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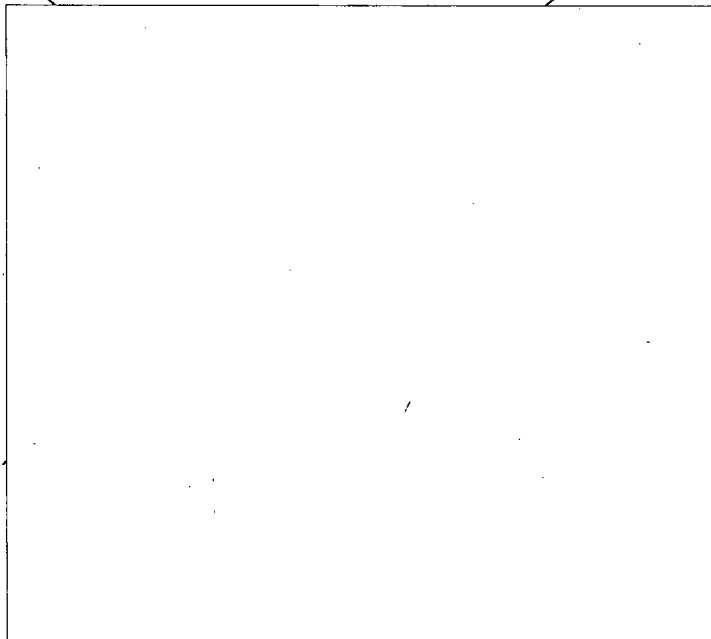
Egypt-1977

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NIE 36.1-177
3 February 1977

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NIE 36.1-1-77

EGYPT—1977

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THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT, AS FOLLOWS:

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the intelligence organizations of the Departments of State, Defense, and Treasury, and the National Security Agency.

Concurring:

The Deputy to the Director of Central Intelligence for the Intelligence Community, Vice Chairman

The Deputy Director, Intelligence, representing the Central Intelligence Agency

The Director of Intelligence and Research, representing the Department of State

The Director, Defense Intelligence Agency

The Director, National Security Agency

The Deputy Assistant Administrator for National Security, Energy Research and Development Administration

The Special Assistant to the Secretary for National Security, Department of the Treasury

The Assistant Director, Federal Bureau of Investigation

Abstaining:

None

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

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EGYPT—1977

KEY POINTS

- Meaningful progress this year in Middle East peace negotiations will be critical for President Sadat. Egypt's domestic problems limit his ability to wait long for substantial movement, while intra-Arab pressures constrain his ability to negotiate independently of the other Arabs.
- Egypt's economic situation presents Sadat with a series of dilemmas:
 - Cairo is dependent on major Arab oil producers to finance a persistent and sizable external financial gap, but lack of a long-term cash assistance agreement reduces political flexibility, deters economic planning, and promotes recurrent financial crises.
 - Relaxation of economic restrictions has created a class of nouveau riche without satisfying the rising expectations of the Egyptian masses.
 - Economic reforms needed to promote long-term growth will aggravate the causes of popular discontent in the short run. The riots in January 1977 will make the government even more cautious in implementing economic reforms.
 - Substantial alleviation of consumer grievances is unlikely in 1977. Egypt's ports and distribution system could not effectively accommodate a sudden increase in deliveries of consumer goods, and cash aid could do little to relieve some of the most critical needs of the Egyptian consumer, e.g., housing. However, awareness in Egypt that additional aid was being provided could have a favorable political impact for Sadat in the current year.

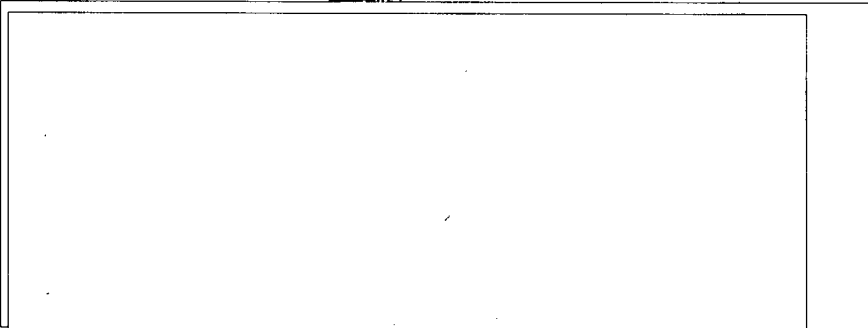
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- The failure of the USSR to replace all of Egypt's war losses, the reduction in Soviet arms deliveries, and Israel's substantial military build-up and modernization program have resulted in a relative diminution of Egypt's ability to wage war against Israel since the 1973 war. This decrease in military capabilities would not necessarily prevent Egypt, together with other Arab states, from undertaking military action to achieve political objectives.
- There are signs of dissatisfaction among the military, the regime's chief prop, over both economic grievances and the relative decline in military capabilities.
- The danger of Sadat's removal will increase if there is no visible improvement in economic conditions or some perceived movement in peace negotiations.
- Developments during 1977 will be of critical importance not only for Sadat's domestic stability but also for the US position in Egypt. Sadat will test the US, both on its ability to produce progress in peace negotiations and on its willingness to assist Egypt in obtaining arms.
- Sadat's domestic credibility depends to a large extent on his ability to demonstrate that the relationship with Washington can produce tangible results.
- If within a few months after the Israeli elections in May no progress appears possible on the arms issue and the US does not succeed in starting peace negotiations, Sadat is likely to pull back from his close ties to the US.
- Estrangement from the US would not necessarily mean a return to close ties with the Soviet Union so long as Sadat remained in office.

