTS, GIVEN THE PROBLEMATIC GROWTH IN OTHER SECTORS. IT WILL ALSO NEED A MORE MODERN INDUSTRIAL BASE BEFORE IT CAN MEET ANOTHER PLAN GOAL OF PRODUCING AND EXPORTING LIGHT CONSUMER AND INDUSTRIAL GOODS.

98. THE GOVERNMENT PLANS TO CONTINUE THE ECONOMIC REFORM POLICIES IT BEGAN IN 1979. IT HAS INTRODUCED DIFFERENTIATION OF WAGES AND BONUS PAYMENTS AS INCENTIVES IN BOTH AGRICULTURE AND INDUSTRY. PRICING POLICY HAS BEEN LIBERALIZED; AGRICULTURAL PRICES HAVE INCREASED AND A DUAL PRICE SYSTEM TO ENCOURAGE ABOVE-QUOTA SALES TO THE STATE HAS BEEN INTRODUCED. COOPERATIVES HAVE BEEN ALLOTTED MORE DECISION-MAKING POWER. AT THE SAME TIME, THE GOVERNMENT IS TRYING RECHANNEL FREE MARKET TRADE (WHICH SUPPLIES AT LEAST 20 PERCENT OF TOTAL CONSUMER GOODS) TO THE STATE DISTRIBUTION SYSTEM BY REGISTERING ALL BUSINESSES AND TURNING INDIVIDUAL TRADERS INTO STATE PURCHASING AGENTS.

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99. THE PRIMARY RESULT OF ECONOMIC DECLINE ON THE POPULATION AND THE LOWER LEVELS OF THE PARTY CADRE HAS BEEN A CONTINUED GROWTH OF MALAISE AND A CONCERN TO LOOK OUT FOR ONESELF TO THE DETRIMENT OF THE PARTY'S BROADER SOCIALIST GOALS. THE PARTY HAS RESPONDED AS USUAL WITH EMULATION MOVEMENTS AND HORATORY PROPAGANDA--ALL TO LITTLE AVAIL. AT THE SAME TIME, A MOVEMENT TO PURGE THE PARTY OF INCOMPETENT, DISLOYAL AND VENAL MEMBERS EVIDENTLY HAS HAD MIXED RESULTS. THE DRIVE, SCHEDULED TO BE COMPLETED BY THE END OF THE YEAR, IS SUPPOSED TO BE COMBINED WITH RECRUITING YOUNGER AND MORE TECHNICALLY PROFICIENT MEMBERS. ALTHOUGH THE LEADERSHIP IS CLEARLY CONCERNED ABOUT THE POTENTIAL FOR DISSIDENCE AND RESISTANCE, A PERVASIVE SECURITY SYSTEM HAS KEPT THESE PROBLEMS UNDER CONTROL.

100. AT THE UPPER REACHES OF THE GOVERNMENT, MORE MINISTERIAL SHIFTS HAVE BEEN MADE IN THE PROBLEM AREAS OF THE ECONOMY AND SIX MINISTERS LOST THEIR JOBS. ON THE OTHER HAND, THERE HAVE BEEN NO EVIDENT SHIFTS WITHIN THE TOP ECHELONS OF THE SRV'S AGING LEADERSHIP SINCE LAST FEBRUARY. HOWEVER, THE IMPLEMENTATION OF THE NEWLY ADOPTED SRV CONSTITUTION AND, PARTICULARLY, THE CONVOCATION OF THE FIFTH VIETNAMESE COMMUNIST PARTY CONGRESS TOWARDS THE END OF 1981 SHOULD PROVIDE MORE CLUES TO THE COMPLEXION OF THE LEADERSHIP. IT SEEM LIKELY, HOWEVER, THAT NEITHER WILL BRING SIGNIFICANT SHIFTS IN POLICY, GIVEN THE CONSTRAINTS OF CIRCUMSTANCES AND THE FACT THAT THE OUTLOOK AND BACKGROUND OF THOSE SLATED FOR ELEVATION PROBABLY DIFFERS

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LITTLE FROM THE CURRENT LEADERS.

101. THE CONSTITUTION HAS RESTRUCTURED THE GOVERNMENT TO PROVIDE FOR A STATE COUNCIL, A MORE POWERFUL BODY ON PAPER THAN THE CURRENT COUNCIL OF MINISTERS WHICH WILL REMAIN. NEW ELECTIONS ARE SCHEDULED FOR APRIL 26 TO SELECT A NATIONAL ASSEMBLY WHICH WILL MEET TO FILL THE GOVERNMENT POSITIONS. SPECULATION HAS CENTERED AROUND EITHER LE DUAN OR PHAM VAN DONG TO HEAD THE COUNCIL AND THUS BE HEAD OF STATE; WHATEVER THE RESULTS, EFFECTIVE POWER WILL RESIDE IN LE DUAN AND THE TOP PARTY APPARATUS.

102. THERE WERE NO SIGNIFICANT DEVELOPMENTS IN VIETNAMESE FOREIGN POLICY IN 1980. IN KAMPUCHEA, HANOI MOVED TO CONSOLIDATE ITS PREEMINENT POSITION AND TO BUILD-UP ITS SURROGATE, THE HENG SAMRIN GOVERNMENT. THERE WERE NO SIGNS OF COMPROMISE IN RESPONSE TO ASEAN AND UN DEMANDS FOR WITHDRAWAL OF SRV TROOPS AND A POLITICAL SETTLEMENT. NEITHER WAS THERE SIGNIFICANT MILITARY ACTION, ALTHOUGH HANOI'S WARNINGS ABOUT THAI ASSISTANCE TO THE POL POT FORCES AND OTHER KHMER RESISTANCE FORCES WAS UNDERLINED BY LAST JUNE'S BRIEF INCURSION ALONG THE BORDER.

103. HANOI'S RELATIONS WITH BEIJING DETERIORATED SOMEWHAT FURTHER, BUT THERE WERE ONLY MINOR FLARE-UPS ALONG THE BORDER AND NO INDICATION THAT BEIJING INTENDED TO TEACH VIETNAM "A SECOND LESSON," AS OCCASIONALLY THREATENED. HANOI'S DEMANDS FOR A RESUMPTION OF NEGOTIATIONS WERE IGNORED OR TURNED DOWN BY THE PRC. THE SRV ALSO REMAINED GENERALLY ISOLATED FROM THE REST OF THE NON-SOVIET WORLD, DESPITE PERIODIC DIPLOMATIC FORAYS AND VERBAL PROTESTATIONS OF A DESIRE TO IMPROVE RELATIONS. LIKEWISE, HANOI CONTINUED TO INDICATE A DESIRE FOR RELATIONS WITH THE UNITED STATES BY BEING GENERALLY HELPFUL ON THE MIA ISSUE AND ORDERLY DEPARTURE FOR REFUGEES.

104. THE LEADERSHIP CLEARLY IS CONCERNED ABOUT ITS ISOLATION. HOWEVER, IT PROBABLY SEES NO REALISTIC ALTERNATIVE TO THE OVERWHELMING SRV DEPENDENCE ON THE SOVIET UNION GIVEN THE DISMAL ECONOMIC SITUATION AND THE DETERMINATION TO MAINTAIN CONTROL IN KAMPUCHEA AND LAOS. AT THE SAME TIME, THE LEADERS EVIDENTLY BELIEVE THEY CAN MANAGE THIS DEPENDENCE WITHOUT LOSING THEIR FREEDOM OF ACTION, SINCE THE SOVIET STAKE IN USING NAVAL AND AIR INSTALLATIONS AT DANANG AND CAMRANH BAY IS CONSIDERABLE.

105. THE SITUATION IN LAOS. LAOS REMAINS ON THE PERIPHERY OF THE WAR IN KAMPUCHEA AND THE OUTFLOW OF REFUGEES, BUT

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THE REGIONAL CRISES CONTINUE TO AFFECT LAO INTERESTS AND PERCEPTIONS. ALTHOUGH LAOS IS AN INDEPENDENT STATE, IT IS CONSTRAINED IN ITS ACTIONS, BOTH POLITICAL AND ECONOMIC, BY ITS ENDEMIC WEAKNESS. LAOS IS DEPENDENT MILITARILY AND ADMINISTRATIVELY ON VIETNAM AND ITS CONTINUES TO ECHO THE VIETNAMESE LINE ON FOREIGN POLICY AND TO DECLARE ITS MILITANT SOLIDARITY WITH VIETNAM AND THE HENG SAMRIN REGIME OF KAMPUCHEA (THE PEOPLE'S REPUBLIC OF KAMPUCHEA), VIETNAMESE TROOPS IN LAOS (ABOUT 40,000) DO NOT OPERATE AS AN ARMY OF OCCUPATION, BUT ARE INVOLVED IN CONSTRUCTION ACTIVITIES AND SUPPRESSION OF ANTI-COMMUNIST RESISTANCE ELEMENTS. INTERNAL SECURITY IS TENUOUS AND WERE IT NOT FOR VIETNAMESE TROOPS, THE RESISTANCE COULD OPERATE EVEN MORE FREELY IN THE COUNTRYSIDE,

106. SOVIET INFLUENCE IN LAOS CONTINUES TO LAG BEHIND THAT OF VIETNAM, BUT IT IS IMPORTANT TO LAOS IN DEFENSE,
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ECONOMIC, AND TECHNOLOGICAL ASSISTANCE. THE SOVIETS HAVE BEEN PARTICULARLY HELPFUL IN MILITARY TRAINING, CIVIL AVIATION, EXPLORATION FOR NATURAL RESOURCES, AND HIGHWAY CONSTRUCTION.

107. DESPITE THE IMPRESSION CREATED INTERNATIONALLY OF LAOS BEING A "KEPT STATE," THERE ARE INDICATIONS THAT SOME LAO LEADERS ARE LESS FAVORABLY DISPOSED TO VIETNAM, AND TAKE A GENERALLY MORE NATIONALISTIC APPROACH TO LAO POLICY. IN ADDITION, LAOS HAS SHOWN SOME POSSIBLE SIGNS OF INDEPENDENT ACTION IN FOREIGN AFFAIRS--MOST NOTABLY IN ITS CONDUCT OF RELATIONS WITH THAILAND. RELATIONS BETWEEN THE TWO NATIONS, PARTICULARLY ALONG THE MEKONG RIVER, HAD BEEN IMPROVING UNTIL LAST SUMMER WHEN THEY BECAME STRAINED OVER THE CLOSURE OF THE ENTIRE LAO-THAI BORDER BY THAILAND FOLLOWING A SHOOTING INCIDENT ON THE RIVER IN WHICH A THAI NAVAL OFFICER WAS KILLED. THE BORDER HAS BEEN REOPENED AND TRADE VITAL TO LAOS' ECONOMY HAS RESUMED, BUT RECENT BORDER INCIDENTS AGAIN THREATEN TO DISRUPT THE SITUATION.

108. RELATIONS WITH CHINA CONTINUE TO BE POOR, WITH LAOS ECHOING THE HANOI LINE BY REFERRING IN ITS PUBLIC PRONOUNCEMENTS TO THE PRC AS A "BIG-NATION EXPANSIONIST" THAT SEEKS TO SOW DIVISION AND TO DOMINATE THE THREE INDOCHINESE COUNTRIES. TENSIONS ALONG THE SINO-LAO BORDER HAVE DECREASED SOMEWHAT DURING THE PAST FEW MONTHS AND THERE ARE NO INDICATIONS OF PREPARATIONS BY THE PRC FOR MAJOR MILITARY ACTION AGAINST LAOS. THE CHINESE, HOWEVER,

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APPARENTLY INTEND TO MAINTAIN PROLONGED PRESSURE ON THE LAO BORDER (AND ON VIETNAM'S AS WELL WHERE THE PRC HAS DEPLOYED AN ESTIMATED 250,000 TROOPS) IN AN EFFORT TO KEEP VIETNAM OFF BALANCE AND POSSIBLY TO DRAW OFF VIETNAMESE TROOPS IN KAMPUCHEA. CHINESE FORCES DEPLOYED ALONG THE LAO BORDER NUMBER APPROXIMATELY 30,000.

109. THE LAO GOVERNMENT IS BECOMING INCREASINGLY NERVOUS ABOUT DISSIDENT ACTIVITIES AND THE POSSIBILITY OF INCREASED CHINESE SUPPORT FOR ARMED RESISTANCE. WITH CHINESE AND THAI ENCOURAGEMENT, THE DISPARATE LAO INSURGENTS HAVE BECOME MORE ACTIVE IN RECENT MONTHS. THEY HAVE IMPROVED THEIR COMMUNICATIONS AND PROPAGANDA CAPABILITIES AND HAVE EVEN ATTACKED ISOLATED VIETNAMESE AND LAO ARMY POSTS. BUT THE INSURGENTS ARE NOT WELL ORGANIZED AND DO NOT CONTROL ANY TERRITORY OR POSE A SERIOUS THREAT TO THE GOVERNMENT. CHINA'S SUPPORT FOR THE DISSIDENTS APPEARS TO BE IN LINE WITH ITS OVERALL STRATEGY OF CHALLENGING HANOI'S DOMINATION OF LAOS AND KAMPUCHEA. SO FAR DIRECT CHINESE MATERIAL ASSISTANCE HAS BEEN MINIMAL PARTLY BECAUSE DIFFICULT TERRAIN CREATES LOGISTICAL PROBLEMS.

110. THE LAO GOVERNMENT HAS CONTINUED ITS EFFORTS TO STABILIZE THE COUNTRY'S ECONOMY WHICH IS PLAGUED WITH INFLATION, SHORTAGES OF ESSENTIAL COMMODITIES, AND INEFFECTIVE CENTRAL PLANNING. LAOS RECEIVES LARGE AMOUNTS OF AID FROM UNITED NATIONS ORGANIZATIONS, THE WORLD BANK, AND THE ASIAN DEVELOPMENT BANK. IT CONTINUES TO SEEK FOREIGN ASSISTANCE FROM WESTERN COUNTRIES AND JAPAN. IN THE PAST, LAOS HAS REQUESTED US ECONOMIC DEVELOPMENT ASSISTANCE, BUT THIS IS PROHIBITED UNDER CURRENT US LAW.

111. IN AN APPARENT EFFORT TO IMPROVE GOVERNMENT OPERATIONS AND ALLEVIATE THE SHORTAGE OF ADMINISTRATIVE AND TECHNICAL PERSONNEL CREATED BY THE DEPARTURE OF MIDDLE-CLASS REFUGEES, THE LAO GOVERNMENT HAS BEEN RELEASING INMATES FROM RE-EDUCATION CAMPS AS PART OF A GENERAL AMNESTY PLAN LAUNCHED LAST FALL. MANY OF THE RETURNEES ARE BUREAUCRATS AND ARMY OFFICERS FROM THE OLD REGIME, AND SOME HAVE HAD GOVERNMENT POSITIONS AWAITING FOR THEM.

