



Washington, D. C. 20505

REFERRED/RECOMMEND DENIAL
To CIA B1A4

DIRECTORATE OF INTELLIGENCE

The Arab Cooperation Council: A Shaky Strategic Consensus. [REDACTED]

9 March 1989

Summary

The recent formation of the Arab Cooperation Council (ACC) by Iraq, Egypt, Jordan, and North Yemen builds upon political and military relationships forged during the Iran-Iraq war in an effort to create a new power center in the Middle East. [REDACTED]

-The ACC brings together Iraq and Egypt, the two largest Arab military and industrial powers, and--with Jordan--three of the region's most important political actors.

[REDACTED]

To succeed, however, the ACC will have to move from platitudes to concrete proposals and programs that solidify regional cooperation. A number of cross-currents will challenge ACC cohesion:

[REDACTED] The compatibility of Egyptian and Iraqi views on major Middle East issues such as the Arab-Israeli peace process has yet to be tested.

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This memorandum was prepared by [REDACTED]
Office of Near Eastern and South Asian Analysis.

--The need for ACC members to balance their relations with other Arab countries, especially Saudi Arabia, will probably constrain ACC cooperation.

--Weak trade ties and the disparate economic systems of the four countries will make economic integration difficult. Growing foreign and domestic debt problems will probably force Egypt, Iraq, and Jordan to focus on domestic problems, leaving little scope for joint cooperative actions. [REDACTED]



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Political and Military Underpinnings

Although the four founders of the Arab Cooperation Council (ACC) herald the organization primarily as an economic institution, we believe the Council's roots lie more in the political and military spheres. In particular, the military and political support that Egypt, North Yemen, and Jordan gave Iraq during the Iran-Iraq war reflected a shared outlook on the threat from Iranian-backed Islamic fundamentalism and provided a practical focus for cooperative action.

| --Egypt sold Iraq over a billion dollars worth of military equipment during the war, provided thousands of "volunteers" for the Iraqi army, and initiated a joint venture to develop a ballistic missile with Iraq and Argentina.

| --North Yemen sent a brigade of troops to fight against Iran.

| --Much of the military equipment that Iraq received during the war transited Jordan.

| --Egypt and Jordan contributed military advisors to the Iraqi war effort and cooperated with Iraq and Saudi Arabia in a regional air defense network. [REDACTED]

Military cooperation among the four states has continued since last summer's cease-fire. Iraq has given a significant amount of captured military equipment to Jordan and smaller amounts to North Yemen and has increased somewhat its military advisory presence in Sanaa.



This wartime effort has paid several dividends aside from fending off the Iranian threat. Cairo's support for Iraq played a major role in assisting Egypt's return to the Arab fold, specifically the reestablishment of diplomatic relations between Cairo and all but three Arab capitals--Damascus, Algiers, and Beirut. Damascus became more isolated in the region, and the Syrian threat to Jordan was reduced. From Sanaa's perspective, cooperation with Iraq provided a strategic counterweight to Saudi Arabia and a bargaining chip in dealing with Riyadh.



A Hidden Agenda

While Jordan, Egypt, and North Yemen have emphasized the economic aspect of the newly formalized "coalition," the political motivations and military potential of the alliance are not far below the surface:

- Iraq has openly suggested that political cooperation will follow economic action. Chief among Baghdad's political goals are establishing Iraq's regional leadership role at both Syrian and Saudi expense and furthering military industrial cooperation with Egypt.
- For Egypt, charter membership in the ACC emphasizes Cairo's return to the Arab mainstream and formalizes a consensus vindicating Egypt's moderate course and peace with Israel.
- Jordan's King Hussein benefits by demonstrating his effectiveness at promoting Arab unity and cultivating powerful friends.
- North Yemen's President Salih increases his political clout by finding an alternative to his twice-rejected attempts to join the GCC.
- Egypt, Jordan, and Iraq now have a formal counterweight to assuage their frustration with the Arab League's failure to readmit Egypt and its tradition of rule by consensus, which allows Syria veto power over League initiatives on such issues as Lebanon and the peace process. [REDACTED]

The ACC's potential as a regional military grouping has already been raised by Iraqi and Egyptian leaders. Saddam Husayn, in his address to the first ACC summit meeting in Baghdad on 15-16 February, noted that countries with strong military forces must be prepared to use these forces to defend other Arab states. Osama al-Baz, political advisor to Egyptian President Mubarak, developed this theme more extensively in a postsummit interview when he claimed that one of the basic principles of the ACC states will be to cooperate militarily to confront external threats or aggression. He also postulated that ACC military forces were a "strategic reserve" for the GCC states or any Arab state threatened by aggression. [REDACTED]