—A less substantial rapprochement, permitting a limited flow of arms, might be possible. This would also be designed to keep pressure on the US Government.

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—If these threats failed to bring action, the possibility would increase that Egypt and its allies would initiate war to force diplomatic progress. It is not probable, however, that such a step would be taken in 1977.

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DISCUSSION

I. INTRODUCTION

1. Serious civil disorders in January over economic decisions by the government highlighted the increasingly close relationship between Egypt's economic problems and domestic political stability. Other aspects of the Egyptian political situation—such as its relations with other Arab states and its position toward Middle East peace negotiations—are also heavily influenced by critical economic problems.

2. After more than a year of stalemate in Middle East peace negotiations, President Sadat began a concerted effort late last year to revive the settlement process. Progress in peace talks will be of critical importance to Sadat this year, but he faces myriad problems that will place constraints—often conflicting constraints—on his flexibility. Egypt's military capabilities relative to Israel have declined since the 1973 war, discontent with Sadat's government is rising, and his stature among the other Arabs has dropped since his conclusion of the second Sinai agreement in 1975.

3. Each of these problems will affect Sadat's negotiating tactics. Because progress toward a settlement would at least temporarily divert domestic attention from economic and military ills, Sadat's domestic difficulties provide an impetus to negotiate, but they will also tend to limit his ability and willingness to be patient with the mere appearance of movement or with prolonged, unproductive talks. At the same time, his delicate position with the other Arab states and his inability any longer to negotiate independently of them will limit his flexibility on substantive issues.

II. THE DOMESTIC SETTING

A. Economic Policies, Strategy, and Performance

4. President Sadat set two basic economic goals after he succeeded Nasir in 1970. Like his predecessor, he hoped to push economic growth well ahead of population growth, thereby upgrading human welfare

in Egypt. He was equally determined to free Egypt from dependence on foreign largesse—the long-standing reliance on the USSR for arms and the more recent balance-of-payments support from Libya. Nationalization of private firms, haphazard implementation of economic plans, and improvident financial policies under Nasir, however, had created an import-dependent socialist economy unable either to earn or to borrow the massive amounts of foreign exchange required to accelerate growth.

5. As one way of escaping from this dilemma, Sadat attempted to create a dual economy. In order to preserve such inefficient but essential state industries as the Helwan steel mill and to maintain job security for Egypt's underemployed urban masses, the heavily subsidized public sector was initially to be kept intact. Alongside this public sector, formation of an extensive private sector in collaboration with foreign capital was to be encouraged by liberal investment guarantees. This "open door" policy soon became the economic keynote of Sadat's government. Sadat regards his policy of liberalizing the economy as part of his general reorientation of Egypt's foreign relationships away from the USSR and toward the West.

6. Relative peace and substantially increased Arab aid since the 1973 war have permitted some improvement in the performance of the Egyptian economy and some steps toward economic liberalization. Not only has the real rate of growth risen somewhat above the 3 or 4 percent maintained from 1967 to 1973, but postwar progress has been both steadier and more soundly based. During the interwar period, most "growth" consisted of expansion in the public sector wage bill. Now oil output is rising steadily, and reconstruction in the Suez Canal area has caused a sustained boom in the construction industry. These leading sectors have in turn affected others. A sharp upturn in steel output, for example, was reported in 1975 for the first time in more than a decade.

7. The regime has devoted considerable effort to creation of the legal framework for economic liberal-

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ization. A revised foreign investment law passed in 1974 still needs refinement, but is the most liberal in force today in the Middle East. Other legislation has begun to loosen the hold of the socialist bureaucracy on the economy. More important, private Egyptian entrepreneurs are now receiving active encouragement. Nonetheless, after six years in office, Sadat is still far short of attaining his major economic goals.

8. Since the 1973 war Egypt's dependence on external financial resources has increased rather than diminished. As a consequence mainly of inflation, urbanization, and population growth, Egypt's current account deficit rose from \$650 million to \$2.5 billion between 1973 and 1975 (see chart). Almost all of this increase, together with most purchases of military hardware, has been covered by official aid from conservative, oil-producing Arab states—Saudi Arabia, Kuwait, and the United Arab Emirates (UAE)—the only sources both willing and able to provide the amounts required. Private capital inflow has been accelerated only in those areas traditionally attractive to Arab investors—tourism and finance—and in the

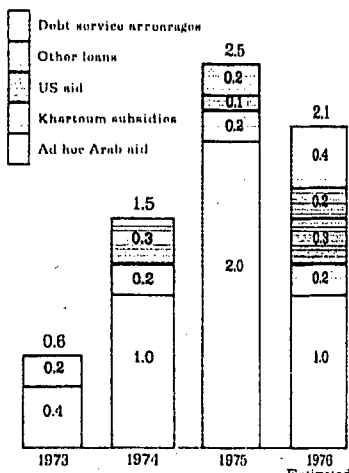
petroleum sector where foreign firms have always played a prominent role.