112. INDOCHINA REFUGEE SITUATION. THE RATE OF NEW REFUGEE ARRIVALS AND THE RESIDUAL POPULATION OF REFUGEE CAMPS IN SOUTHEAST ASIA DIMINISHED IN 1980, BUT THE REFUGEE SITUATION REMAINS SERIOUS AND COULD ULTIMATELY THREATEN STABILITY IN THE REGION. THAILAND BEARS THE BRUNT OF THE REFUGEE OUTFLOW WITH 125,000 VIETNAMESE, LAO AND KHMER IN UNHCR SUPPORTED REFUGEE CAMPS, AN ADDITIONAL

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125,000 KHMER IN REFUGEE "HOLDING CENTERS," AND UP TO 150,000 "TRANSIENT KHMER" OCCUPYING INFORMAL ENCAMPMENTS STRADDLING THE THAI-KAMPUCHEAN BORDER. ANOTHER 60,000 VIETNAMESE BOAT REFUGEES HAVE BEEN GRANTED TEMPORARY ASYLUM IN THE OTHER ASEAN STATES AND IN HONG KONG.

113. BOAT REFUGEES ARRIVED AT A RATE OF 6000 PER MONTH IN 1980. THE RATE OF ESCAPE FROM LAOS IS MORE DIFFICULT TO CALCULATE BUT IS ESTIMATED AT 7000 PER MONTH. THE KHMER REFUGEE POPULATION AT THE THAI BORDER HAS DIMINISHED SIGNIFICANTLY BECAUSE OF IMPROVED FOOD AND SECURITY CONDITIONS WITHIN KAMPUCHEA. VIETNAM CONTINUES TO OBSERVE ITS MORATORIUM ON "ASSISTED" BOAT DEPARTURES BUT NEWLY ARRIVED REFUGEES REPORT THAT THIS POLICY COULD CHANGE AT ANY TIME. VIETNAM HAS AGREED TO A LIMITED PROGRAM OF "ORDERLY DEPARTURES" THROUGH THE UNHCR BUT IT IS UNLIKELY THAT THIS
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PROGRAM WILL SIGNIFICANTLY REDUCE THE NUMBER OF CLANDESTINE
ESCAPES.

114. THE 1975 COMMUNIST TAKEOVERS IN INDOCHINA CAUSED A
RADICAL RESTRUCTURING OF THOSE SOCIETIES, CREATING POLITI-
CAL AND ECONOMIC CONDITIONS THAT HAVE IMPELLED LARGE NUM-
BERS OF INDOCHINESE TO FLEE THEIR HOMELANDS. INDIVIDUAL
MOTIVATIONS FOR REFUGEE FLIGHT ARE COMPLEX AND OFTEN VARY
ACCORDING TO ETHNIC GROUP AND COUNTRY OF ORIGIN. THE LOSS
OF POLITICAL FREEDOM AND, FOR SOME, THE FEAR OF POLITICAL

PERSECUTION ARE COMMON MOTIVATING FACTORS. BLEAK ECONOMIC
PROSPECTS AND FEAR OF THE DRAFT HAVE HAD SIGNIFICANT IMPACT
ON THE FLOW OF VIETNAMESE AND LOWLAND LAO REFUGEES. IN
VIETNAM, THE ETHNIC CHINESE ARE HOUNDED BOTH FOR THEIR
ETHNICITY AND ALSO BECAUSE OF THEIR ROLE AS CAPITALISTS,
WHILE IN LAOS, ETHNIC MINORITIES SUCH AS THE HMONG SUFFER
BECAUSE OF THEIR PREVIOUS ASSOCIATION WITH U.S. POLICIES.
MANY KHMER REFUGEES WHO HAVE SURVIVED POL POT AND WHOSE
COUNTRY IS NOW UNDER VIETNAMESE CONTROL SEE NO FUTURE IN
THEIR HOMELAND. REGARDLESS OF THEIR INDIVIDUAL MOTIVATION
FOR FLEEING, MOST INDOCHINESE REFUGEES, PARTICULARLY
THOSE FROM LAOS AND VIETNAM, HAVE A JUSTIFIABLE FEAR OF
PERSECUTION IF THEY SHOULD RETURN.

115. INDOCHINESE REFUGEES HAVE CAUSED DOMESTIC POLITICAL
DEBATE IN ALL OF THE ASEAN COUNTRIES. CURRENTLY, NONE OF
THEM ARE WILLING TO ACCEPT REFUGEES FOR PERMANENT RESSETLE-
MENT. BECAUSE OF HISTORICAL ETHNIC ANIMOSITIES, THE

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VIETNAMESE ARE PARTICULARLY UNWELCOME IN THAILAND, MALAYSIA AND INDONESIA. THAILAND HAS STATED CATEGORICALLY THAT IT CANNOT ABSORB LARGE NUMBER OF ETHNIC LAO INTO ITS POPULATION DESPITE THEIR COMMON CULTURAL BACKGROUND. INCREASED RESETTLEMENT OPPORTUNITIES IN THE WEST HAVE REDUCED REFUGEE CAMP POPULATIONS THROUGHOUT SOUTHEAST ASIA BUT THE ASEAN STATES STILL SUSPECT THAT THEY WILL BE BURDENED WITH A PERMANENT REFUGEE PROBLEM ONCE WESTERN INTEREST DIMINISHES. IF THE REFUGEE POPULATION GROWS SIGNIFICANTLY IN THE FUTURE IT IS PROBABLE THAT THE ASEAN WILL THREATEN FORCIBLE REPATRIATION OR WILL ONCE AGAIN PUSH OFF REFUGEE BOATS IN AN EFFORT TO REFOCUS INTERNATIONAL ATTENTION ON INDOCHINESE REFUGEES.

116. SOME VOLUNTARY REPATRIATION HAS TAKEN PLACE, PARTICULARLY AMONG THE KHMER IN THAILAND. BUT FOR THE MAJORITY OF REFUGEES, REPATRIATION IS NOT A VIABLE OPTION. MOST REALIZE THAT BY FLEEING INDOCHINA, THEY HAVE MADE A POLITICAL STATEMENT AND THAT THIS WILL BE HELD AGAINST THEM SHOULD THEY RETURN TO THEIR COUNTRY OF ORIGIN.

PART VI. CHINA

117. CHINESE LEADERS ARE ATTEMPTING TO CREATE THROUGH THEIR FOREIGN POLICY A BROAD ANTI-SOVIET FRONT OF MODERATE THIRD WORLD NATIONS, WEST EUROPEAN COUNTRIES, JAPAN AND THE US. THEY SEE SUCH A FRONT AS PREVENTING OR LONG DELAYING A MAJOR WORLD WAR WHILE, AT THE SAME TIME, PERMITTING CHINA TO MODERNIZE WITHOUT ANY GREAT RISKS TO ITSELF.

118. OPPOSITION TO SOVIET EXPANSIONISM IS THE GUIDING PRINCIPLE IN CHINA'S FOREIGN POLICY. BEIJING HAS RECENTLY FOCUSED ALMOST EXCLUSIVELY ON THE SOVIET UNION AS THE MAJOR THREAT TO PEACE, SEEING ITS OCCUPATION OF AFGHANISTAN AND ITS SUPPORT OF VIETNAM AS PART OF A SINISTER PLAN FOR WORLD DOMINATION. IT JUDGES, HOWEVER, THAT MOSCOW CAN BE PREVENTED FROM STARTING A WORLD WAR BY THE SOLIDARITY OF OTHER COUNTRIES.

119. THE NEED TO MODERNIZE HAS LED CHINA TO CLOSER TIES WITH THE DEVELOPED WORLD AS WELL AS STEPPED-UP EFFORTS BY BEIJING TO IMPRESS UPON THE WEST THE DANGERS OF COMPROMISE AND WEAKNESS IN THE FACE OF SOVIET AMBITIONS. AT THE SAME TIME, CHINA HESITATES TO IDENTIFY ITSELF TOO CLOSELY WITH WESTERN ACTIONS, PARTICULARLY IN THE SENSITIVE AREA OF THE MIDDLE EAST.

120. CHINA'S GREATEST PRESENT EFFORT IS TO MAINTAIN

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WORLD PRESSURE AGAINST THE SOVIETS FOR THEIR INVASION OF AFGHANISTAN AND AGAINST THE VIETNAMESE FOR THEIR INVASION AND OCCUPATION OF KAMPUCHEA.

121. CHINA HAS SEEN THE SOVIET INVASION OF AFGHANISTAN AS AN OPPORTUNITY TO COUNTER ATTITUDES IN THE WEST FAVORABLE TO DETENTE, PROD THE UNITED STATES INTO A TOUGHER ANTI-SOVIET STANCE, AND DRIVE A WEDGE BETWEEN THE LDC'S AND THE SOVIET UNION. CHINA HAS THEREFORE LOBBIED FOR GREATER WESTERN INVOLVEMENT IN THE SECURITY OF SOUTHWEST ASIA, OFFERED ITS OWN ASSURANCES OF SUPPORT TO PAKISTAN, ENCOURAGED RAPPROCHEMENT BETWEEN NEW DELHI AND ISLAMABAD, AND ATTEMPTED TO IMPROVE ITS OWN TIES WITH INDIA. AT THE SAME TIME CHINA CONTINUES TO CALL ON THE INTERNATIONAL COMMUNITY TO AID THE AFGHAN RESISTANCE, ALTHOUGH ITS OWN AID HAS BEEN MINIMAL. THE CHINESE PORTRAY THE VIETNAMESE
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FOR NSC
OCCUPATION ON KAMPUCHEA AS A PARALLEL EXAMPLE OF SOVIET
EXPANSIONISM BY PROXIES AND SEEK TO MOBILIZE REGIONAL AND
WORLD OPINION AGAINST ACCEPTANCE OF A FAIT ACCOMPLI IN
KAMPUCHEA AND ENCOURAGE FIERCE RESISTANCE TO HANOI.

122. SINO-US RELATIONS. GIVEN THE ANTI-SOVIET OPTIC
THROUGH WHICH VIRTUALLY ALL EVENTS AND POLICIES ARE VIEWED,
IT IS NOT SURPRISING THAT BEIJING HAS MADE IT CLEAR THAT
IT REGARDS COMMON OPPOSITION TO SOVIET "HEGEMONISM" AND
EXPANSIONISM AS THE STRATEGIC BASIS FOR THE SINO-US
RELATIONSHIP AND THAT IT VIEWS ANY SIGNS OF US-SOVIET
RAPPROCHEMENT, INCLUDING ARMS CONTROL NEGOTIATIONS, WITH
DISFAVOR.

123. DURING 1980 THE US AND CHINA WORKED HARD AND
SUCCESSFULLY TO FULLY "NORMALIZE" ECONOMIC RELATIONS AND
ESTABLISH DIPLOMATIC AND OTHER CONSULTATIVE MECHANISMS.

124. WITH THE SIGNING ON SEPTEMBER 17 OF NEW AGREEMENTS
ON CIVIL AVIATION, MARITIME, TEXTILE AND CONSULAR MATTERS
BY PRESIDENT CARTER AND VICE PREMIER BO YIBO, THE BASIC
FRAMEWORK FOR NORMAL INTERACTION WAS PUT IN PLACE.

125. IN RECENT MONTHS THE CHINESE HAVE REPEATEDLY VOICED
CONCERN ABOUT THE POSSIBILITY OF THE UNITED STATES RESTOR-
ING SOME ELEMENT OF OFFICIALITY TO THE RELATIONSHIP WITH
TAIWAN, AS WELL AS INCREASING SALES OF MILITARY EQUIPMENT
TO TAIWAN. THEY HAVE REITERATED FORCEFULLY THAT ANY SHIFT
IN THE TERMS OF THE CURRENT UNOFFICIAL RELATIONSHIP WITH

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TAIPEI WOULD UNDERMINE THE CAREFULLY CRAFTED COMPROMISES WHICH WERE THE BASIS OF NORMALIZATION.

126. THE CHINESE HAVE STRESSED THE STRATEGIC ASPECTS OF THEIR RELATIONSHIP WITH THE US AND MADE IT CLEAR THAT THEY LOOK TO THE UNITED STATES TO ACT RESPONSIBLY TO REDRESS WHAT THEY PERCEIVE AS RECENT SHIFTS IN THE STRATEGIC BALANCE IN FAVOR OF THE USSR. CHINESE ASSESSMENT OF THE VALUE OF CHINA'S TIES TO THE UNITED STATES WILL IN GOOD PART BE DETERMINED BY CONTINUED AMERICAN CONSTANCY IN ENHANCING US MILITARY POWER AND PURSUING THE TOUGHER POLICIES TOWARD THE USSR ADOPTED SINCE THE INVASION OF AFGHANISTAN.

127. THE US-CHINA SECURITY RELATIONSHIP WHICH HAS EVOLVED SINCE THE BROWN VISIT IN JANUARY INCLUDES NO JOINT PLANNING OR LETHAL ARMS SALES, BUT DOES PERMIT MUTUAL FAMILIARIZATION BETWEEN THE RESPECTIVE DEFENSE ESTABLISHMENTS SUCH AS OCCURRED DURING THE GENG BIAO VISIT IN MAY-JUNE, AND UNDER-SECRETARY OF DEFENSE PERRY'S VISIT IN SEPTEMBER, AND MODEST ACCESS TO US MILITARY-RELATED TECHNOLOGY AND EQUIPMENT. THE CHINESE SEEM ON BALANCE TO BE PLEASED WITH THE DEFENSE RELATIONSHIP BUT HOPE THE US WILL ULTIMATELY PROVE WILLING TO ASSIST THEIR MILITARY MODERNIZATION DIRECTLY THROUGH TECHNOLOGY TRANSFERS FOR MILITARY R AND D AND PRODUCTION BARRED BY CURRENT POLICY.

128. SINO-SOVIET. CHINA HAS CONTINUED TO EXHORT THE WEST AND THIRD WORLD COUNTRIES TO TAKE A MORE FIRMLY ANTI-SOVIET STANCE IN THE WAKE OF THE INVASION OF AFGHANISTAN. AS PART OF ITS RESPONSE TO THE INVASION OF AFGHANISTAN, BEIJING INDEFINITELY POSTPONED THE SECOND ROUND OF POLITICAL NEGOTIATIONS WITH THE USSR WHICH HAD BEEN SCHEDULED TO OPEN IN

EARLY 1980. THIS ENDED THE PHASE IN SINO-SOVIET RELATIONS, BEGUN IN APRIL 1979, THAT HAD FOR A TIME RAISED THE PROSPECT OF SOME IMPROVEMENTS IN RELATIONS. AFTER THE DENG-DOMINATED PARTY PLENUM IN LATE FEBRUARY, THE CHINESE LEADERSHIP STEPPED UP ITS EFFORTS TO DEMONSTRATE IMPLACABILITY TOWARD THE SOVIETS. THE DOMESTIC CRISIS IN POLAND RAISED THE SPECTER OF SOVIET INTERVENTION, A PROSPECT CHINA HAS PUBLICLY CONDEMNED. NEVERTHELESS, DESPITE A PUBLICIZED BORDER INCIDENT LAST FALL, ACTUAL CONFLICT HAS BEEN LIMITED TO THE VERBAL AND DIPLOMATIC LEVELS, WHILE CERTAIN ASPECTS OF THE RELATIONSHIP, INCLUDING TRADE AND BORDER RIVER NEGOTIATIONS, HAVE PROCEEDED NORMALLY.

