

~~SECRET~~**Middle East****EGYPT**

President Sadat's domestic political position was seriously damaged this week as a result of violent protest demonstrations that erupted in reaction to sudden steep price rises after austerity measures were imposed by the government on January 17. Much of the wrath of the demonstrators was directed personally at Sadat, who quickly suspended the austerity program.

Peaceful demonstrations, mostly by workers and students, that began in Cairo, one of its suburbs, and Alexandria on January 18 soon turned into rioting by roving mobs numbering in the thousands. After dying down at night, the rioting was repeated on January 19. The government responded by suspending the price rises pending "reconsideration" of the austerity measures, imposing a curfew, and introducing army troops to the troubled areas.

Although the government charged that leftist agitators had provoked the disturbances, the demonstrators in fact initially seemed to have little organization or leadership, indicating a large degree of spontaneity and a widespread depth of feeling over economic grievances. By the second day, however there were indications that leftist organizers had moved in and were leading many of the demonstrators.

The government's announcement on January 17 that it would lower price subsidies on many consumer goods and impose much higher tariffs on others came without warning and with no attempt to ease the blow for consumers. The regime did not even try to explain the need for further austerity—Egypt is faced with the need to reduce a huge budget deficit—until after the trouble had started. There is some reason to believe the government deliberately moved as it did in order to demonstrate the dangers of such action to officials of the International Monetary

Fund, who are currently in Cairo. The Fund has been urging the Egyptians to reduce price subsidies.

Prime Minister Salim may be fired as a result of the government's ill-considered decision to move ahead with the austerity measures and the embarrassment caused the government by having to reverse them. Sadat may hope to deflect criticism from himself by making Salim the scapegoat.

Relations with Jordan

President Sadat and Jordan's King Husayn ended their year-long estrangement during Husayn's visit to Egypt last week. Sadat used the opportunity to explore further his strategy for encouraging peace negotiations by providing for a federated relationship between Jordan and any future Palestinian state.

A joint statement issued on January 15 at the conclusion of Husayn's visit called for establishment of an independent Palestinian state with strong ties to Jordan and for the Palestine Liberation Organization to participate as an equal and independent party in negotiations.

The statement appears designed primarily to underscore current Arab solidarity and to maintain pressure on Israel and the US to move toward serious negotiations later this year. By enlisting Husayn's support, Sadat hopes to discourage Israeli leaders from believing they can split the Arab camp on the issues of PLO participation in negotiations and Palestinian statehood.

At the same time, Sadat hopes to ease the way to fruitful negotiations by suggesting a compromise that would satisfy Palestinian demands and, to some extent, accommodate Israel's demand that the Palestinian question be resolved within a Jordanian context.

Sadat has clearly stepped up his pressure on the PLO to accept both a truncated Palestinian state and a compromise on linkage to Jordan. So far, the Egyptian leader has not received an openly negative response from the Palestinians or the other key Arab states, but he must nonetheless proceed cautiously.

Even his own advisers are somewhat skittish at the prospect of negative criticism of a strategy that comes close to

violating the established Arab policy of declaring the PLO the "sole, legitimate" spokesman for the Palestinians. Syrian President Assad recently said publicly that he would welcome Palestinian-Jordanian linkage, but Sadat will not be able to press the concept further without active support and cooperation from the Syrians.

Apparently with this need for caution and circumspection in mind, the Egyptians are currently placing heavier emphasis on accommodating the Arab position—that is, on the need for Palestinian independence—than on meeting Israel's demands.

Thus, Foreign Minister Fahmi explained at a recent press conference that the fact and the shape of any future Palestinian-Jordanian relationship must finally be decided by the parties themselves and not be dictated by Egypt or Israel. An independent Palestinian state, he added, must come into existence simultaneously with, if not before, any determination of Palestinian-Jordanian ties.

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