9. Internally, Sadat also is confronted with a chronic financial crisis. In order to maintain living standards in the face of world inflation, the regime has resorted to heavy subsidization of basic consumer goods. To avert unemployment despite a burgeoning urban population and slow growth in employment opportunities, jobs have been guaranteed in the public sector to all qualified graduates of Egypt's technical and professional schools. These measures have created a spiraling state budget deficit that feeds the very inflation that subsidies were in part designed to offset. Most qualified observers believe that inflation has climbed to 20 percent since the 1973 war. While this is modest compared to rates elsewhere in the Arab world and comparable to inflation in many developed countries, it is traumatic to a generation of Egyptians who have been insulated from price changes.

10. An overgrown bureaucracy is also impeding progress in the traditional public sector. Egypt has yet to unveil the 1976-80 plan, even though its first year has passed. This failure has contributed to slow utilization of project aid; failure to carry through with projects will, in turn, maintain Egypt's persistently deficient economic infrastructure as a major deterrent to foreign investment and economic growth.

Egypt: Financing the Current Account Deficit*

Billion US \$



* Not including grant oil.

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11.

12. Until recently, Sadat has let the supervision of most economic affairs to Prime Minister Salim, [redacted]

A new economic team appointed in November 1976 and headed by prominent economist Abdul Munim Qaysuni as Deputy Prime Minister for Economic Affairs has lately given evidence of greater efficiency and dynamism in carrying out economic policy. Even this economic team will meet obstacles, however, in cutting through the inertia and red tape that create Egypt's bureaucratic morass.

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13. Until this year the aid policies of Saudi Arabia and Kuwait, the major sources of Arab aid to Egypt, clearly reflected their increasing impatience with Cairo's administrative ineptitude. Arab donors have always avoided individual, long-term agreements with Egypt and, although willing to provide substantial ad hoc cash aid during the immediate postwar years, Saudi Arabia and Kuwait shifted from grant aid to concessionary loans and hardened the terms of their aid during 1975 and 1976. In the last half of 1976, only modest amounts of bilateral cash aid were committed.

14. In 1976 the major Arab donors insisted that the bulk of their aid be channeled through the newly established Gulf Organization for Development of Egypt (GODE), which is empowered to disburse primarily project aid and to guarantee commercial loans for Egypt. Arab donors also prefer not to transfer directly to Egypt cash aid for military purchases. Saudi Arabia, the main source of financing for military purchases in the West, now requires arms suppliers to sign two contracts—a technical document negotiated with Cairo and approved by Riyadh, and a financial contract approved solely by Riyadh.

15. Uncertainty about donor intentions has complicated Egypt's economic planning, increased the administrative burden in Cairo, and contributed to the recurrent crises that have characterized postwar Egyptian finance. In the first half of 1975, when Arab aid fell short of Egyptian expectations, Cairo borrowed on the short-term market until Western pressures and impending insolvency inspired another round of cash disbursements from wealthy Arab states. In 1976, with prospective Arab disbursements roughly half the level transferred in 1975, Egypt began to use up inventories and allow debt service to fall seriously in arrears, hoping to extract another \$1 billion in balance-of-payments support from the GODE and individual donors.

8. The Economic Prognosis

16. Egypt's import needs are largely determined by the government's perceptions or desires rather than by market forces. This makes forecasts of necessary import levels more than usually judgmental. The 1977 import requirements, as shown in the following table, are forecast assuming that neither growth nor consumption accelerates rapidly and that stockpiles drawn down in 1976 will be replenished. The table

also assumes that some debt service arrearages will be paid and that reliance on short-term credit will be reduced somewhat.

17. Although Egypt's hard currency receipts should rise substantially this year, thanks chiefly to rising oil output, they will fall short of expenditure requirements by a wide margin. Even if investment does not accelerate appreciably and less urgent debt repayment obligations are sidestepped, the external gap will be at least \$3 billion.

18. Even though Egypt's need for external resources remains large, a financial crisis in 1977 may be averted by the apparent shift in Arab aid policies. At the beginning of the year Egypt had in hand a \$250-million direct loan from GODE and a \$250-million bank loan guaranteed by GODE. Together these facilities will enable Egypt to pay off most of its 1976 debt service arrearages. In addition, Arab oil pro-

EGYPT: 1977 EXTERNAL CIVILIAN FINANCIAL GAP

(1976 Prices—Billion US \$)

Requirements ¹	
Imports	5.4
Debt Services	0.9
Services	0.5
Total	6.8
Earnings	
Goods	2.4
Services	1.4
Total	3.8
Deficit	3.0 ¹
Probable Financing	
US Program Aid	0.2
Khartoum Subsidies	0.2
Rabat Subsidies	0.6-1.2
Investment Capital ²	1.0
Total	2.0-2.6
Unfinanced Gap	1.0-0.4

¹ On top of these civilian requirements, Egypt is being pressed by the USSR to repay as much as \$200 million annually on its Soviet military debt and may request up to \$1 billion in additional financing for arms purchases in the West.