129. CHINA-SOUTHWEST ASIA/MIDDLE EAST. CHINA VIEWS EVENTS IN SOUTHWEST ASIA AS BOTH A THREAT AND AN OPPORTUN-

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ITY. WHILE CONCERNED ABOUT WHAT THESE EVENTS BODE FOR ITSELF AND ITS FRIENDS, CHINA HAS SEIZED UPON THE SOVIET INVASION OF AFGHANISTAN AS AN OPPORTUNITY TO COUNTER DETENTE POLITICS IN THE WEST, PROD WASHINGTON INTO A TOUGHER ANTI-SOVIET STANCE, AND DRIVE A WEDGE BETWEEN THE THIRD WORLD AND THE SOVIET UNION -- THREE KEY CHINESE FOREIGN POLICY OBJECTIVES. IT ALSO HOPES TO SEE THE SOVIET UNION SO BOGGED DOWN IN AFGHANISTAN THAT IT CAN EXTRICATE ITSELF ONLY AT HIGH POLITICAL COST.

130. GIVEN THE IMPORTANCE THEY ATTACH TO AFGHANISTAN AND THE PERSIAN GULF REGION, THE CHINESE WERE CONCERNED THAT THE UNITED STATES WAS TOO PREOCCUPIED WITH IRAN. WHILE SYMPATHIZING WITH THE US POSITION AND OFFERING PUBLIC SUPPORT FOR THE RELEASE OF THE HOSTAGES, BEIJING BELIEVED THAT WASHINGTON SHOULD SUBORDINATE CONCERN ABOUT BT

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THE HOSTAGES TO LARGER GEOPOLITICAL CONSIDERATIONS.
BEIJING ARGUED THAT MEASURES THAT WOULD DESTABILIZE IRAN
FURTHER ONLY PLAYED INTO THE HANDS OF THE SOVIET UNION,
THE FORCE IN THE REGION THE UNITED STATES AND ITS ALLIES
SHOULD BE MOST CONCERNED ABOUT. THE CHINESE ARE DOUBTLESS
RELIEVED THAT THE HOSTAGE CRISIS NEED NO LONGER BE THE
MAJOR DETERMINANT OF US POLICY TOWARD IRAN.

131. THE CHINESE ARE CURRENTLY CONCERNED THAT THE WAR
BETWEEN IRAN AND IRAQ WILL GIVE THE SOVIETS AN OPPORTUNITY
TO INCREASE THEIR INFLUENCE OR CONTROL. THEY HAVE WARNED
THE BELLIGERENTS OF THAT DANGER AND HAVE URGED PEACEFUL
RESOLUTION OF THE CONFLICT. LIKE MOST WESTERN COUNTRIES,
THEY HAVE SOUGHT TO ADOPT A NEUTRAL STANCE, IN ORDER TO
PRESERVE FUTURE OPTIONS.

132. CHINA MOVED QUICKLY TO REASSURE PAKISTAN OF ITS SUPP-
ORT AFTER THE SOVIET INTERVENTION IN AFGHANISTAN. WHILE

CHINA HAS APPARENTLY PROMISED ZIA ADDITIONAL MILITARY
ASSISTANCE, IT CANNOT SUPPLY THE SOPHISTICATED HARDWARE
ISLAMABAD NEEDS, AND THE CHINESE HAVE LOBBIED EXTENSIVELY
ON PAKISTAN'S BEHALF. AS PART OF ITS REGIONAL STRATEGY,
BEIJING HAS URGED A RAPPROCHEMENT BETWEEN PAKISTAN AND
INDIA.

133. THOUGH SET BACK BY INDIA'S RECOGNITION OF THE
VIETNAMESE-INSTALLED HENG SAMRIN REGIME IN KAMPUCHEA, AND
THE YET-TO-BE-RESCHEDULED VISIT OF FOREIGN MINISTER HUANG

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HUA TO NEW DELHI, PROSPECTS FOR A LIMITED IMPROVEMENT IN SINO-INDIAN RELATIONS REMAIN FAIRLY GOOD. CHINA HAS NOTED WITH INTEREST THE STRAINS THE AFGHANISTAN SITUATION HAVE BROUGHT TO THE SOVIET-INDIAN RELATIONSHIP, AND HAS CAREFULLY AVOIDED CRITICIZING INDIA FOR ITS CONTINUED RELATIONSHIP WITH THE SOVIETS.

134. CHINA-SOUTHEAST ASIA. THE CHINESE REMAIN AS ADAMANTLY OPPOSED AS EVER TO VIETNAM'S POLICIES IN INDOCHINA. CHINA CONTINUES TO PROVIDE MATERIAL AND DIPLOMATIC ASSISTANCE TO THE KAMPUCHEAN RESISTANCE AND TO OPPOSE VIGOROUSLY ANY SOLUTION THAT WOULD LEAVE A VIETNAMESE BACKED REGIME IN PLACE IN KAMPUCHEA. CHINA HAS FEW ILLUSIONS ABOUT THE KHMER ROUGE'S LONG-TERM PROSPECTS AND HAS RECENTLY BEGUN TO ACTIVELY PUSH FOR A BROADENING OF DEMOCRATIC KAMPUCHEA'S (DK) POLITICAL BASE TO INCLUDE NON-COMMUNIST ELEMENTS. IT HAS URGED THAT EXISTING ASEAN SUPPORT FOR THE DK REMAIN FIRM, BUT BOWING TO ASEAN AND INTERNATIONAL SENSIBILITIES, IT HAS DEMONSTRATED OPENNESS TO AN ANTI-VIETNAMESE NON-COMMUNIST-LED "UNITED FRONT" WITHOUT THE OBJECTIONABLE DK LEADERS, IF SUCH CAN BE SHOWN VIABLE AND CREDIBLE.

135. THE CHINESE HAVE LOBBIED HARD IN SOUTHEAST ASIA AND ELSEWHERE FOR THESE VIEWS. ASEAN CONTINUES TO CALL FOR A VIETNAMESE WITHDRAWAL FROM KAMPUCHEA AND TO VOICE CONCERN ABOUT CLOSE SOVIET-VIETNAMESE TIES. NONETHELESS, REGIONAL SUSPICION OF CHINA IS DEEPLY ROOTED, PARTICULARLY IN MALAYSIA AND INDONESIA, AND BEIJING FACES A CONTINUED EFFORT TO WIN LASTING ASEAN APPROVAL. COGNIZANT OF THIS SUSPICION AND PLACING HIGH PRIORITY ON ITS RELATIONS WITH NON-COMMUNIST SOUTHEAST ASIAN GOVERNMENTS, BEIJING HAS DOWNGRADED ITS SUPPORT FOR COMMUNIST INSURGENCIES IN THE REGION. FOR EXAMPLE, THE CHINESE HAVE CURTAILED THE NUMBER OF CLANDESTINE RADIO TRANSMITTERS BROADCASTING TO SOUTHEAST ASIAN COUNTRIES FROM CHINESE SOIL.

136. CHINA-NORTHEAST ASIA. IN TALKS WITH AMERICANS, JAPANESE, AND OTHERS, THE CHINESE HAVE STRESSED THAT THEY SHARE AN INTEREST IN MAINTAINING STABILITY ON THE KOREAN PENINSULA AND OFFERED ASSURANCES THAT THE NORTH WILL NOT SEIZE THE OPPORTUNITY AFFORDED BY THE PRESENT DIFFICULTIES IN THE SOUTH TO ATTACK. CHINA'S EFFORT TO EXPAND RELATIONS WITH THE UNITED STATES AND JAPAN HAS PROBABLY STRAINED SINO-NORTH KOREAN RELATIONS AT LEAST SOMEWHAT. THERE ARE LIMITS TO HOW FAR CHINA CAN REORIENT ITS KOREAN POLICY AND MAINTAIN ITS LEVERAGE IN PYONGYANG, AND CHINA IS CONCERNED THAT THE SOVIET UNION MIGHT ATTEMPT TO EXPLOIT SINO-KOREAN DIFFERENCES TO INCREASE ITS INFLUENCE IN PYONGYANG. WHILE

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CHINA HAS NOT REJECTED A SMALL VOLUME OF INDIRECT TRADE WITH SOUTH KOREA, BEIJING CONTINUES TO RULE OUT ANY STEPS THAT MIGHT BE SEEN AS SUPPORTIVE OF A CROSS-RECOGNITION FORMULA.

137. IN REGARD TO JAPAN, THE CHINESE CONTINUE TO STRESS THE IMPORTANCE OF US-JAPANESE SECURITY TIES BASED ON THE MUTUAL DEFENSE TREATY. THEY ALSO ARE ENCOURAGING THE JAPANESE TO STRENGTHEN THEIR OWN DEFENSE CAPABILITIES. SINO-JAPANESE BILATERAL RELATIONS ARE STILL FOCUSED ON EXPANDING TRADE UNDER THE LONG TERM TRADE AGREEMENT (LTTA), A STATEMENT OF PRINCIPLES SETTING FORTH THE BASIS OF THE COMMERCIAL RELATIONSHIP.

138. OVER THE LAST YEAR, HOWEVER, THE CHINESE HAVE EXPERIENCED DIFFICULTIES IN IMPLEMENTING THIS AGREEMENT, AS
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THEIR DEVELOPMENT OF RAW MATERIALS--ESPECIALLY OIL--HAS NOT INCREASED RAPIDLY ENOUGH TO MEET THE LTTA QUOTAS. CHINESE INEXPERIENCE IN INTERNATIONAL TRADE AND FINANCE HAS ALSO CREATED PROBLEMS, AND AS A RESULT, JAPAN NOW HAS MORE MODEST EXPECTATIONS FOR THE SINO-JAPANESE RELATIONSHIP.

139. CHINA-EUROPE. CHINA CONTINUES TO OPEN NEW DOORS AND TO EXPAND OLD TIES WITH WESTERN EUROPE, PRIMARILY TO ENCOURAGE A STRONGER, MORE UNIFIED ANTI-SOVIET STANCE, BUT ALSO TO OBTAIN THE TECHNOLOGY AND GOODS NECESSARY TO MODERNIZE ITS CIVILIAN ECONOMY AND ARMED FORCES. THE CHINESE HAVE VOICED CONCERN ABOUT DIFFERENCES WITHIN THE NATO ALLIANCE ON POLICY TOWARD THE SOVIETS. SO FAR, CHINA HAS HAD ONLY LIMITED SUCCESS IN PUSHING ITS HARD DIPLOMATIC LINE. TRADE LEVELS ARE INCREASING BUT, EXCEPT FOR A LIMITED NUMBER OF LOW-LEVEL, NON-LETHAL MILITARY EQUIPMENT PURCHASES, CHINA HAS NOT YET CONCLUDED A MAJOR ARMS DEAL WITH ANY WESTERN EUROPEAN COUNTRY. RECENTLY THE CHINESE HAVE REACTED SHARPLY TO THE POSSIBILITY OF WESTERN EUROPEAN COUNTRIES DEVELOPING STRATEGIC TRADE RELATIONSHIPS WITH TAIWAN, USING THE DUTCH SUBMARINE DEAL AS AN OBJECT LESSON.

140. CHINA-AFRICA. BEIJING'S TIES WITH AFRICA CONCENTRATE ON DIPLOMACY AND TRADE, AID HAVING DIMINISHED CONSIDERABLY DURING THE PAST FEW YEARS DUE TO CHINA'S PREOCCUPATION WITH ITS OWN MODERNIZATION PRIORITIES. THE CHINESE FREQUENTLY EXPRESS CONCERN OVER THE SOVIET AND CUBAN PRESENCE IN AFRICA, PARTICULARLY IN THE HORN AREA. BLACK NATIONALIST GROUPS IN SOUTHERN AFRICA CONTINUE TO RECEIVE LIMITED

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AMOUNTS OF CHINESE MILITARY SUPPORT AND ANTI-SOVIET RHETORIC. BEIJING HAS HAILED THE EMERGENCE OF ZIMBABWE AS A MAJOR STEP IN OVERCOMING THE APARTHEID POLICIES IN SOUTHERN AFRICA AND HAS REITERATED ITS SUPPORT OF THE FRONT-LINE STATES.

141. CHINA-LATIN AMERICA. CHINA IS DEEPLY CONCERNED THAT LATIN AMERICA IS AN EASY TARGET OF SOVIET EXPANSIONISM VIA ITS CUBA PROXY AND HAS ENCOURAGED WASHINGTON TO ADOPT A TOUGH POLICY WITH REGARD TO CUBA. DESPITE CONSIDERABLE EFFORTS, HOWEVER, CHINA'S INFLUENCE IN LATIN AMERICA REMAINS WEAK.

142. PRC DOMESTIC POLITICS. DENG XIAOPING LED HIS MAJORITY REFORMIST GROUP WITHIN THE CHINESE CENTRAL LEADERSHIP TO SOME IMPORTANT BREAK-THROUGHS THIS YEAR. AT THE FIFTH PARTY PLENUM IN FEBRUARY, THE DENGIST GROUP SUCCESSFULLY REMOVED FOUR REMAINING MAOIST-ERA POLITBURO HOLDOVERS FROM PARTY AND STATE POSITIONS; RECREATED THE PARTY SECRETARIAT UNDER THE DIRECTION OF DENG PROTEGE HU YAOBANG, FORCED A CONSENSUS IN FAVOR OF MORE RAPID TURNOVER OF PARTY AND STATE LEADERSHIP POSITIONS, AND SET THE STAGE FOR THE SYMBOLICALLY IMPORTANT REHABILITATION OF LIU SHAOQI AND CONDEMNATION OF KANG SHENG, BOTH OF WHICH WERE SUBSEQUENTLY CARRIED OUT. SHORTLY AFTER THE PLENUM, SICHUAN PARTY BOSS ZHAO ZIYANG WAS MADE EXECUTIVE VICE PREMIER, IN WHAT TURNED OUT TO BE A BRIEF APPRENTICESHIP BEFORE SUCCEEDING HUA GUOFENG AS PREMIER IN SEPTEMBER. UNDER HU YAOBANG'S DIRECTION, THE PARTY SECRETARIAT HAS ASSERTED ITS POWER BY UNDERTAKING IMPORTANT INITIATIVES IN POLICY AREAS SUCH AS SECURITY AFFAIRS, URBAN AFFAIRS AND EDUCATION.