The organization is moving ahead with plans to institutionalize the new relationship by establishing a General Secretariat in Amman, a Council of Ministers to coordinate ACC activities, and a Higher Council, to be chaired in turn by the four Heads of State. [REDACTED] the leaders of the four nations will meet in Cairo in May to discuss the formation of the ACC secretariat and other administrative matters. [REDACTED]

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The Urge to Merge: The Gulf Cooperation Council and Maghreb Arab Union

Since the creation of the Gulf Cooperation Council (GCC) in 1981, Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman have taken a number of steps to facilitate economic and military cooperation. The GCC has established a framework for increased commercial ties, taken steps to link transportation and communications networks, and implemented policies to eliminate obstacles to the free movement of capital and labor among member states. The GCC states have also created a combined military force and conducted periodic joint exercises since 1983. Complementary economic interests plus the strategic requirement to minimize domination by either Iran or Iraq are strong factors contributing to the GCC's cohesiveness and relative success.

Almost concurrently with the establishment of the ACC, leaders of Morocco, Algeria, Tunisia, Libya, and Mauritania announced the formation of a Greater Maghreb Arab Union after a two-day meeting in Marrakech, Morocco. Maghreb leaders envision an organization patterned after the EC model and plan to create a permanent secretariat, a regional legislature, separate councils for Heads of State and Foreign Ministers, and a judicial organ for resolving disputes. The agreement also includes mutual defense provisions that infer a common response to aggression against any member and that could constrain military cooperation with non-Maghreb countries.

The economic aims of the union—reduced trade barriers, enhanced competitiveness on the world market, and cooperative agricultural, industrial, and commercial projects—will probably predominate in the near-term. Profound political differences on matters such as the Western Sahara question and the potentially disruptive presence of Libya, however, could easily prevent fulfillment of even the Union's economic objectives.

The Economic Dimension

The ACC seeks to integrate the economies of the four countries by coordinating economic policies and increasing intra-ACC trade, tourism, investment, and technical interchange, Early proposals include:

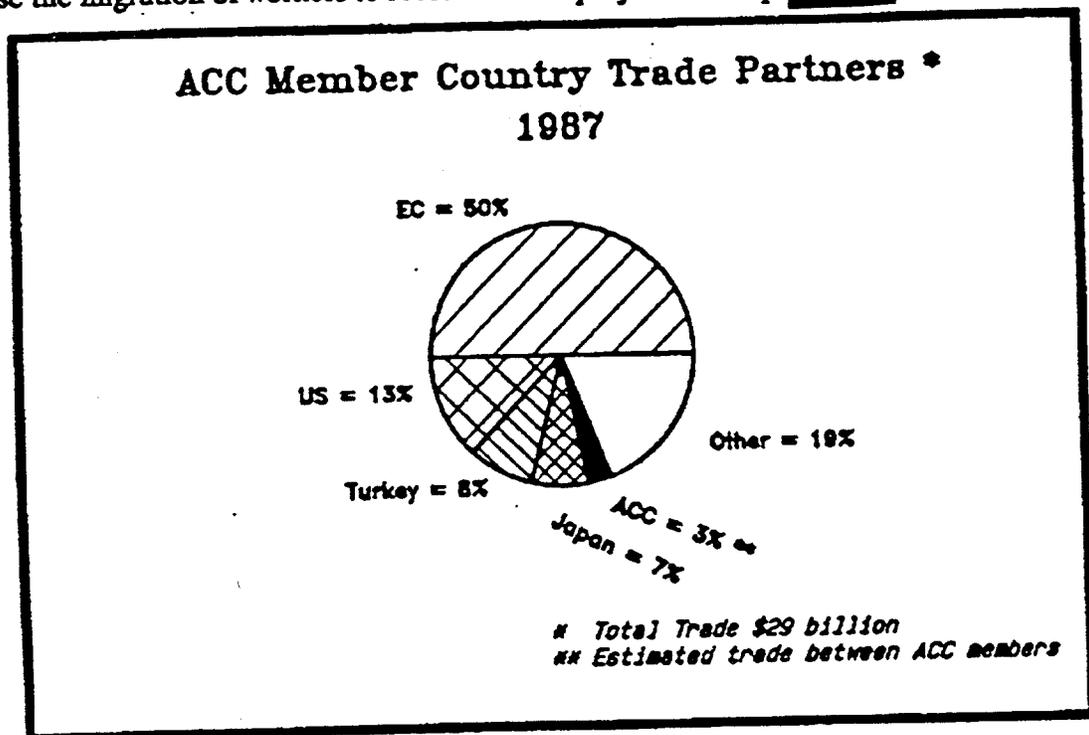
- Stimulating trade by building upon previous bilateral arrangements and removing bureaucratic barriers to create a "common market" among members.
- Coordinating imports to enhance bargaining power vis-a-vis suppliers.
- Encouraging joint ventures and easing labor migration restrictions to improve the flow of capital and labor between member countries.
- Merging the four national airlines to facilitate tourism and ease transportation bottle necks.
- Establishing a regional fund to promote and finance development projects.