² Project aid or equity investment.

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ducers have recently reinstated the subsidies established by the 1974 Rabat summit—which had been abandoned in 1975 after a single round of disbursements. Already \$570 million has been authorized for 1977 and another \$570 million in retroactive 1976 payments may be approved. If so, these payments, the Khartoum subsidies from Arab donors, US aid, project aid from other sources and some private investment will finance all but about \$400 million of Egypt's 1977 payments gap. With Cairo's credit rating once again refurbished by a last-ditch Arab rescue effort this gap should be relatively easy to accommodate.

19. Substantial alleviation of consumer grievances would be unlikely in 1977 even if considerable larger amounts of cash assistance were made available. Egypt's clogged ports and decrepit internal distribution system cannot accommodate a sudden increase in deliveries of consumer goods and, in any case, cash aid would do little to relieve the critical needs felt by the Egyptian consumer in such important areas as housing, public transportation, and other services. Egyptian awareness of such additional assistance, however, could have some favorable political impact for Sadat in 1977.

20. Even though foreign assistance for investment purposes should be ample, projections over the medium term to 1980 suggest that Egypt will continue to seek balance-of-payments support. The amount sought will depend upon the economic policies Egypt starts to implement, but will be sizable. Probably the only countries capable of providing support on the scale sought are Saudi Arabia, Kuwait, and, to a lesser extent, the UAE.

21. In seeking the levels of balance-of-payments financing that will be required in the future, Sadat faces a serious dilemma. The economic reform package now being discussed with the International Monetary Fund (IMF) would involve some increase in inflation and some reduction in consumption in the short run. The political consequences of such reductions were dramatically illustrated in the riots over price rises in January. On the other hand, failure to adopt such measures would jeopardize long-term economic development and could alienate Arab donors. Sadat hopes that this conflict between political and economic requirements will be resolved during current negotiations with the IMF or during a meeting of major donors to be convened this year by the International Bank for Reconstruction and Development

(IBRD). If no resolution is forthcoming, Sadat is likely to elect, for political reasons, to function economically on an ad hoc basis, hoping that Arab donors will continue to rescue him from the brink of financial disaster.

C. Domestic Political Outlook

22. As demonstrated by the riots in January, Sadat has lost much of the close control he formerly exercised over domestic affairs, particularly over economic matters.

as a result a growing sense of drift and aimlessness is gripping the government. Only his own reassertion of close control is likely to arrest this process. Although in recent months he has taken steps to strengthen the country's economic and financial policymaking machinery by the appointment of a respected and potentially effective Deputy Prime Minister for Economic Affairs, the economic situation remains his greatest political problem.

23. The two disengagement agreements following the 1973 war brought with them widespread anticipation in Egypt that a respite from preparations for war would give the government time to concentrate on revitalizing the economy and would encourage the foreign investment that would bring economic prosperity. Sadat encouraged these hopes, but popular expectations have not been met, and discontent over economic grievances is rising.

24. Strikes by laborers seeking wage increases have become a more frequent occurrence over the last six months or so; the demonstrations over price rises in late January were the most serious manifestation yet of the intensity of discontent over the economic situation. The regime's chief prop, the military establishment, is also increasingly affected by the economic squeeze. During 1976 there were several demonstrations of dissatisfaction by individual military units, most centering on economic problems, and military officers repeatedly made their grievances known to government leaders. During the riots, the military remained loyal, but Sadat may not receive its support should similar crises recur.

25. Popular discontent is reinforced by the stark contrast in living conditions presented by a small but conspicuous group of newly rich who have profited—

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some legitimately, others not—by Sadat's economic policies. Indeed, Sadat's inner circle is the target of bitter criticism; Sadat himself is increasingly held responsible. The popular belief that corruption pervades virtually all levels of the government adds further to the discontent. The government's failure to take legal action against discredited high-level officials and a widespread black market are the most evident examples.

26. Since Beirut lost its role as the financial center of the Middle East, large numbers of wealthy Arabs have been attracted to Cairo's freer postwar political and economic environment and, along with the Egyptian nouveaux riches have formed a new elite. Deterred from investing by lack of an organized capital market, a dearth of small business opportunities, and a traditional preference for commercial activities, this group has spent its money on expensive imported goods, real estate, and other forms of conspicuous consumption. This situation has driven the price of many goods and services beyond the reach of most middle-class Egyptians and has created an increased desire for imported consumer goods by Egypt's urban millions.

27. Some safeguards have been built into the economy to relieve pressure on the urban population. Freedom of emigration has permitted many Egyptians to seek their fortune in affluent Arab countries, and the goods they purchase abroad are supplied to their families or to the myriad private shopkeepers in Egyptian cities. By moonlighting extensively in Egypt's increasingly informal service economy, many urban Egyptians have been able to satisfy their desire for these imported goods, as well as their need for more essential commodities.