143. THE PERSONNEL APPOINTMENTS AND PROGRAMS FINALIZED IN SEPTEMBER BY THE NATIONAL PEOPLE'S CONGRESS (NPC) REPRESENT ANOTHER POLITICAL SUCCESS FOR THE REFORMIST WING OF THE CHINESE LEADERSHIP LED BY PARTY VICE CHAIRMAN DENG XIAOPING. THE NPC SESSION, LIKE THE PARTY'S FIFTH PLENUM LAST FEBRUARY, BEARS A DENGIST IMPRIMATUR IN ITS STRONG ENDORSEMENT OF LEADERSHIP REFORM AT ALL LEVELS. THE NPC GAVE FORMAL APPROVAL TO A NUMBER OF SENIOR LEVEL PERSONNEL CHANGES, REPORTS AND LAWS. ZHAO ZIYANG WAS ELECTED TO THE PREMIERSHIP, REPLACING HUA GUOFENG. THE NPC ALSO ELECTED THREE

NEW VICE PREMIERS TO HELP FILL THE EIGHT SLOTS VACATED THROUGH RESIGNATIONS: HUANG HUA, ZHANG AIPING, YANG JINGREN. THE PLENARY SESSION ALSO RATIFIED, IN PRINCIPLE, THE DECENTRALIZATION OF CHINA'S MANAGEMENT SYSTEM ON A NATIONWIDE BASIS.

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144. THE SELECTION OF THE THREE VICE PREMIERS -- WHOSE AVERAGE AGE IS 66 -- ILLUSTRATES CHINA'S DIFFICULTIES IN IDENTIFYING LEADERSHIP TALENT THAT IS YOUTHFUL AS WELL AS POLITICALLY TRUSTWORTHY. IN THIS REGARD, THE NPC HAS DONE LITTLE TO REVERSE THE SLOW PACE AT WHICH THE DEFENSE AND FOREIGN POLICY ESTABLISHMENTS HAVE BROUGHT NEW BLOOD INTO TOP POSITIONS. AS PREMIER, ZHAO ZIYANG IS BECOMING MORE DEEPLY INVOLVED IN FOREIGN POLICY, BUT IT WILL TAKE SOME TIME BEFORE HE MASTERS THE TRADE AND DECIDES ON WHOM HE WILL RELY FOR ADVICE. HE RECENTLY MADE HIS FIRST TRIP ABROAD IN HIS NEW CAPACITY, TO BURMA AND THAILAND.

145. THE REFORMIST WING OF THE POLITBURO HAS LONG BELIEVED THAT MODERNIZATION COULD BE CARRIED OUT SUCCESSFULLY ONLY IF OLDER LEADERS WERE REPLACED WITH YOUNGER, MORE PROFESSIONALLY QUALIFIED INDIVIDUALS AND THE BUREAUCRACY WAS HELD
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ACCOUNTABLE FOR ITS MISTAKES. THE SEVERE DISCIPLINARY ACTION TAKEN AGAINST VICE PREMIER KANG SHIEN AND THE DISMISSAL OF THE MINISTER OF PETROLEUM FOR HIS PART IN THE BOHAI RIG DISASTER SIGNALLED THE CENTRAL LEADERSHIP'S INTENT TO PLAY A STRICTER AND MORE INTERVENTIONIST ROLE IN SUPERVISING THE BUREAUCRACY. MORE RECENTLY, VICE PREMIER GU MU WAS REMOVED FROM HIS CONCURRENT POSITION AS HEAD OF THE STATE CAPITAL CONSTRUCTION COMMISSION, APPARENTLY BECAUSE OF HIS INABILITY TO CONTROL RUNAWAY CAPITAL SPENDING AT THE PROVINCIAL LEVEL.

146. ALTHOUGH THE DENGISTS MADE IMPORTANT GAINS AT THE NPC, EFFORTS TO REVITALIZE THE SENIOR LEADERSHIP ARE FAR FROM COMPLETE:

--THE CURRENT VICE PREMIERS APPEAR TO BE IN NEED OF FURTHER STRENGTHENING IN ORDER TO DEAL WITH THE COMPLEX ISSUES INVOLVED IN CHINA'S MODERNIZATION. MOST OF THE STRONG PLAYERS AMONG THEM -- WAN LI, YAO YILIN, AND FANG YI -- ALSO SERVE ON THE PARTY SECRETARIAT AND PROBABLY HAVE ONLY LIMITED TIME TO DEVOTE TO OVERSEEING POLICY IMPLEMENTATION. ZHAO ZIYANG WILL LIKELY FURTHER SORT OUT AND AUGMENT THE RANKS OF THE STATE COUNCIL.

--THE POLITBURO REMAINS ANOTHER WEAK LINK, ENCUMBERED BY ELDERLY LEADERS WHO CANNOT DO A FULL DAY'S WORK AND BY POLITICAL SYMBOLS WHO HAVE LONG OUTLIVED THEIR USEFULNESS.

MANY IN THE REFORM WING OF THE LEADERSHIP VIEW IT AS POPU-

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LATED BY TOO MANY CONSERVATIVES WHO AT VARIOUS TIMES HAVE CONSTRAINED POLITICAL AND ECONOMIC INNOVATION. YE JIANYING, YU QIULI AND LI XIANNIAN, IN ADDITION TO HUA, HAVE HAD THEIR SHARE OF DIFFERENCES WITH THE DENGISTS. BOTH THE OUTCOME OF THE GANG OF FOUR TRIAL AND THE EVIDENT RESIGNATION OF HUA FROM THE PARTY CHAIRMANSHIP INDICATE SERIOUS CONFLICT AMONG THE LEADERS. THE OBVIOUS DIFFICULTY OF THE LEADERSHIP IN AGREEING ON A VERDICT IN THE GANG OF FOUR TRIAL SUGGESTS THAT DENG'S POSITION IS NOT SUFFICIENTLY STRONG TO ENABLE HIM TO CARRY OUT HIS WISHES UNMINDFUL OF THE OPPOSITION.

147. TENSIONS WITHIN THE LEADERSHIP HAVE INCREASED SINCE THE NPC, AS A RESULT OF THE CONTROVERSY OVER HUA AND ALSO MAJOR DIFFERENCES OF OPINION OVER THE ROLE OF MAO, THE IMPORTANCE OF IDEOLOGY, AND, MOST IMPORTANTLY, THE THORNY DETAILS OF EFFECTIVELY CARRYING OUT THE MODERNIZATION PROGRAM. AT THE MOMENT, DENG APPEARS ONCE MORE TO HAVE MODERATED HIS AGGRESSIVE LEADERSHIP STYLE TO SALVAGE HIS REFORM PROGRAM AND DE-FUSE POTENTIALLY DESTABILIZING POWER STRUGGLES. RECENT MEDIA ATTENTION TO THE IMPORTANCE OF IDEOLOGY SUGGESTS THAT, ON THIS POINT AT LEAST, HE HAS BEEN FLEXIBLE ENOUGH TO MODIFY HIS PREFERRED POSITION ON THE RELATIONSHIP BETWEEN IDEOLOGY AND MODERNIZATION, THUS PRE-EMPTING A POTENTIAL TACTIC HIS OPPONENTS MIGHT ADOPT. HE MAY ALSO HAVE BOWED TO PRESSURE FROM HIS OPPONENTS AND BACKED OFF FROM HIS OWN PREFERENCE TO IGNORE THE IDEOLOGICAL FACTOR ALMOST COMPLETELY. THE DEPTH OF THE CONFLICT, AND THE CONTINUED FAILURE TO RESOLVE IT, IS DEMONSTRATED BY THE FACT THAT THE PLENUM WHICH MUST PRECEDE THE TWELFTH PARTY CONGRESS HAS BEEN POSTPONED SEVERAL TIMES. THE CONGRESS ITSELF WILL PROBABLY NOT CONVENE UNTIL LATE SPRING OR EARLY SUMMER. DESPITE THESE PROBLEMS, HOWEVER, THE CONTROL AND PREVALENCE OF THE DENG GROUP IS NOT SERIOUSLY IN QUESTION. THEY HAVE SUCCEEDED IN OUSTING HUA, AND WILL BE ABLE TO INJECT AN IDEOLOGICAL COMPONENT INTO THEIR PROGRAM THAT WILL PROBABLY SATISFY THE MORE CONSERVATIVE AMONG THE LEADERSHIP. THE LONG-RUN SUCCESS OF THIS TACTIC WILL DEPEND ON THE SUCCESS OF THE ECONOMIC PROGRAM AND THE FATE OF THE CURRENT RETRENCHMENT EFFORT.

148. CHINA: ECONOMY. SINCE NOVEMBER 1980, THE LEADERSHIP HAS TAKEN READJUSTMENT OF THE ECONOMY, RATHER THAN ECONOMIC REFORM AND DECENTRALIZATION, AS ITS PRIMARY ECONOMIC TASK. IN PROMULGATING NEW ECONOMIC GUIDELINES FOR DECENTRALIZATION AT THE NPC, THE CHINESE HAD COUNTED UPON THE ABILITY OF THE GUIDELINES TO CONTROL THE PROBLEMS TARGETED LATER BY THE READJUSTMENT CAMPAIGN (BUDGET DEFICITS, UNBALANCED

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INVESTMENT, AND INFLATION) WHILE FACILITATING THE RESTRUCTURING OF ECONOMIC RELATIONSHIPS. THE GUIDELINES, HOWEVER, WERE TOO UNFAMILIAR AND SKELETAL TO PLAY A RESTRAINING ROLE; AT THE SAME TIME, INCREASED LOCAL CONTROL OVER FINANCES WEAKENED THE CENTRAL GOVERNMENT'S EFFORTS TO CUT SPENDING. THE IMPACT OF A 7 BILLION DOLLAR DEFICIT IN 1980, 2 BILLION DOLLARS ABOVE THE EXPECTED FIGURE, APPARENTLY GALVANIZED BEIJING INTO TAKING SPENDING CUTS AS ITS FIRST PRIORITY. IN DECEMBER 1980, THEREFORE, THE GOVERNMENT ANNOUNCED THROUGH THE OFFICIAL PRESS THAT IT WOULD FIRST CONCENTRATE ON READJUSTING THE ECONOMY (I.E., CUTTING SPENDING AND IMPORTS, SHIFTING INVESTMENT INTO AGRICULTURE AND LIGHT INDUSTRY); IT RELEGATED DECENTRALIZATION TO A SUBORDINATE POSITION.

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149. IN LATE DECEMBER AND EARLY JANUARY 1981 PRESS ARTICLES, THE GOVERNMENT STATED THAT CHINA LACKS THE FINANCIAL BASE FOR FURTHER EXPANSION OF DECENTRALIZATION AND MUST TIGHTEN CENTRAL REGULATIONS FOR CAPITAL INVESTMENT, PRICE CONTROL, AND USE OF RETAINED PROFITS AND REVENUES. AS A RESULT, ADMINISTRATIVE CONTROLS HAVE BEEN IMPOSED (OR REIMPOSED) IN AREAS WHICH WERE TO HAVE BEEN THE RESPONSIBILITY OF LOWER-LEVEL UNITS. PLANNED REORGANIZATION AND STREAMLINING OF CENTRAL MINISTRIES HAVE ALSO BEEN POSTPONED, WHICH COULD STRENGTHEN THE POSITION OF BUREAUCRATS OPPOSING DELEGATION OF THEIR POWER TO LOCAL GOVERNMENTS AND ENTERPRISES.

150. CHINA ENDED 1979 WITH AN 11 BILLION DOLLAR DEFICIT APPROXIMATELY 3 BILLION OF THAT AMOUNT STEMMED FROM OVER-BUDGET CAPITAL SPENDING. THE CENTRAL GOVERNMENT IN 1980 RESPONDED BY CUTTING ITS BUDGETED INVESTMENT 37 PERCENT, BUT UNPLANNED SPENDING AT THE LOCAL LEVEL INCREASED WITH GREATER AUTONOMY AND NOW MAKES UP ALMOST 50 PERCENT OF THE APPROXIMATELY 33 BILLION DOLLARS IN TOTAL INVESTMENT. BEIJING HAS COUNTERED THIS TREND BY REIMPOSING ITS CONTROL OVER LARGE AND MEDIUM-SCALE CAPITAL PROJECTS, LIMITING ENTERPRISES AND MINISTRIES TO PROJECTS SUCH AS WORKER HOUSING AND INDUSTRIAL SAFETY. A DECEMBER 30, 1980 PRESS ARTICLE CALLED FOR "CENTRALIZED INTEGRATION" OR INCREASED ADMINISTRATIVE INTERVENTION IN CAPITAL CONSTRUCTION PLANNING, THEREBY EFFECTIVELY REDUCING THE POWER OF LOWER-LEVEL UNITS TO USE THEIR RETAINED PROFITS AS THEY CHOOSE.

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151. THE VIABILITY OF THE CURRENT LEADERSHIP'S ECONOMIC POLICIES DEPENDS ON THEIR SUCCESS IN RAISING LIVING STANDARDS. THE GOVERNMENT THEREFORE CONSIDERS INFLATION

AND PRICE INCREASES TO BE UNACCEPTABLE THREATS. IT ADMITTED TO AN INFLATION RATE OF 5.8 PERCENT IN 1980; OTHER ESTIMATES PLACE IT AS HIGH AS 15-20 PERCENT. FEAR OF INFLATION AND POPULAR DISCONTENT BROUGHT A STRONG REACTION ON DECEMBER 7, 1980 TO PRICE INCREASES CAUSED BY RELAXATION OF PRICE CONTROLS. THE GOVERNMENT PLACED A CEILING ON STATE AND NEGOTIATED PRICES, AND NARROWLY DEFINED THE TYPES OF COMMODITIES THAT COULD BE SOLD AT NEGOTIATED PRICES. (ONLY MINOR MANUFACTURED ITEMS AND AGRICULTURAL GOODS PRODUCED ABOVE QUOTA COULD HAVE FLOATING PRICES; GOODS SOLD DIRECTLY BY THE PRODUCERS OR PRODUCED ABOVE QUOTA CAME UNDER STATE PRICE GUIDELINES.