ACC countries currently have few economic links apart from the substantial number of expatriate Egyptian—and to a lesser degree Jordanian and Yemeni—workers in Iraq. The labor-exporting countries are almost certainly counting on economic cooperation in the Council to increase their access to Iraq's lucrative postwar reconstruction market.

Labor aside, only Jordan currently has substantial trade relations with the other ACC members—accounting for 26 percent of exports and 12 percent of imports in 1987. Egypt and

Iraq, the Council's major players and the two largest Arab military and industrial powers, have highly regulated and protected economies and insignificant nonmilitary bilateral trade. [REDACTED]

On the positive side, the ACC will probably improve the bargaining position of its members in international economic organizations such as the GATT and vis-a-vis other economic groupings like the European Community—the ACC countries' major trading partner. Initial economic assessments indicate that ACC countries could shave up to \$2-3 billion from import costs by pooling commodity purchases [REDACTED] It may also ease the migration of workers to reconstruction projects in Iraq. [REDACTED] BS



Tough Sledding Ahead

The ACC draws together four countries that have an established political and military track record of bilateral cooperation, but achieving a successful multilateral alliance will be a long-term and difficult challenge. [REDACTED]

Another problem will be relations between ACC members and other Arab states. Close Egyptian and Jordanian political, military, and economic ties to the Gulf states, for example, will complicate ACC cooperative efforts—particularly since [REDACTED] the GCC states perceive the ACC as a competing political, economic, and military grouping. For similar reasons, Egypt's and North Yemen's shared security interests with Red Sea littoral states, including Saudi Arabia, could create problems for these two countries in balancing potentially competing interests. Egypt, in particular, is concerned about the Red Sea's vulnerability to mining and is also interested in economic development with the littoral states. Saudi participation will be essential to Cairo in developing cooperative ventures in the Red Sea and could be

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withheld because of Egypt's role in the ACC. Finally, Jordan and North Yemen will be sensitive to the impact of the ACC on their bilateral relations with Syria and Saudi Arabia, respectively. As a result, both Amman and Sanaa may give less than their full commitment to the ACC. [REDACTED]

A number of factors will constrain ACC military cooperation. [REDACTED] Egypt will be hesitant to commit combat units abroad in support of the ACC. Egypt's military experience in the Yemeni civil war in the 1960s, which involved 30,000 or more Egyptian troops in an unpopular and inconclusive campaign, sometimes dubbed "Egypt's Vietnam," remains a significant deterrent to sending Egyptian expeditionary forces abroad. [REDACTED] Jordan would probably be sensitive to Saudi security concerns in deploying any forces to North Yemen and would be vulnerable to potential Saudi countermoves to cut economic assistance—almost \$1.2 billion over the past three years. Moreover, Amman withdrew its small advisory contingent from North Yemen last year because Sanaa could not afford to pay for the advisors. Iraq's capability and willingness to foot Jordanian and Egyptian military costs for such activities as joint exercises will probably be another important factor in expanding military cooperation. [REDACTED]

Weak trade ties and disparate economic systems will make economic integration difficult. Pledges of cooperation are likely to be severely tested once negotiations begin on how to reconcile differing currency regimes, coordinate investment procedures, and forge common industrial, agricultural, and trade policies. [REDACTED]

Moreover, ACC members all share growing financial woes. Combined, they have amassed over \$90 billion in foreign debt. Egypt, Jordan, and Iraq have severe foreign exchange shortages and debt-servicing problems. These problems will pose significant constraints on economic integration by forcing ACC members to focus on means to improve domestic economic performance. For example, the servicing of growing foreign debt will severely limit the funds available for joint development projects and compel ACC countries to seek increased trade links to the West, probably at the expense of efforts to expand intra-ACC commerce. Many of the goods and services these countries need are available only in the West, further inhibiting intra-ACC commercial ties. [REDACTED]