28. Nonetheless, major portions of the population see themselves falling behind, and dissatisfaction with the government has become a critical problem. Leftist agitators are exploiting economic grievances, particularly the widening gap between rich and poor, in an effort to stir up further discontent, while rightist religious agitators attempt to arouse public denunciation of the materialism associated with more liberal economic policies. Although the January disturbances began spontaneously, organizers from both extremes, but primarily the left, moved rapidly to exploit the situation.

29. Discontent among the military is also a problem for other than economic issues. In the years since the 1973 war, Sadat has been subjected to criticism by the military for endangering Egypt's supply of Soviet equipment by his propaganda attacks on Moscow. His estrangement from the Soviets and his close ties to the US—despite his inability to obtain significant quantities of arms from Washington—have opened him to charges that he condones US efforts to reinforce Israel's military superiority over Egypt.

30. Egypt's National Assembly was revamped as a result of elections in October 1976, and the newly established opposition parties constitute a source of potential independent criticism of governmental policies. Although the Assembly's deliberations will reflect and may even have an effect on the popular mood, we doubt that this body will effectively inject itself into major decisions on foreign policy or basic economic matters.

31. It is difficult to make a clear assessment of the danger the present political turmoil poses for Sadat. Although the government is increasingly unpopular, Egyptian tradition places the head of state on a higher plane, and thus provides Sadat with some potential for disassociating himself from unpopular decisions. None of his opposition, moreover, is well organized or united, and no civilian group, even if better organized, would be capable of overthrowing the government. Too little is known of sentiments among the military, the only force capable of mounting a coup, to judge accurately whether it is dissatisfied enough to move against Sadat.

32. Sadat's position will become increasingly tenuous if there is neither visible improvement in the economic condition of most Egyptians (the military included) nor some perceived movement in Arab-Israeli peace negotiations. Further negotiating progress would serve, at least temporarily, to reinforce Sadat's credibility, to lessen the military's urgency about securing new sources of weapons, and to divert popular attention from economic woes.

33. In the absence of either negotiating progress or economic improvement, widespread and violent demonstrations by workers and/or students could occur again, and the resulting civil chaos could induce the military, even if not organized for a move against Sadat, to topple him. There is thus far no evidence for questioning the loyalty of the leader of the armed

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forces, Minister of War Gamasy, but his role as spokesman for the military may make his support of Sadat increasingly difficult to count on.

34. Regardless of what happens in the economy, if there is no progress in negotiations or any likelihood of timely arms supplies from Western sources, the military establishment will probably increase pressure on Sadat to establish a closer relationship with the Soviet Union; his refusal to do so could prompt a military move against him. We also cannot discount the possibility that in a less dramatic fashion key military leaders—perhaps led or supported by Gamasy—might choose simply to announce Sadat's "retirement" and replacement by some form of collective military leadership.

36. There are currently few domestic constraints on Sadat's mandate to negotiate a peace settlement with Israel; indeed, domestic ills are an impetus for rapid movement in negotiations. But a new leadership, even one of conservative political orientation, would probably initially be weak domestically and uncertain about its standing among the other Arab states, and would be hesitant to take the lead as Sadat has done in pushing the negotiating process.

III. THE MILITARY SITUATION

A. Capabilities

37. The failure of the USSR to replace all of Egypt's war losses, the reduction in Soviet arms deliveries, and Israel's substantial military build-up and modernization program since the 1973 war have resulted in a relative diminution of Egypt's ability to wage war against Israel. This decrease in military capabilities, however, would not necessarily prevent Egypt, together with other Arab states, from undertaking military action to achieve political objectives.

38. The Egyptians could currently mount a strong defense against Israeli attack or sustain offensive action for a few days to achieve limited objectives in the Sinai. It is doubtful that they could support

prolonged military action without a massive infusion of materiel. These capabilities are not likely to change appreciably through the end of 1977.*

39. Cairo has not been able to find an adequate alternative to the Soviets as a source of arms. Furthermore, the purchase of Western arms as an alternative to Soviet military aid will improve Egypt's capabilities only over a period of several years and not in the near term. In order to maintain existing capabilities and to provide for future force modernization, a more effective arms diversification program would have to be established soon.

B. Arms Diversification

40. The reduction of arms supplies from the USSR and the requirement to maintain a credible military readiness posture have given added impetus to Egypt's search for new sources of arms, a process begun in earnest by Sadat in 1974 in an attempt to release Egypt from its sole dependence on the Soviets. Since then, Egypt has had only limited success in obtaining weapons and spare parts from Western Europe and Asia and from Soviet clients in Eastern Europe. In the past, Japan sold minor amounts of noncombat materiel to Egypt, but legal restrictions prevent Japan from exporting combat equipment.

41. The only other nations capable of producing major items of combat materiel for export to Egypt are the countries of Western Europe, the United States and, to a lesser extent, China and North Korea. In some Western countries, however, the proposed sale of sophisticated offensive arms to a Middle East belligerent has stirred sharp internal debate and has prevented or delayed approval. In addition, Cairo has created further problems by its own indecision on equipment purchases.

42. Despite these difficulties, Egypt has made a number of arms agreements over the last two years and has taken some deliveries. Contracts have been signed with France for jet fighters, helicopters, air-to-air missiles, antitank missiles, radar, naval support equipment, ammunition, and spare parts. Similarly, contracts have been signed with the UK for antitank missiles, helicopters, hovercraft, radar, ammunition,

* For a more detailed discussion of the military balance in the Middle East, see NIE 35/36-1-76: Middle East Military Balance (1976-1981), published in August 1976.