152. THE PRICE FREEZE WILL NOT REMOVE THE CAUSES OF UNDERLYING INFLATION: UNMET DEMAND AND AN INCREASE IN THE MONEY SUPPLY, WHICH GREW OVER 10 PERCENT IN 1980, ACCORDING TO ONE ESTIMATE. THE PRICE FREEZE MAY ACTUALLY CONTRIBUTE TO INFLATION AS THE GOVERNMENT IS FORCED TO PRINT MORE MONEY -- WHICH STAYS IN CIRCULATION -- TO COVER CONSUMER PRICE SUBSIDIES, WAGE INCREASES, AND HIGHER AGRICULTURAL PRICES. FOR EXAMPLE, IT SPENT ABOUT 5 BILLION DOLLARS IN 1979 ON INCREASED PURCHASE PRICES FOR AGRICULTURE, WHILE GRANTING 40 PERCENT OF THE WORK FORCE WAGE RAISES AND ALL URBAN WORKERS SUBSIDIES EQUAL TO 5 PERCENT OF THEIR MONTHLY WAGES TO COVER INCREASED FOOD COSTS. TOTAL CONSUMER SUBSIDIES IN 1980 TOTALLED APPROXIMATELY 13 BILLION DOLLARS, OR 17 PERCENT OF TOTAL EXPENDITURES. IF THE 1981 HARVEST IS LARGE, AGRICULTURAL PRICE SUBSIDIES COULD INCREASE BUT THE GOVERNMENT CANNOT AFFORD CONTINUED HIKES IN BOTH PURCHASE PRICES AND URBAN WAGES. IT THUS FACES TWO UNPLEASANT CHOICES: PASSING PRICE INCREASES ON TO THE CONSUMER, OR PRINTING MONEY TO COVER GROWING DEFICITS.

153. PRICE REFORM RATHER THAN PRICE CONTROLS WILL DETERMINE THE SUCCESS OF THE DECENTRALIZATION POLICIES. IRRATIONAL PRICES PREVENT CLEAR SIGNALS OF MARKET DEMAND FROM REACHING ENTERPRISE MANAGERS WHO MUST ASSUME RESPONSIBILITY FOR THEIR PROFITS AND LOSSES. THEY ALSO PREVENT ALLOCATION OF RESOURCES ACCORDING TO DEMAND RATHER THAN STATE POLICY. THE ACADEMIC PRESS HAS CARRIED ARTICLES PROPOSING NEW METHODS OF PRICING, SUCH AS IN TERMS OF PRODUCTION COSTS OR QUALITY, BUT NO OFFICIAL

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DECISION HAS BEEN MADE. GIVEN THE GOVERNMENT'S CURRENT PRIORITIES AND GENERAL WARINESS OF PRICE INCREASES, THIS QUESTION APPEARS IN SERIOUS DANGER OF BEING IGNORED, WITH ADVERSE EFFECTS ON THE STRENGTH OF, AND SUPPORT FOR, THE RANGE OF DECENTRALIZATION POLICIES.

154. SOME REFORMS HAVE CONTINUED UNAFFECTED BY RETRENCHMENT. AGRICULTURAL DECENTRALIZATION, BECAUSE IT DOES NOT ADD TO THE BUDGET DEFICIT AND IS ASSOCIATED WITH REFORMS SPONSORED BY PREMIER ZHAO, WILL PROBABLY CONTINUE UNAFFECTED. THE BANKING SYSTEM NOW PROVIDES INTEREST-BEARING LOANS FOR CAPITAL CONSTRUCTION PROJECTS; TWO NEW BANKS (AN IMPORT-EXPORT AND A COMMERCIAL AND INDUSTRIAL) WILL BE ESTABLISHED THIS YEAR. TAX LAWS FOR JOINT VENTURES AND THE SPECIAL ECONOMIC ZONES HAVE BEEN PUBLISHED, WHILE NEW LAND AND NATURAL RESOUR-
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CES TAXES ARE BEING DRAFTED.

155. THE READJUSTMENT PERIOD, NOW SLATED TO EXTEND BEYOND 1983, COULD PROVE BENEFICIAL TO THE EVENTUAL SUCCESS OF DECENTRALIZATION. IF THE GOVERNMENT SUCCEEDS IN CONTROLLING SPENDING AND INFLATION, WHILE RETAINING INTEREST IN AND COMMITMENT TO PREVIOUSLY OUTLINED REFORMS, DECENTRALIZATION COULD BE EXTENDED LATER IN A STRONGER ECONOMY, WITHOUT HAVING BEEN DISCREDITED BY FAILURE. GOVERNMENT OFFICIALS HAVE FIRMLY EXPRESSED THIS POSITION TO FOREIGN AND CHINESE AUDIENCE ALIKE. HOWEVER, ENTRENCHED ECONOMIC PROBLEMS AND THE INEVITABLE POLITICIZATION OF ECONOMIC PROBLEMS MAKE THIS SCENARIO LESS LIKELY. BY 1984, AFTER FOUR YEARS OF WRANGLING OVER BUDGET PRIORITIES AND ANTI-INFLATION POLICIES, DECENTRALIZATION MAY BE DISCREDITED AND REJECTED AS AN OPTION.

PART VII. JAPAN

156. THE UNANIMOUS ELECTION OF PRIME MINISTER SUZUKI TO THE TWO-YEAR TERM AS PRESIDENT OF THE RULING LIBERAL DEMOCRATIC PARTY (LDP) AT THE PARTY'S NOVEMBER CONVENTION DEMONSTRATES HIS EMERGING STATUS AS A NATIONAL LEADER. ALTHOUGH HIS "POLITICS OF HARMONY" APPROACH CONTINUES TO BE CRITICIZED FOR BEING BLAND AND TOO CAUTIOUS, SUZUKI'S POLITICAL FORTUNES APPEAR TO HAVE IMPROVED DURING THE SPECIAL DIET SESSION LAST FALL, AND AS A RESULT OF HIS RECENT TRIP TO ASEAN COUNTRIES. DUR-

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ING THE DIET SESSION, SUZUKI DEFUSED CONTROVERSY RESULTING FROM STATEMENTS AND ACTIONS OF HIS CABINET MEMBERS THAT HAD OPENED HIM UP TO CHARGES OF BEING RIGHT-WING AND MILITARISTIC, AND HIS EFFORTS TO MODERATE THE DEFENSE SPENDING INCREASE HAVE ENHANCED HIS SUPPORT AMONG DIETMEN WITH INTERESTS IN WELFARE, EDUCATION, AND CONSTRUCTION.

157. IN ADDITION, THE RECENT CONCLUSION OF THE LONG-STANDING TELECOMMUNICATIONS AND TOBACCO NEGOTIATIONS HAVE ALSO IMPROVED SUZUKI'S IMAGE. HOWEVER, HIS POTENTIAL SUCCESSORS WITHIN THE LDP ARE ALREADY POSITIONING THEMSELVES TO TAKE THE REINS SHOULD HE FALTER. HE STILL HAS NOT ESTABLISHED HIMSELF AS THE LEADER OF HIS OWN FACTION, AND HIS CLOSE ASSOCIATION WITH FORMER PRIME MINISTER TANAKA, STILL UNDER INVESTIGATION IN THE LOCKHEED SCANDAL, COULD INJURE HIM. MOREOVER, THERE IS DANGER THAT SOME OF THE LDP'S MAJOR FACTIONAL LEADERS--SUCH AS FORMER PRIME MINISTER FUKUDA--MIGHT PULL OUT OF THE MAINSTREAM ALLIANCE ON WHICH SUZUKI'S TENURE AS THE PARTY'S LEADER DEPENDS. THE EXPECTED CABINET REORGANIZATION THIS SUMMER MAY CONFRONT SUZUKI WITH HIS NEXT IMPORTANT POLITICAL TEST.

158. AS A RESULT OF LAST JUNE'S ELECTIONS, THE OPPOSITION PARTIES HAVE CONTINUED IN A STATE OF DISARRAY. MODERATE PARTIES SUCH AS THE KOMEITO AND THE DEMOCRATIC SOCIALIST PARTY (DSP) HAVE HAD TO REASSESS THEIR DECISION TO COOPERATE AND WORK TOWARD AN OPPOSITION COALITION GOVERNMENT. THE KOMEITO SUFFERED A MAJOR SETBACK AT THE POLLS AND IS SEEING ITS SUPPORT DETERIORATE FURTHER AS A RESULT OF THE DECLINING STRENGTH OF ITS PRINCIPAL VOTER BLOCK, SOKAGAKAI, A LAY BUDDHIST ORGANIZATION. THE KOMEITO RECENTLY ADOPTED SEVERAL POLICY REVISIONS IN ITS IDEOLOGY TO BROADEN ITS POLITICAL BASE AND TO REDEFINE ITS ROLE, WHICH SHIFT THE PARTY FROM OPPOSITION TO SUPPORT OF THE US-JAPAN MUTUAL SECURITY TREATY AND THE SELF DEFENSE FORCES--A POLICY THAT

IS ALSO SUPPORTED BY THE DSP IN ADDITION, DURING THE SPECIAL DIET SESSION, THE KOMEITO MOVED AWAY FROM A POSITION OF OUTRIGHT REJECTING INCREASES IN DEFENSE SPENDING TO A MORE FLEXIBLE APPROACH.

159. THE DSP HAS ALSO MOVED IN ITS POSITION IN A WAY THAT WILL TAKE IT EVEN CLOSER TO THOSE OF THE LDP. A DSP MEETING WITH SUZUKI RESULTED IN A DSP AGREEMENT TO SUPPORT THREE SDF DEFENSE BILL, ONE OF WHICH CALLED FOR A MODEST INCREASE IN THE SDF FORCES. AMONG THE LEFTWING

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PARTIES, RELATIONS HAVE WORSENEED FURTHER OVER THE LAST SIX MONTHS. LEADERS WITHIN THE JAPAN SOCIALIST PARTY HAVE ATTEMPTED TO MOVE THE PARTY TOWARD A MORE MODERATE POSITION WHICH THEY HOPE WILL REVITALIZE THE PARTY'S SAGGING PUBLIC STANDING, BUT OPPOSITION FROM THE LEFTIST MEMBERS OF THE PARTY HAS PUT A HALT TO REFORMIST MEASURES THAT WOULD HAVE DECIDEDLY TILTED THE JSP TO THE RIGHT.

160. DEFENSE ISSUES HAVE COMMANDED A MAJOR SHARE OF SUZUKI'S ATTENTION, AND DOMINATED DIET DISCUSSIONS. SUZUKI WAS CALLED ON TO DEFEND HIMSELF AND HIS JUSTICE MINISTER OVER THE MINISTER'S ADVOCACY OF A REVISION IN THE POLITICALLY TOUCHY WAR-RELATED SECTIONS OF JAPAN'S CONSTITUTION. THE IRAN-IRAQ CONFLICT ALSO WEIGHED HEAVILY IN THE DISCUSSIONS AS DIETMEN AND THE PUBLIC ARGUED BT

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THE CONSTITUTIONAL LIMITS OF JAPAN'S ABILITY TO PARTICIPATE IN ALLIED EFFORTS TO MAINTAIN THE FREEDOM OF SEA LANES. THESE AND OTHER DISCUSSIONS MOVED JAPANESE PUBLIC SENTIMENT IN SUPPORT OF AN ENHANCED SECURITY ROLE FOR JAPAN.

161. HOWEVER, WHILE THAT SENTIMENT SUPPORTS STEADY--ALBEIT UNHEROIC--INCREASES IN DEFENSE, THERE IS LITTLE ADVOCACY FOR AN ACTUAL BROADENING OF JAPAN'S MILITARY ACTIVITIES, AS A RESULT, SUZUKI AND OTHER LDP LEADERS APPARENTLY FELT CONSTRAINED BY THE PUBLIC MOOD FROM PRESSING FOR THE 9.7 PERCENT INCREASE GRANTED TO DEFENSE SPENDING IN INTERMINISTERIAL NEGOTIATIONS LAST JUNE. SUZUKI'S SUPPORT ALSO WANED AS A RESULT OF HIS DETERMINATION TO REDUCE THE LEVEL OF JAPAN'S BUDGET-RELATED DEFICIT FINANCING. IN ADDITION, THESE LEADERS APPARENTLY GREW CONCERNED OVER THE SUCCESS THE OPPOSITION PARTIES WERE SCORING IN ENCOURAGING THE PUBLIC TO LINK TAX MEASURES PROPOSED BY THE MINISTRY OF FINANCE TO THE INCREASE REQUESTED FOR DEFENSE SPENDING.

162. IN THE FOREIGN POLICY FIELD, JAPAN'S EVOLUTION TOWARD A GREATER POLITICAL ROLE HAS ACCELERATED AND

TOKYO HAS PRESSED FORWARD IN THE MORE ACTIVIST STYLE OF DIPLOMACY THAT BEGAN TO EMERGE IN THE WAKE OF THE SOVIET INVASION OF AFGHANISTAN. BOTH PRIME MINISTER SUZUKI AND FOREIGN MINISTER ITO HAVE SOUNDED IN THEIR SPEECHES THE BOLDER RHETORIC FEATURED IN LAST SUMMER'S FOREIGN MINISTRY

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ANNUAL POLICY REPORT (THE BLUE BOOK). SUZUKI, IN HIS KEY-NOTE ADDRESS AT THE CONCLUSION OF HIS ASEAN TOUR, DECLARED THE FORMULATION OF JAPAN'S NEW WORLD ROLE TO BE ONE OF ITS MOST PRESSING TASKS FOR THE 1980S.

163. PRIME MINISTER SUZUKI'S TWO-WEEK VISIT TO THE FIVE ASEAN MEMBERS IN JANUARY--HIS FIRST OFFICIAL TRIP ABROAD-- WAS THE MOST RECENT EXPRESSION OF THIS NEW ACTIVISM. SUZUKI'S GOALS WERE TO ESTABLISH PERSONAL RAPPORT WITH HIS COUNTERPARTS, TO REINVIGORATE TIES WITH ASEAN, WHICH HAD SUFFERED FROM NEGLECT SINCE PRIME MINISTER FUKUDA VISITED THE AREA IN 1977, AND TO HIGHLIGHT THE POLITICAL DIMENSION OF THE JAPAN-ASEAN CONNECTION. SUZUKI ALSO SOUGHT ASEAN VIEWS ON HOW JAPAN COULD ADVANCE SETTLEMENT OF THE KAMPUCHEAN ISSUE SINCE JAPAN HAS SEIZED UPON THIS AS ONE AREA TO PURSUE FOR AN EXPANDED DIPLOMATIC ROLE.