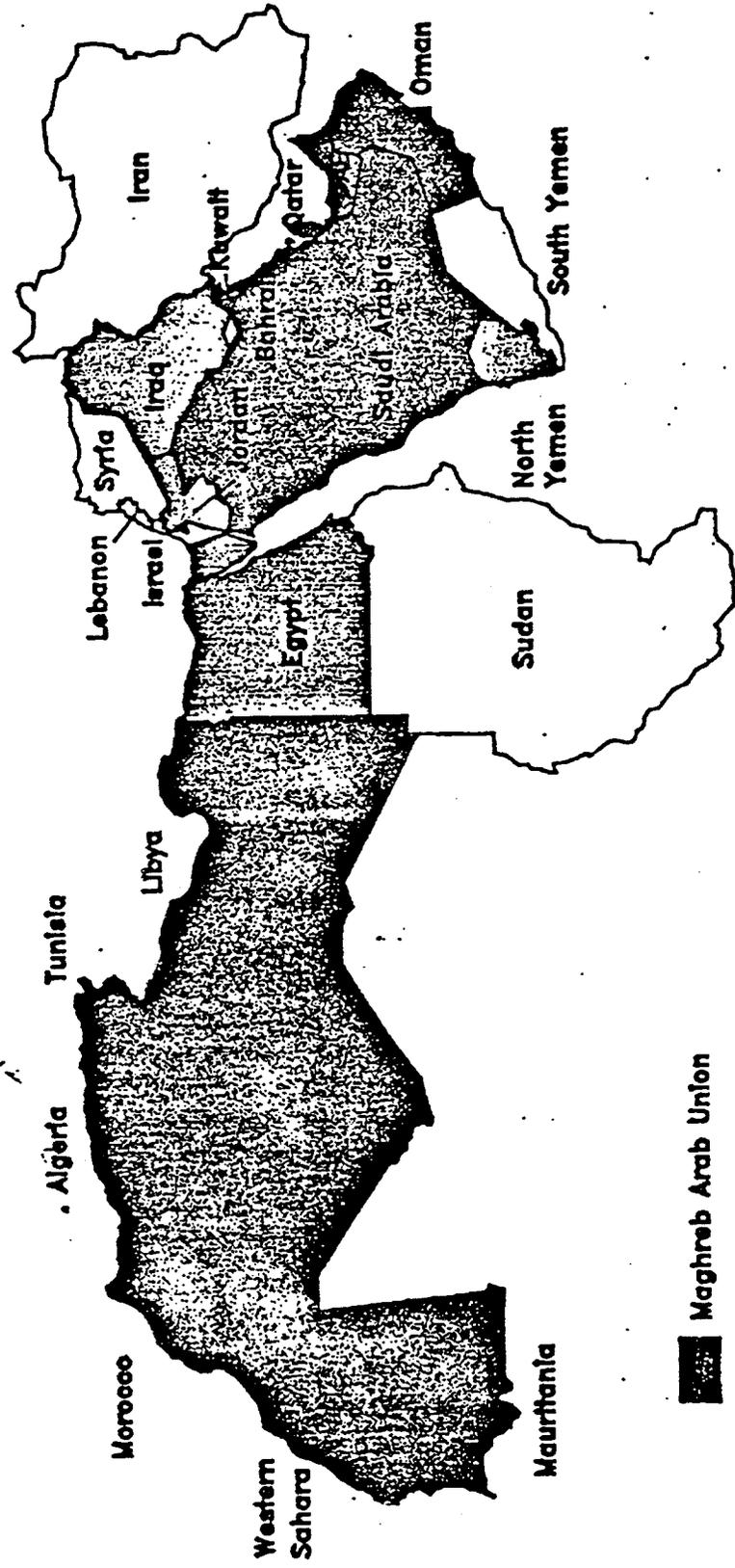
ACC leaders have left open the possibility that other Arab states could join the Council. Membership might be attractive to poor countries like Sudan or South Yemen that would hope to reap economic benefits from Iraq, but expansion would multiply the problems involved in making the organization work. [REDACTED]

[REDACTED]

Pages: 7-8

Exemptions: (b)(1), (b)(3)

Middle East: The Urge to Merge



- Maghreb Arab Union
- Arab Cooperation Council
- Gulf Cooperation Council