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and equipment for missile patrol boats. An agreement for electronic warfare materiel was also signed with Italy, and China and North Korea have promised to supply small quantities of antiship missiles, artillery, engines for aircraft and tanks, and spare parts.

43. The conversion from Soviet-designed equipment to other types, however, will be a lengthy process. Acquisitions of new equipment will continue to be delayed by the uncertainty of monetary assistance from wealthy Arab states. In addition, numerous technical difficulties will have to be overcome in order for materiel from West European, US, or other suppliers to be integrated into the Egyptian logistics system, and Egyptian military personnel will need additional training in order to become proficient in the operation of the new weapons.

44. Delivery of the arms already ordered will continue throughout 1977 and 1978 but this materiel will not be sufficient to satisfy all requirements—especially for tanks and APCs—during this time. Even if new contracts are signed immediately, substantial additional deliveries of West European arms could not be made in 1977.

45. The materiel which is retained in use will place greater demands on the maintenance system as stockpiles of Soviet-made repair parts are depleted. Several measures have been taken to deal with these problems. Small numbers of engines and unknown quantities of spare parts for aircraft and armored vehicles have been obtained from China, North Korea, France, and the UK. Guidance systems for various missiles are being replaced by a French firm, while limited numbers of MIG-21 engines are being overhauled with assistance from Rolls Royce. Finally, discussions concerning the retrofit of T-54/55 tanks have been held with Western firms.

46. Measures such as these may eventually enable the Egyptians to maintain much of their equipment in serviceable condition and to prolong the useful life of some older items. The materiel readiness status of the Egyptian armed forces will temporarily decrease, however, while the conversion to non-Soviet equipment is in progress.

47. The desire to reduce dependence on foreign suppliers has also prompted Egypt to expand indigenous arms production. An association known as the Arab Organization for Industrialization (AOI) has been formed with Saudi Arabia, the UAE, and Qatar

for the purpose of establishing a pan-Arab arms industry based mainly on the existing military factories in Egypt. The wealthy Arab oil states have provided a fund of \$1 billion to finance purchases of production machinery and technical assistance from industrialized nations, and Egypt's limited arms-production industry is now being expanded. Present output of military materiel is still limited to modest quantities of infantry weapons, ammunition, explosives, quartermaster materiel, and transport vehicles.

C. Requests to the US

48. Sadat has often declared publicly, and in more detail to visiting US officials, his intention to seek substantial US arms assistance in 1977, and he is almost certain to pursue the matter with the new administration in the near future. Sadat has most consistently mentioned F-5E aircraft, TOW antitank missiles, and electronic equipment as being at the top of his list.

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[REDACTED]

52. Sadat will probably concentrate otherwise on weapons and services oriented toward strengthening Egypt's ground forces.

[REDACTED]

53. Training in the US for Egyptian military officers is likely to be among Sadat's requests. The Egyptians may also seek minor US assistance in their domestic arms production.

D. The USSR

54. For at least the short term, Egypt will continue to seek additional assistance from Moscow or its client states to maintain its Soviet equipment, even if it concludes more contracts with West European producers. Unless relief, particularly on spare parts, is given by the Soviets, the armed forces will continue to experience shortages in materiel. The USSR now permits only a trickle of military supplies.

55. Sadat will remain under pressure from the Egyptian military establishment to reach some accord with Moscow on a substantial resumption of Soviet equipment deliveries, either directly or via third countries. If a limited rapprochement does occur in the months ahead, the Soviets probably would only gradually increase military deliveries rather than resume massive shipments. This level of assistance, however, could not alter the existing Israeli superiority, and the still chilly relations between Moscow and Cairo make it unlikely that massive shipments will be made any time soon.

56. A major potential source of Soviet military equipment exists in neighboring Libya. While the operational status of this equipment, especially the tanks and APCs, remains unknown, any movement and integration of the arms, with the exception of

aircraft, into the Egyptian inventory would require some time. Furthermore, there appears to be no compelling reason for Sadat and Qadhafi to settle their quarrel soon. Only after this had been achieved would Qadhafi consider allowing Cairo to have access to his stockpile of armaments. Some spare parts could be made available by Libya, however, as an incentive toward an Egyptian-Libyan reconciliation.

IV. THE INTERNATIONAL SETTING

A. Arab Pressures

57. [REDACTED]

[REDACTED] he has

clearly renounced the interventionist tactics that Nasr used to advance pan-Arab goals and to ensure Egyptian preeminence among the Arab states. Yet Sadat, despite his greater interest in Egypt's domestic priorities, is determined to retain a major role for Egypt in the Arab world, not least to ensure that Saudi Arabia and the other Arab oil producers continue their substantial financial aid.