164. KAMPUCHEA AND ECONOMIC ISSUES DOMINATED THE DISCUSSIONS. ALL ASEAN LEADERS URGED SUZUKI TO JOIN IN EFFORTS TO CONVENE AN INTERNATIONAL CONFERENCE ON KAMPUCHEA AND TO BRING VIETNAM TO THE CONFERENCE TABLE. ON THE ECONOMIC SIDE, SUZUKI PLEDGED FINANCIAL ASSISTANCE WHICH, WHILE MODEST IN COMPARISON TO FUKUDA'S PACKAGE IN 1977, WILL NEVERTHELESS INCREASE TOTAL JAPANESE AID TO ASEAN THIS YEAR BY 20 PERCENT TO 880 MILLION DOLLARS. SUZUKI, WHO REPEATEDLY EMPHASIZED THAT JAPAN HAD NO DESIRE TO BECOME A MILITARY POWER, ALSO HEARD ASEAN VIEWS ON JAPAN'S DEFENSE EFFORTS AND RETURNED WITH THE IMPRESSION THAT ASEAN COUNTRIES INDEED WELCOMED GREATER JAPANESE DEFENSE SPENDING AS LONG AS IT WAS FOR DEFENSIVE PURPOSES AND GROUNDED IN CLOSE US-JAPAN SECURITY TIES. SUZUKI WAS SIMILARLY IMPRESSED WITH THE DIVERGENCE AMONG ASEAN ATTITUDES TOWARD CHINA THAT COULD EVENTUALLY STRAIN ASEAN UNITY AND CONCLUDED THAT JAPAN MIGHT BE ABLE TO BROKER AN IMPROVEMENT IN THOSE TIES. (FOREIGN MINISTER ITO MET SUZUKI AFTER HIS RETURN WITH THE CHINESE AMBASSADOR TO URGE BEIJING TO ELIMINATE CONTENTIOUS PROBLEMS IN ITS RELATION WITH ASEAN). BY ALL ACCOUNTS, THE SUZUKI VISIT WAS WELL-RECEIVED, IN SHARP CONTRAST WITH THE DEMONSTRATION-MARRED TOUR OF PRIME MINISTER TANAKA IN 1974.

165. THE COMMUTATION OF THE DEATH SENTENCE OF SOUTH KOREAN DISSIDENT KIM DAE-JUNG PAVES THE WAY FOR IMPROVEMENT OF JAPAN-SOUTH KOREA RELATIONS. THE INTENSE EMOTIONS INVOLVED WILL SUBSIDE, BUT SUZUKI AND THE LDP WILL STILL BE PRESSURED

BY OPPOSITION PARTIES TO SEEK KIM'S RELEASE. AT THE SAME TIME, PLANNING IS ALREADY PROCEEDING FOR THE NEXT JAPAN-SOUTH KOREA MINISTERIAL CONFERENCE, AND JAPAN SHOULD SOON SIGN ITS NEXT YEN LOAN TO SOUTH KOREA.

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166. SOVIET-JAPANESE RELATIONS CONTINUE TO FOUNDER ON AFGHANISTAN, THE NORTHERN TERRITORIES AND EXPANSION OF SOVIET MILITARY ACTIVITIES IN EAST ASIA. THE SUZUKI GOVERNMENT HAS TAKEN A STANCE NOTICEABLY TOUGHER THAN ITS PREDECESSORS, BLAMING THE SOVIETS FOR THE DETERIORATION IN BILATERAL RELATIONS AND CALLING FOR MOSCOW TO DEMONSTRATE ITS PROFESSED DESIRE FOR IMPROVED TIES THROUGH CONCRETE STEPS. RECENT INSTANCES OF THIS MORE ASSERTIVE APPROACH INCLUDE:

--TOKYO'S GENERAL MAINTENANCE OF POST-AFGHANISTAN ECONOMIC SANCTIONS AND ITS CRITICISM OF EUROPEAN ALLIES FOR APPARENT LAPSES. IN ORDER TO DEFUSE BUSINESS COMMUNITY PRESSURE ON THE SANCTIONS, HOWEVER, TOKYO HAS APPROVED TWO PENDING EXIM BANK LOANS FOR EXISTING
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SIBERIAN DEVELOPMENT PROJECTS (A 40 MILLION DOLLAR ADD-
ON FOR THE SOUTH YAKUTSK COAL PROJECT AND ABOUT 600
MILLION DOLLARS FOR THE NEXT STAGE OF A TIMBER PROJECT)
AND DECIDED IN PRINCIPLE TO APPROVE SUPPLIERS CREDITS
UNDER 100 MILLION DOLLARS FOR REGULAR MERCHANDISE TRADE.

--FOREIGN MINISTER ITO'S MORE FORTHRIGHT PUBLIC STATE-
MENTS ON RELATIONS WITH MOSCOW, SUCH AS HIS JANUARY
DIET SPEECH, AND HIS VIGOROUS EXPOSITION OF JAPANESE
VIEWS IN HIS SEPTEMBER MEETING WITH GROMYKO AT THE
UN.

--REPEATED REBUFFS OF SOVIET EFFORTS TO SEPARATE
ECONOMIC FROM POLITICAL ASPECTS OF THE BILATERAL
RELATIONSHIP.

--A NATIONWIDE CAMPAIGN LAUNCHED TO COMMEMORATE
FEBRUARY 7 AS "NORTHERN TERRITORIES DAY" AND PLANS FOR
PRIME MINISTER SUZUKI TO INSPECT THE ISLANDS. MOSCOW
HAS SHARPLY PROTESTED THESE MOVES AS AN UNFRIENDLY ACT.

167. FACED WITH PRESSURE FROM BUSINESSMEN AND A NEUTRAL-
IST/PACIFIST ELEMENT IN THE MEDIA AND IN OPPOSITION
PARTIES, JAPAN'S CAPACITY TO SUSTAIN THIS APPROACH MAY
ULTIMATELY DEPEND ON HOW IT PERCEIVES THE US AND EUROP-
EAN POSITIONS.

168. THE JAPANESE GOVERNMENT REACTED SWIFTLY TO THE
POLISH CRISIS. EARLY IN DECEMBER AND AGAIN IN JANUARY,

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FOREIGN MINISTER ITO ISSUED BLUNT WARNINGS THAT SOVIET INTERVENTION WOULD HAVE THE MOST PROFOUND REPERCUSSIONS AND HE DECLARED THAT THE POLISH SHOULD BE ALLOWED TO RESOLVE INTERNAL PROBLEMS BY THEMSELVES. JAPAN ALSO MADE CLEAR THAT IT WAS PREPARED TO ADOPT ADDITIONAL SANCTIONS AGAINST THE SOVIET UNION, IN CONCERT WITH THE US AND WESTERN EUROPE SHOULD THE USSR INTERVENE MILITARILY, AND ITO DISCUSSED THIS ISSUE IN DETAIL DURING HIS DECEMBER MEETINGS WITH TOP EUROPEAN LEADERS. JAPAN'S EXPERIENCE WITH AFGHANISTAN SANCTIONS MAKES IT UNWILLING TO COMMIT ITSELF IN ADVANCE FOR FEAR OF BEING UNDERCUT BY A LESS VIGOROUS EUROPEAN RESPONSE. JAPAN HAS ALSO APPROVED A NEW LOAN FOR POLAND TO AID IN PLANT CONSTRUCTION PROJECTS. SOLIDARITY LEADER WALESZA HAS ALSO ACCEPTED AN OFFER BY JAPAN'S LABOR ORGANIZATIONS TO VISIT JAPAN, PROBABLY IN MAY.

169. IN THE MIDDLE EAST, JAPAN HAS SOUGHT TO MAINTAIN A LOW POLITICAL PROFILE WHILE FIRING UP ITS ECONOMIC RELATIONS. WITH THE RETURN OF THE US HOSTAGES FROM IRAN, JAPAN JOINED OTHER NATIONS IN DROPPING ECONOMIC SANCTIONS. FOREIGN MINISTER ITO HAS CAUTIONED JAPANESE COMPANIES TO EXERCISE PRUDENCE IN RESUMING IMPORTS OF IRANIAN CRUDE OIL SO AS NOT TO BUY IT AT UNREASONABLY HIGH PRICES. WORK REMAINS SUSPENDED AT THE 3.5 BILLION DOLLAR BANDAR KHOMENI PETROCHEMICAL COMPLEX, THOUGH JAPAN IS COMMITTED TO COMPLETING THE PROJECT ONCE THE FIGHTING HAS ENDED. JAPAN HAS MAINTAINED A NEUTRAL STANCE ON THE IRAN-IRAQ CONFLICT, CALLING FOR AN END TO THE FIGHTING.

170. REFLECTING TOKYO'S DESIRE TO MAINTAIN CONTACT WITH THE KEY PARTIES TO THE ARAB-ISRAELI DISPUTE, FOREIGN MINISTER ITO VISITED EGYPT LAST DECEMBER. ABOUT THE SAME TIME, A DELEGATION OF DIET MEMBERS HEADED BY FORMER FOREIGN MINISTER KIMURA RENEWED A TWO-YEAR OLD INVITATION TO YASSER ARAFAT TO VISIT JAPAN AND ARAFAT ACCEPTED IN PRINCIPLE TO VISIT WITHOUT A FORMAL JAPANESE GOVERNMENT INVITATION. NO DATE HAS BEEN SET, BUT JAPANESE PRIME MINISTER SUZUKI AND FOREIGN MINISTER ITO ARE REPORTEDLY WILLING TO MEET WITH ARAFAT SHOULD THE "NON-OFFICIAL VISIT" MATERIALIZE.

171. ON THE ECONOMIC FRONT, JAPAN'S GNP GROWTH FOR 1980 IS EXPECTED TO RISE BY ABOUT 4.8 PERCENT, OUT PERFORMING THAT OF ALL OTHER MAJOR INDUSTRIAL ECONOMIES. THE LARGEST SHARE OF THIS GROWTH ORIGINATED FROM AN 18 PERCENT RISE IN THE VOLUME OF JAPAN'S EXPORTS, WHICH

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FURTHER INTENSIFIED PROTECTIONIST PRESSURES IN THE US

AND THE EC. PERSONAL CONSUMPTION PROVED UNEXPECTEDLY SLUGGISH AS CONSUMERS CUT BACK SPENDING DUE TO THEIR UNCERTAINTY ABOUT ECONOMIC PROSPECTS AND A SQUEEZE PLACED ON REAL INCOMES. IN ADDITION, THE INCREASING COST OF LAND AND CONSTRUCTION MATERIALS, COMBINED WITH HIGH INTEREST RATES EARLY IN THE YEAR RESULTED IN A SHARP FALL-OFF IN HOUSING INVESTMENT. HOWEVER, REAL PRIVATE PLANT AND EQUIPMENT INVESTMENT--SPARKED BY INVESTMENTS IN TECHNOLOGICALLY ADVANCED OFFICE EQUIPMENT WHICH SHOULD ADD FURTHER TO PRODUCTIVITY--REMAINED RELATIVELY FIRM THROUGHOUT THE YEAR.

172. SINCE TAKING OFFICE, SUZUKI HAS FAVORED ECONOMIC POLICIES THAT WILL REDUCE THE LEVEL OF JAPAN'S GOVERN-
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MENT DEFICIT FINANCING--NOW ACCOUNTING FOR A THIRD OF
BUDGET REVENUES--AND HIS CABINET APPROVED BY YEAR-END
JAPAN'S MOST AUSTERE NATIONAL BUDGET IN 22 YEARS. AL-
THOUGH VARIOUS GOVERNMENT MINISTERIES AND POLITICAL
INTERESTS WILL PRESS FOR CHANGES IN SOME OF THE SPECIFIC
OUTLAYS, THE FINAL BUDGET WILL LIKELY INCLUDE INCREASES
IN THE CORPORATE INCOME TAX AND IN SOME COMMODITY TAXES
WITH REDUCTIONS IN MOST SPENDING PROGRAMS. THE CABINET
ALSO ENDORSED AN OFFICIAL ECONOMIC FORECAST FOR THE
NEXT FISCAL YEAR THAT PROJECTS INFLATION-ADJUSTED
GROWTH IN GNP AT 5.3 PERCENT--ONE OF THE HIGHEST OF THE
MAJOR ECONOMIES.

173. JAPAN'S RELAXATION OF CAPITAL CONTROLS OVER THE
LAST YEAR SIGNALS A MAJOR POLICY CHANGE IN THE WAY JAPAN
INTENDS TO FINANCE ITS OIL IMPORTS IN THE FUTURE AND ITS
ATTEMPTS TO ACCOMMODATE THE RECYCLING OF OPEC FUNDS. BY
YEAR-END, JAPAN HAD RUN UP A NEARLY 11 BILLION DOLLAR
DEFICIT IN ITS CURRENT ACCOUNT BALANCE; HOWEVER, A HUGE
INFLOW OF FOREIGN FUNDS, PRIMARILY FROM MIDDLE EASTERN
INVESTORS, MOVED JAPAN'S BALANCE OF PAYMENTS OUT OF THE
RED. WHILE THE HEALTHY POSITION OF JAPAN'S BALANCE OF
PAYMENTS LIKELY HAD A HAND IN THE STRENGTHENING OF THE
YEN OVER THE YEAR, MANY JAPANESE EXPECT A CURRENT ACC-
OUNT BALANCE ON THE DEFICIT SIDE OVER THE NEXT FEW YEARS,
LEADING JAPAN TO ENCOURAGE ADDITIONAL LONG-TERM CAPITAL
INFLOWS. IN ALL, THESE STEPS HAVE MOVED THE YEN CLOSER
TO AN INTERNATIONAL ROLE IN THE WORLD'S FINANCIAL
MARKETS, AND WILL COMPLICATE JAPANESE MONETARY POLICY.

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PART VIII. NORTH AND SOUTH KOREA

174. SOUTH KOREA. SOUTH KOREA HAS MADE IMPRESSIVE PROGRESS TOWARD RECOVERING ITS POLITICAL EQUILIBRIUM SINCE PRESIDENT CHUN DOO HWAN'S INAUGURATION ON SEPTEMBER 1, 1980. AMONG THE EVENTS IMPORTANT IN THIS EFFORT, CHUN OBTAINED THE APPROVAL OF NINETY-TWO PERCENT OF A RECORD TURNOUT OF VOTERS IN A CONSTITUTIONAL REFERENDUM HELD ON OCTOBER 22. THE NEW CONSTITUTION LIMITS PRESIDENTIAL TENURE TO A SINGLE, SEVEN-YEAR TERM AND EXPANDS THE ROLE OF THE NATIONAL ASSEMBLY. IN ADDITION, HE ADVANCED THE TIMETABLE FOR HOLDING PRESIDENTIAL AND NATIONAL ASSEMBLY ELECTIONS TO FEBRUARY AND MARCH, RESPECTIVELY. PRESIDENT CHUN'S COMMUTATION OF LEADING DISSIDENT KIM DAE-JUNG'S DEATH SENTENCE TO LIFE IMPRISONMENT AND LIFTING OF MARTIAL LAW AT THE END OF JANUARY FURTHER UNDERSCORE CHUN'S DETERMINATION TO LAUNCH A "NEW ERA" IN SOUTH KOREA.