58. Continued regional leadership is in fact a major objective of Sadat's domestic economic policies. Egypt's importance today rests largely on the fact that it is the principal Arab state confronting Israel. But by attempting to build the country economically—whatever the practical shortcomings of his economic policy implementation—Sadat is seeking to add an economic dimension to its political strength. He hopes in this way Egypt can maintain its status as a significant regional power beyond the time when a peace settlement with Israel might change the focus of world attention from issues of war and peace in the area to issues of oil and economics.

59. Maintenance of his leadership role in the Arab world is also, in Sadat's view, the only means by which he can further both his domestic and his foreign policy goals. He can achieve the revitalization of Egypt's economy only by attracting substantial financial assistance and economic cooperation from the Arab oil states, particularly Saudi Arabia; he can achieve a peace settlement only by attracting the political cooperation of the other Arab principals—Syria, the Palestinians, Jordan, and Saudi Arabia.

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60. The very need for this cooperation, however, exerts conflicting pressures on Sadat. While he expects acquiescence from the other Arabs in his leadership, he must also accommodate their desires.

His relations with the other Arab states, particularly Syria, tend to reflect this tension.

61. Even at the height of Egyptian-Syrian cooperation during the 1973 war, Sadat sought to avoid tying himself down to full coordination of tactics. Despite his reconciliation with President Asad at the Riyadh summit in October 1976 and the subsequent formation of a unified political command with Syria, he will probably continue to resist demands for close consultation with Asad. Syria's intervention in Lebanon early last year, moreover, revived historic Egyptian suspicions of Syria's desire to dominate the eastern Arab world.

62. Nonetheless, Sadat will work to avoid serious frictions with his Arab allies in the interests of at least the minimal harmony necessary for Arab-Israeli peace talks. His most immediate aim is to revive negotiations, and without a relatively solid front, the Arabs cannot hope that Israel will move toward negotiations or expect the US to press Israel.

63. So long as negotiating progress appears possible, Sadat will make a serious effort to maintain the coalition among Egypt, Syria, Saudi Arabia, the Palestinians, and Jordan that has been reestablished since the Riyadh summit.

64. Saudi Arabia will play an influential role in keeping Sadat's relations with the other Arabs on an even keel, but this will be a subtle influence at most. The Saudis operate by consensus themselves, and their greatest desire is to forge consensus among their Arab allies.

65. Sadat's relationship with the Palestinians is also complex and subject to frequent changes.

66. The Palestinians' greatest strength remains their ability to play off one Arab state against another, despite the debacle they have experienced in Lebanon. It is unlikely that the Arab states will ever collectively allow the Palestinian cause to be abandoned, and Sadat must make accommodations to this situation.

67. In an effort to accommodate Israel's refusal to negotiate with the PLO, Sadat has in the past attempted to persuade the Palestinians and the Arab states to permit Jordan to negotiate for the return of the West Bank, on the promise that the territory could thereafter be turned over to the Palestinians. But he was unable to carry through with this policy in the face of general Arab opposition at the 1974 summit at Rabat, where Jordan was stripped of any negotiating authority and the PLO was designated the sole legitimate representative of the Palestinian people.

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he has little choice but to adhere to the current Arab position and support demands for establishment of an independent Palestinian state on the West Bank and the Gaza Strip.

69. Sadat in fact, despite the leading role that all Arabs acknowledge he should play in reviving peace negotiations, must be a follower as well as a leader. So long as the other key Arab states, notably Syria, remain willing to negotiate and the more moderate Palestinian groups do not completely reject the concept of negotiations, Sadat will not be deterred from pursuing a settlement by the pressures of radical Arabs like Libya, Iraq, or the "rejectionist" Palestinians. But Sadat is constrained from moving too far or too fast on the substance of a settlement by the desires of the very moderate states that he seeks to lead.

70. Just as he must accommodate majority opinion among the Arabs on the Palestinian issue, so must he take full account of Arab desires on other negotiating issues. Sadat will not, by negotiating another bilateral Egyptian-Israeli agreement, again risk the isolation from the Arab world or the charges of treachery from Syria that accompanied his conclusion of the second Sinai agreement in September 1975.

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82. A less substantial rapprochement between Sadat and Moscow, permitting a limited flow of arms to Egypt at little cost to Cairo beyond a few political gestures, is possible. Sadat will clearly maintain pressures on Moscow to resume arms deliveries on these terms, whatever his domestic or international circumstances.

83. He would probably be prepared to offer in return an agreement to cease his and the Egyptian media's propaganda attacks on Moscow, and he might also agree to involve the Soviets more closely in peace negotiations.

he might calculate that, some consultation with the Soviets would be inevitable in any case. It is highly unlikely that Sadat would be willing again to conclude a friendship treaty with the USSR or allow the return of more than limited numbers of Soviet military advisers. It is also doubtful that he would renew the Soviet access to Egyptian naval facilities which Moscow still wants.

84. The Soviets would not likely be satisfied with such limited gestures. What Moscow seeks above all, and what Sadat has denied them, is a bilateral relationship which would assure the Kremlin that Egyptian policy meshes with basic Soviet foreign policy objectives. The roots of the Soviet quarrel with Sadat thus are considerably deeper than Kremlin pique at Egyptian polemics, unhappiness with Sadat's economic policies, or even his embrace of the US. Although the Soviets would probably release some arms and spare parts, if only to retain influence with the Egyptian military and remind them of what might be forthcoming. Moscow would not see it in its interest, without basic concessions from Sadat, to resume substantial arms deliveries. Such deliveries would only serve to prop up Sadat's domestic position by easing the military's principal grievance against him without giving the Soviets any guarantee of the permanent relationship they desire.