175. PRESIDENT CHUN'S FEBRUARY 2 VISIT TO WASHINGTON WAS OF GREAT SYMBOLIC IMPORTANCE. IT ENDED A CONTENTIOUS PERIOD IN US-KOREA RELATIONS WHICH WAS MARKED BY MUTUAL RECRIMINATIONS AND PUBLIC CRITICISM. THE OFFICIAL VISIT RESTORED A RELATIONSHIP BUILT UPON MUTUAL CONFIDENCE, ASSURANCE OF SUPPORT IN DIFFICULT TIMES, AND FRIENDSHIP. PRESIDENT REAGAN FORMALLY REAFFIRMED THE US COMMITMENT TO SOUTH KOREA'S SECURITY AND TERMINATED THE ALREADY SUSPENDED US TROOP WITHDRAWAL PLAN. HE PROMISED CONTINUED SUPPORT FOR THE MODERNIZATION OF THE ROK ARMED FORCES, INCLUDING THE SUPPLY OF THE LATEST IN SOPHISTICATED EQUIPMENT. PRESIDENT REAGAN ALSO RECONFIRMED US WILLINGNESS TO SELL F-16 AIRCRAFT TO THE ROK AND DECLARED A RESUMPTION OF THE FULL RANGE OF BILATERAL CONSULTATIONS PREVIOUSLY INTERRUPTED BY AMERICAN DISPLEASURE AT THE TREND OF EVENTS IN 1980.

176. THE VISIT GREATLY ENHANCED CHUN'S POLITICAL STATURE AT HOME. AS A PRELUDE TO THIS SPRING'S ELECTIONS, PRESIDENT CHUN HAS MOVED TO REPLACE DECEASED PRESIDENT PARK'S POLITICAL COALITION WITH ONE OF HIS OWN. ULTIMATELY, HE HOPES TO NEUTRALIZE THE INFLUENCE OF THOSE WHO ROSE UNDER THE PREVIOUS REGIME AND TO INCREASE HIS OWN POPULAR SUPPORT BY TAKING LEGAL ACTION AGAINST POLITICIANS AND BUSINESSMEN GENERALLY PERCEIVED AS CORRUPT. TO ACCOMPLISH THIS END, CHUN HAS DRAWN HEAVILY UPON THE MILITARY TO FILL VACANCIES IN THE CENTRAL GOVERNMENT AND DIPLOMATIC CORPS CREATED BY A SERIES OF "PURIFICATION" CAMPAIGNS. THE ACTION ALSO REMOVES

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SOME POTENTIAL CHALLENGERS FROM THEIR POSITIONS OF INFLUENCE IN THE MILITARY AND INSURES FAITHFUL IMPLEMENTATION OF CHUN'S POLICIES.

177. THE NEXUS OF CHUN'S NEW COALITION IS THE DEMOCRATIC JUSTICE PARTY (DJP). ITS LEADING MEMBERS ARE RECENTLY-RETIRED MILITARY OFFICERS, BUSINESSMEN DRAWN LARGELY FROM THE SMALL AND MEDIUM BUSINESS SECTION, AND SOME EX-ASSEMBLYMEN FROM THE FORMER PRO-GOVERNMENT PARTY. THEJP HAS NOMINATED CHUN AS ITS CANDIDATE FOR FEBRUARY'S PRESIDENTIAL ELECTION AND IS VIRTUALLY ASSURED OF DECISIVE MARGINS OF VICTORY IN BOTH THIS AND THE NATIONAL ASSEMBLY ELECTIONS IN MARCH.

178. THE POLITICAL "OPPOSITION" IS SPLINTERED BY A
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PROLIFERATION OF PARTIES, THE MAJOR ONES BEING THE DEMOCRATIC KOREA (DKP) AND KOREA NATIONAL CITIZENS' (KNCP) PARTIES. THE DKP IS THE MORE VIABLE OF THE TWO AND IS UNDER THE LEADERSHIP OF FORMER ASSEMBLYMEN WHO REPRESENT MOST FACTIONS OF THE OLD OPPOSITION PARTY. THE CHANCES THAT ITS PRESIDENTIAL CANDIDATE, YU CHI-SONG, CAN WIN ELECTION ARE ALMOST NON-EXISTENT. THE KNCP, LIKE THE OTHER SMALL OPPOSITION PARTIES, HAS YET TO DEMONSTRATE ANY REAL VIABILITY AND IS INTENDED, IN ANY EVENT, TO PROVIDE SECOND ECHELON SUPPORT FOR THE PRO-GOVERNMENT PARTY.

179. THROUGHOUT THIS PERIOD, THE GOVERNMENT HAS SIGNIFICANTLY REINFORCED CONTROLS IN VARIOUS AREAS IN PREPARATION FOR LIFTING MARTIAL LAW; THESE CONTROLS WILL REMAIN IN PLACE FOR THE FORESEEABLE FUTURE. IT HAS REORGANIZED INTERNAL SECURITY FORCES AND EXPANDED THE POLICE FORCE. A NEW MEDIA LAW HAS CREATED A VIRTUAL GOVERNMENT MONOPOLY OVER THE COLLECTION AND DISSEMINATION OF ALL NEWS WITHIN THE NATION. SURVEILLANCE OF DISSIDENT ELEMENTS HAS BEEN INTENSIFIED AND THE EDUCATION SYSTEM ADJUSTED TO COMPEL STUDENTS TO STUDY MORE, LEAVING LITTLE TIME FOR STREET DEMONSTRATIONS. THE GOVERNMENT ALSO BEGAN A CAMPAIGN TO DISCREDIT STUDENT PROTESTS BY ASSOCIATING THEIR MORE ACTIVE LEADERS WITH COMMUNIST-INSPIRED ATTITUDES.

180. THESE MEASURE MAY PROVE SUFFICIENT TO DETER CRIPPLING DISRUPTIONS THIS SPRING, ESPECIALLY IN LIGHT

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OF CLEMENCY FOR KIM DAE-JUNG. HIGH INFLATION, A RECORD UNEMPLOYMENT RATE OF SIX PERCENT, AND THE FAILURE OF SOME COMPANIES TO PAY BACK-WAGES COULD, HOWEVER, PROVOKE SIZEABLE LABOR UNREST. CONTROLS ON LABOR UNION ACTIVITIES HAVE BEEN TIGHTENED BUT THE GOVERNMENT'S ABILITY TO HEAD OFF SERIOUS TROUBLE ULTIMATELY DEPENDS ON A RAPID AND SUBSTANTIAL ECONOMIC RECOVERY.

181. THE ECONOMY. IN 1980, SOUTH KOREA EXPERIENCED THE WORST ECONOMIC SLUMP IN NEARLY TWO DECADES. REAL GNP FELL 5.7 PERCENT WHILE WHOLESALE PRICES SOARED BY A STAGGERING 44 PERCENT. A \$4.8 BILLION TRADE DEFICIT WAS REGISTERED AS HIGH OIL PRICES, LARGE FOOD GRIN IMPORTS, AND KOREA'S LOSS OF ITS COMPETITIVE EDGE IN EXPORTS TOOK THEIR TOLL.

182. FOR 1981, SEOUL PROJECTS A POSITIVE GROWTH OF 5-6 PERCENT AND A SLOWDOWN OF INFLATION TO A STILL HIGH 20-25 PERCENT RATE. WE BELIEVE THESE PROJECTIONS ARE TOO OPTIMISTIC. THEY ARE CONTINGENT ON A NORMAL AGRICULTURAL HARVEST AND A MODERATION OF OIL PRICES. FURTHERMORE, THEY DEPEND ON THE SUCCESS OF THE GOVERNMENT'S PLANNED BALACING ACT OF INTRODUCING FISCAL AND MONETARY STIMULI WHILE HOLDING INFLATION DOWN.

183. IF THE EXTERNAL ECONOMIC SITUATION AND THE INTERNAL SOCIO-POLITICAL CONDITIONS DO NOT WORSEN, SOUTH KOREA'S LONG TERM GROWTH POSITION REMAINS GOOD. A RETURN TO HEALTHY EXPORT GROWTH IS IMPERATIVE -- THIS REQUIRES IMPROVEMENT OF THE COST-EFFECTIVENESS (E.G. WAGE RESTRAINTS) OF TRADITIONAL INDUSTRIES, PROMOTION OF HIGH TECHNOLOGY SECTORS, AND INCREASED ENERGY CONSERVATION. SOUTH KOREA MUST PRESS ON WITH ITS SEARCH FOR MORE DIVERSIFIED MARKETS.

184. NORTH KOREA. NORTH KOREA REMAINS UNDER THE TIGHT CONTROL OF PRESIDENT KIM IL-SUNG, WHO AT AGE 68 SHOWS NO SIGNS OF RELINQUISHING HIS AUTHORITY. NEVERTHELESS, THE CAMPAIGN TO DESIGNATE HIS 39-YEAR-OLD SON, KIM CHONG-IL, AS THE PRESIDENTIAL SUCCESSOR TOOK A SIGNIFICANT STEP FORWARD AT THE SIXTH PARTY CONGRESS HELD IN OCTOBER -- FIRST IN TEN YEARS. THE CENTRAL MEDIA IDENTIFIED THE YOUNGER KIM BY NAME FOR THE FIRST TIME AND HERALDED HIS APPOINTMENT TO HIGH-RANKING PARTY POSITIONS IN THE NINE-MAN SECRETARIAT, THE POLITBURO, AND THE MILITARY COMMISSION. SUBSEQUENT MEDIA REFERENCES TO HIS SUCCESSOR ROLE PORTRAY HIM AS AN EMERGING LEADER OF WORLD-SIZE DIMENSIONS CAPABLE OF PERFORMING VERITABLE MIRACLES -- A PUBLIC RELATIONS DEIFICATION TECHNIQUE BORROWED FROM HIS FATHER.

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185. THE EFFORTS TO SELL KIM CHONG-IL APPEAR TO BE PROMPTED FOR THE MOST PART BY THE ELDER KIM'S FEAR THAT HIS REVOLUTION AND REPUTATION WILL SUFFER THE SAME FATE AFTER HIS DEATH AS THOSE OF STALIN AND MAO. INDEED, THE PAINSTAKING GROOMING OF THE YOUNGER KIM AS THE ONLY LEGITIMATE SUCCESSOR MAY INDICATE SOME RESISTANCE TO

HIS ASCENDANCY AND ALSO MAY PRESAGE GREATER MANEUVERING AND POLICY DEBATE AS THE TRANSITION TO A YOUNGER GENERATION OF LEADERS UNFOLDS. WE DO NOT ANTICIPATE, HOWEVER, THAT THE DEBATE AND ATTENDANT MANEUVERING WILL OF THEMSELVES PROMPT ANY SIGNIFICANT DETERIORATION OF THE PARTY'S CONTROL FOR THE FORESEEABLE FUTURE.

186. WHILE THE SUCCESSION WAS THE MOST SENSITIVE ISSUE
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THE CONGRESS FACED, PRESIDENT KIM ALSO HAMMERED ON THE THEMES THAT HAVE DOMINATED NORTH KOREAN DIPLOMATIC AND MEDIA ACTIVITIES IN RECENT MONTHS -- CONFEDERATION WITH SOUTH KOREA, PEACE WITH THE US, AND PYONGYANG'S "NEUTRALITY" IN FOREIGN AFFAIRS. KIM EMPHASIZED AT THE CONGRESS -- AS HE DID IN HIS NEW YEAR'S ADDRESS -- THE IMPORTANCE OF CONTINUING THE TECHNOLOGICAL REVOLUTION BEGUN AT THE LAST CONGRESS IN 1970; HE IDENTIFIED THE PEOPLE'S LIVING STANDARDS AS ONE OF THE MOST IMPORTANT TASKS FOR THE 1980'S.

187. NORTH - SOUTH RELATIONS. PRESIDENT KIM ALSO USED THE OCCASION OF THE PARTY CONGRESS TO UNVEIL PERHAPS THE MOST COMPREHENSIVE PROPOSAL EVER PUT FORWARD BY PYONGYANG FOR CONFEDERATION WITH THE SOUTH. THE PROPOSED DEMOCRATIC CONFEDERAL REPUBLIC OF KOREA (DCRK) WOULD ALLEGEDLY PERMIT DIFFERENT SOCIAL SYSTEMS TO COEXIST WITHIN A UNIFIED COUNTRY AND WOULD BE CHARACTERIZED BY A NON-ALIGNED FOREIGN POLICY, ECONOMIC AND CULTURAL COOPERATION AND EXCHANGE BETWEEN THE TWO SIDES, AND A COMBINED NATIONAL ARMY.

188. AT THE SAME TIME, HOWEVER, KIM REFUSES TO DEAL WITH PRESIDENT CHUN (AND, INDEED, CALLS FOR HIS OVERTHROW) AND INSISTS ON OTHER CONDITIONS TANTAMOUNT IN SEOUL'S VIEW TO A CALL FOR SURRENDER. FUNDAMENTALLY, THEREFORE, WE BELIEVE PYONGYANG'S PROPOSAL IS INTENDED FOR FOREIGN CONSUMPTION AND DEMONSTRATES NO REAL CHANGE IN THE NORTH'S EFFORTS TO GAIN CONTROL OVER THE ENTIRE

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PENINSULA.

189. PYONGYANG'S PROPOSAL AND SEOUL'S NEGATIVE REACTION REFLECT LONGSTANDING DIFFERENCES ON REUNIFICATION. PYONGYANG PREFERS AN OVERALL POLITICAL SETTLEMENT THAT WOULD LEAD TO A CONFEDERATION AND ULTIMATELY TO NORTH KOREAN CONTROL OF THE ENTIRE PENINSULA. FOR ITS PART, SEOUL PREFERS AN INCREMENTAL, TRUST-BUILDING APPROACH THAT COULD LEAD TO SOME FORM OF ACCOMMODATION BUT IN EFFECT WOULD CONTINUE THE STATUS QUO OF TWO KOREAS.

190. IN A MOVE DESIGNED TO BLUNT PYONGYANG'S EFFORTS TO CAPITALIZE ABROAD ON KIM IL-SONG'S CONFEDERATION PROPOSAL AND TO IMPROVE SOUTH KOREA'S INTERNATIONAL IMAGE, PRESIDENT CHUN IN HIS FIRST NEW YEAR'S ADDRESS INVITED KIM TO SEOUL FOR DIRECT TALKS ON REUNIFICATION. PYONGYANG REJECTED CHUN'S OFFER, PRESUMABLY TO AVOID FURTHER ENHANCING CHUN'S DOMESTIC IMAGE ON THE EVE OF PRESIDENTIAL ELECTIONS, BUT STOPPED SHORT OF EARLIER DEMANDS THAT CHUN STEP DOWN. WITH BOTH SIDES THUS SEEKING THE INITIATIVE IN AN EFFORT TO PROJECT A PUBLIC IMAGE OF ACCOMMODATION, WE CANNOT DISMISS THE POSSIBILITY THAT THEY MAY EVENTUALLY FIND SOME COMMON GROUND FOR RESUMING THE DIALOGUE. WE SEE NO EVIDENCE THAT THE NORTH IS PREPARING TO LAUNCH A MILITARY OFFENSIVE AGAINST THE SOUTH, ALTHOUGH IT WILL PROBABLY CONTINUE EFFORTS TO INFILTRATE ARMED TEAMS FOR PURPOSES OF RECONNAISSANCE AND SABOTAGE.

191. BOTH SEOUL AND PYONGYANG CONTINUE THEIR INTENSE COMPETITION FOR INTERNATIONAL RECOGNITION AND PRESTIGE. SEOUL PARTICULARLY HAS STEPPED UP ITS CAMPAIGN TO ESTABLISH TIES WITH MEMBERS OF THE NON-ALIGNED MOVEMENT IN AN EFFORT TO COUNTER PYONGYANG'S INFLUENCE IN THE THIRD WORLD.

192. FOR ITS PART, NORTH KOREA REMAINS ESSENTIALLY EQUIDISTANT BETWEEN ITS TWO PRINCIPAL ALLIES, CHINA AND THE SOVIET UNION. ITS TIES WITH THE PRC MAY BE MARGINALLY STRONGER THAN THOSE WITH THE SOVIETS, BUT SERIOUS DIFFERENCES EXIST. IT VIEWS CHINA'S ECONOMIC MODERNIZATION PLAN AS A REVISIONISM BORDERING ON CAPITALISM AND THE DE-MACIFICATION CAMPAIGN AS A THREAT TO PRESIDENT KIM'S OWN PLACE IN HISTORY. ITS CONCERN OVER CHINA'S TIES WITH THE WEST ALSO SURFACED AT THE OCTOBER CONGRESS WHEN KIM WARNED THAT SOCIALIST COUNTRIES SHOULD NOT SACRIFICE THE INTERESTS OF THEIR ALLIES FOR THE SAKE OF IMPROVING RELATIONS WITH IMPERIALIST COUNTRIES. A DESIRE TO DISCUSS ANY OR ALL OF THESE ISSUES MAY

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HAVE PROMPTED PREMIER YI CHONG-OK'S VISIT TO BEIJING
IN JANUARY.

193. RELATIONS BETWEEN THE US AND THE DPRK REMAIN
FROZEN BY THE UNWILLINGNESS OF CHINA AND THE SOVIET
UNION TO DEAL WITH SOUTH KOREA AND BY PYONGYANG'S
REFUSAL TO PERMIT SEOUL TO PARTICIPATE IN TALKS BETWEEN
PYONGYANG AND WASHINGTON. WE EXPECT THAT PYONGYANG WILL
SEEK TO EXPAND ITS UNOFFICIAL CONTACTS WITH THE US,
HOWEVER, IN AN ONGOING EFFORT TO WEAKEN US/ROK
RELATIONS.

PART X. SOVIET POLICY AND ITS CONSEQUENCES ←

194. ONLY IN INDOCHINA HAS THE USSR BEEN ABLE TO
REGISTER GREATER ACCESS AND INFLUENCE IN THE PAST SIX
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MONTHS. RELATIONS WITH CHINA REMAIN STALEMATED; SOVIET-
JAPANESE TIES CONTINUE TO FLOUNDER OVER THE FAMILIAR
ISSUES OF AFGHANISTAN AND THE KURILE ISLANDS; AND SOVIET
LEADERS ARE INCREASINGLY CONCERNED OVER THE POSSIBILITY
OF CHINESE MILITARY COLLABORATION WITH THE UNITED STATES.
IN SOUTHEAST ASIA, EXTENSIVE AID TO HANOI HAS LED TO
INCREASED SOVIET ACCESS TO MILITARY FACILITIES IN VIET-
NAM, BUT THAT IN TURN HAS IMPAIRED THE USSR'S ALREADY
STRAINED RELATIONS WITH THE ASEAN STATES AND BURMA. IN
SOUTH ASIA, SOVIET TIES WITH INDIA REMAIN CORDIAL, BUT
DIFFERENCES OVER AFGHANISTAN PERSIST AND THE PROSPECT OF
A SINO-INDIAN RAPPROCHEMENT STILL HAUNTS MOSCOW. SOVIET
EFFORTS TO LIMIT PAKISTAN'S SUPPORT OF THE AFGHAN INSUR-
GENCY CONTINUE TO HAVE LIMITED SUCCESS.

195. SINO-SOVIET RELATIONS. THE VOCIFEROUS SOVIET
MEDIA CAMPAIGN AGAINST CHINA CONTINUES, IN TANDEM WITH
CONTINUED SOVIET PROFESSIONS OF INTEREST IN MORMALIZING
SINO-SOVIET RELATIONS. SOVIET LEADERS EVIDENTLY ARE
AGREED THAT CURRENT CHINESE DOMESTIC DEVELOPMENTS REPRE-
SENT A FACTIONAL FIGHT AMONG AN ELITE WHICH SHARES A
COMMON HOSTILITY TOWARD THE USSR AND DESIRES TO STRENG-
THEN CHINESE ABILITY TO RESIST THE USSR. THEY THEREFORE
EXPECT LITTLE IN THE WAY OF A SINO-SOVIET RAPPROCHEMENT
IN THE NEAR FUTURE. CURRENT SOVIET POLICY THEREFORE
FOCUSES ON LIMITING EXTERNAL ASSISTANCE TO BEIJING'S
MODERNIZATION EFFORTS, RESTRAINING US MILITARY AID AND
DEFENSE COOPERATION, AND EXPLOITING TRADE LINKS TO DIS-
COURAGE WESTERN EUROPE AND JAPAN FROM CLOSE ECONOMIC AND

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DEFENSE TIES WITH BEIJING.

196. NORTHEAST ASIA. MOSCOW AND TOKYO HAVE INTENSIFIED THEIR CRITICISM OF EACH OTHER IN RECENT MONTHS. SOVIET LEADERS REPEATEDLY WARNED THE SUZUKI GOVERNMENT AGAINST CLOSER DEFENSE COOPERATION WITH THE US AND CHINA, AND ACCUSED TOKYO OF FABRICATING A "SOVIET THREAT" TO JUSTIFY EXPANDED JAPANESE MILITARY ACTIVITIES DEMANDED BY WASHINGTON. IN AUGUST, THE USSR TOWED A CRIPPLED NUCLEAR SUBMARINE THROUGH JAPANESE WATERS DESPITE TOKYO'S OBJECTIONS, AN INCIDENT WHICH, TOGETHER WITH DISPUTES OVER AFGHANISTAN AND THE NORTHERN TERRITORIES, MADE FOR A TENSE CONFRONTATION BETWEEN GROMYKO AND JAPANESE FOREIGN MINISTER ITO AT THE UN IN SEPTEMBER. PRESUMABLY TO EASE THIS SITUATION, THE SOVIET UNION HOSTED A SOVIET-JAPANESE "PUBLIC ROUNDTABLE" IN

NOVEMBER WHERE OVER 130 JAPANESE POLITICIANS, BUSINESSMEN AND ACADEMICIANS MET WITH SOVIET COLLEAGUES TO DISCUSS WAYS OF IMPROVING RELATIONS BETWEEN THE TWO COUNTRIES.

197. MOSCOW'S RELATIONS WITH NORTH KOREA REMAIN COOL, AND SOVIET LEADERS EVIDENTLY EXPECT NO SIGNIFICANT IMPROVEMENT FOR THE TIME BEING. THEY ARE ESPECIALLY UNHAPPY WITH PYONGYANG'S CONTINUING CRITICISM OF VIETNAM'S INVOLVEMENT IN KAMPUCHEA AND ITS FAILURE TO SUPPORT THE SOVIET INVASION OF AFGHANISTAN.

198. SOUTH ASIA. IN A MAJOR SPEECH IN AUGUST, BREZHNEV PRAISED INDIA FOR PLAYING AN "IMPORTANT ROLE" IN ASIA; SOVIET MEDIA THE SAME MONTH EXTOLLED THE INDO-USSR TREATY OF PEACE, FRIENDSHIP AND COOPERATION AS AN EXAMPLE OF "ORGANIC UNITY BETWEEN SOCIALIST AND NON-ALIGNED STATES." MOSCOW REMAINS INDIA'S PRIMARY ARMS SUPPLIER, AND SOVIET-INDIAN TRADE NEARLY DOUBLED IN THE PAST YEAR. INDIAN PRESIDENT REDDY PAID A CORDIAL AND WELL-PUBLICIZED CEREMONIAL VISIT TO THE USSR IN OCTOBER. BREZHNEV'S VISIT TO NEW DELHI WAS ONLY A PARTIAL SUCCESS, HOWEVER. DESPITE A LAVISH OFFICIAL WELCOME, STREET DEMONSTRATIONS AND PUBLIC COMMENTS BY INDIAN LEADERS ABOUT AFGHANISTAN FRUSTRATED MOSCOW'S HOPES OF FOCUSING THE VISIT EXCLUSIVELY ON POSITIVE ASPECTS OF INDO-SOVIET RELATIONS. FURTHERMORE, INDIA FAILED TO ENDORSE THE PERSIAN GULF SECURITY INITIATIVE ANNOUNCED BY BREZHNEV DURING THE VISIT, MRS. GANDHI CALLING ONLY FOR ITS "CAREFUL CONSIDERATION." NEVERTHELESS, THE SOVIET MEDIA CONTINUE TO DEPICT INDIA AS THE CORNERSTONE OF THE SOVIET POSITION IN SOUTH ASIA AND

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AN IMPORTANT KEY TO SOVIET RELATIONS WITH THE THIRD WORLD.

199. MEANWHILE, USSR EFFORTS TO PERSUADE PAKISTAN TO REDUCE ITS SUPPORT OF THE AFGHAN INSURGENCY CONTINUE UNRELENTINGLY. IN AN AUGUST 28 SPEECH, BREZHNEV CALLED ON ISLAMABAD TO "CEASE ITS COUNTERREVOLUTIONARY INTERVENTION" IN AFGHANISTAN. IN SEPTEMBER, SOVIET AMBASSADOR SMIRNOV WARNED A PAKISTANI JOURNALIST THAT THE USSR MIGHT SOON FEEL COMPELLED TO ATTACK AFGHAN INSURGENT BASES AND REFUGEE CAMPS IN PAKISTAN. BUT ALTHOUGH THERE HAVE BEEN REPEATED SHALLOW SOVIET/AFGHAN AIR AND GROUND INCURSIONS INTO PAKISTAN, MOSCOW HAS THUS FAR AVOIDED MORE EXTENSIVE DIRECT MILITARY ACTIONS WHICH MIGHT FURTHER COMPLICATE ITS POLITICAL POSITION IN THE REGION. IT HAS, HOWEVER, REPORTEDLY INTENSIFIED ITS CONTACTS
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WITH THE DOMESTIC POLITICAL OPPOSITION AND SEPERATIST
ELEMENTS IN PAKISTAN, AND PROPAGANDA ATTACKS ON
PAKISTANI POLICIES HAVE BEEN ESCALATING IN HARSHNESS
SINCE LATE NOVEMBER.

200. SOUTHEAST ASIA. INDOCHINA. MOSCOW CONTINUES TO
PROVIDE THE ASSISTANCE NEEDED TO KEEP HANOI'S ECONOMY
AFLOAT, AND TO SUPPORT VIETNAM'S OCCUPATION OF KAMPU-
CHEA. SOVIET ADVISORS ARE PLAYING AN INCREASINGLY
VISIBLE ROLE THROUGHOUT THE INDOCHINA PENINSULA,
REINFORCING HANOI'S DOMINANCE AND STRENGTHENING MOSCOW'S
OWN POSITION IN VIENTIANE AND PHNOM PENH. THE SOVIET
NAVY HAS EXPANDED ITS AIR AND NAVAL OPERATIONS IN
VIETNAM, AND HAS CONSOLIDATED ITS OPERATIONS AT CAM
RANH BAY. THE USSR HAS, HOWEVER, TRIED TO DISCOURAGE
VIETNAMESE MILITARY OPERATIONS ACROSS THE THAI-KAMPU-
CHEAN BORDER, AND HAS SOUGHT TO SHIFT THE BLAME FOR
CLASHES THAT HAVE OCCURRED TO THAILAND, CHINA AND THE
US.

201. TOGETHER WITH HANOI, MOSCOW SEEKS TO FOCUS INTER-
NATIONAL DISCUSSION OF KAMPUCHEA ON BORDER AND REGIONAL
SECURITY ISSUES, AND AWAY FROM THE QUESTION OF THE
LEGITIMACY OF THE HENG SAMRIN REGIME. ON JANUARY 22,
THE SOVIET AMBASSADOR TO THAILAND PROPOSED THAT THE
NATIONS OF SOUTHEAST ASIA MEET TO DISCUSS REGIONAL
PROBLEMS, INCLUDING KAMPUCHEA, ADDING THAT HANOI WAS
PREPARED TO WITHDRAW ITS TROOPS FROM KAMPUCHEA WHEN

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OUTSIDE INTERFERENCE FROM THAI TERRITORY CEASED. THE PROPOSAL, WHICH WAS REPEATED PUBLICLY BY THE INDO-CHINESE FOREIGN MINISTERS ON JANUARY 27, SEEMS CLEARLY DESIGNED TO UNDERCUT THE OCTOBER UNGA RESOLUTION CALLING FOR AN INTERNATIONAL (RATHER THAN REGIONAL) CONFERENCE ON KAMPUCHEA.

202. ASEAN. SOVIET ECONOMIC AND CULTURAL TIES WITH THE ASEAN STATES REMAIN MEAGRE, AS ASEAN CONCERNS OVER VIETNAMESE AND SOVIET MILITARY ACTIVITIES IN THE REGION HAVE NOT ABATED. MALAYSIA AND INDONESIA, TRADITIONALLY, MORE FEARFUL OF CHINA THAN OF THE USSR, HAVE BECOME INCREASINGLY SUSPICIOUS OF SOVIET INTENTIONS. MOSCOW'S ALREADY COOL TIES WITH SINGAPORE WERE FURTHER CHILLED BY THE ABRUPT CANCELLATION OF PRIME MINISTER LEE'S SCHEDULED VISIT TO THE USSR IN SEPTEMBER. SOVIET EFFORTS TO WOO THE PHILIPPINES HAVESHOWN LITTLE RESULTS; MANILA ONCE AGAIN REFUSED TO GRANT LANDING RIGHTS TO AEROFLOT.

203. MOSCOW MAY HAVE GAINED SOME GROUND WITH THAILAND AS A RESULT OF RECENT BILATERAL DISCUSSIONS ON THE KAMPUCHEAN ISSUE, BUT BANGKOK NEVERTHELESS REACTED SHARPLY TO THE MOVEMENT OF THE AIRCRAFT CARRIER MINSK INTO THE GULF OF THAILAND IN LATE OCTOBER. SOVIET LEADERS FOR THEIR PART HAVE INDICATED INCREASING CONCERN OVER ASEAN'S LINKS TO THE WEST, PARTICULARLY WITH RESPECT TO THE PLANNED RESUMPTION OF COMMONWEALTH "FIVE POWER" MILITARY EXERCISES BY SINGAPORE, AUSTRALIA, NEW ZEALAND, THE UNITED KINGDOM, MALAYSIA, AND POSSIBLY THAILAND. HAIG
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