85. The situation could be markedly different if Sadat died or voluntarily resigned. Those most likely to succeed him—one of his current advisers or a collegium of these men

C. Relations with the USSR

81. [redacted] limited rapprochement with the Soviet Union, would not necessarily mean a return to close ties as long as Sadat remained in office.

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[redacted] would more readily make pragmatic political concessions to Moscow in order to obtain a steady supply of arms. The Soviets, by the same token,

[redacted] would probably agree to reestablishing a military relationship.

86. If Sadat were overthrown in a military coup, the likelihood of a reinstitution of closer Egyptian-Soviet ties would be greater still. One of the prime reasons for a coup would be dissatisfaction over Egypt's military supply problems, and the new leaders would turn first to the supplier with whom they are most familiar and who could most quickly restore Egyptian capabilities.

V. IMPLICATIONS FOR THE US

A. The Negotiating Picture

87. The coming year will be of critical importance not only to Sadat but also to the US position in the Middle East. It will be a year in which Sadat himself will be tested; he has aroused in his people expectations for economic improvement, progress in peace negotiations, and access to modern weaponry, and he must begin to show some results if he is to survive for long into 1978. Since visible economic gains are all but impossible in this short a period, the burden will fall on progress in peace talks and, to a slightly lesser extent, access to modern weapons. It will also be a year in which Sadat will test the US; he must depend on the US for progress on both negotiations and to some extent the arms issue.

88. In any negotiations undertaken in 1977, Sadat's role will be very different from what it was prior to the conclusion of the Sinai II disengagement agreement. Beginning with his isolation within the Arab world as a result of Sinai II, Sadat has lost some of his regional influence. Furthermore, events in Lebanon have highlighted Syria's ability to pursue its own interests in defiance of Egyptian desires. Saudi Arabia, for its part, is exhibiting a willingness to utilize its potential financial leverage with both Egypt and Syria. Thus,

while Sadat's views are still important because of his established relationship with the American mediator, he will probably feel unable to move into negotiations without the concurrence of both Syria and Saudi Arabia, and he will be unable to ignore their basic substantive positions once negotiations begin.

89. Sadat is sufficiently eager to see the negotiating process resume that he will make concessions to that end. Most important, he could be induced to accept any formula acceptable to Syria and Saudi Arabia that provided for Palestinian participation. He would also show flexibility on matters such as a return to Geneva this year and the role there of the UN Secretary-General. Should there be a UN meeting in the spring of 1977, Egypt can probably be counted on to play a constructive role provide she is convinced that the US is making a serious effort to get the negotiations underway.

90. Sadat will not be able to engage in negotiations with Israel in the coming year, however, unless other Arab parties are also involved in the process. He has publicly declared that the step-by-step approach to negotiations is dead, and he will not risk his relatively good relations with Syria, Saudi Arabia, and the PLO by reneging on that promise.

91. Sadat could engage in bilateral negotiations with Israel on the Sinai issue only if these were conducted as part of an agreed Arab strategy and as part of a comprehensive approach to an overall settlement—if, for instance, the Geneva Conference broke down into individual working groups to consider the separate territorial issues involved. He would be careful, however, to avoid moving ahead of the other Arabs and would be reluctant to conclude any part of a settlement involving Egypt without progress on the other fronts.

92. Sadat's position on the Palestinian issue—both on participation in the Geneva Conference and later on substantive questions—will require careful coordination with that of Syria.

[redacted] He cannot afford politically to be seen to be abandoning

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the Palestinian cause, but would work with Syria to shape the composition of Palestinian representation in the negotiations. Sadat could go to Geneva without the PLO initially, but only if Syria were also willing to do so.

93. On specific negotiations over Sinai, Sadat will be constrained by the attitudes of his fellow Arab leaders only with regard to the pace and timing of talks with Israel; the attitudes of the other states are unlikely to have a significant effect on the concessions Sadat is willing to make in those negotiations.

94. Sadat has often stated that he would not agree to establish normal diplomatic relations with Israel as part of a peace settlement. He has declared that he would be willing to end the state of war, but has consistently held to the position that the full peace that Israel seeks is impossible after a quarter-century of bitterness. He holds that this is for the next generation. Egypt and Israel are both engaged in a process of preserving, through their public statements, established positions; for this reason, as well as for reasons of Arab solidarity, Sadat cannot be expected to alter his line on this point prior to the onset of negotiations.

95. Once negotiations begin, the extent of Egyptian concessions will be conditioned to a large degree by Israeli positions; as such, they are difficult to predict. However, Sadat can be expected to be greatly influenced both by the extent of the Israeli withdrawal from the Sinai and the amount of time over which an agreement were to be implemented. It does not seem improbable, for example, that Sadat would agree to end the state of belligerency for something less than an Israeli return to the 1967 borders if, by so doing, he regained the vast majority of occupied Egyptian territory, although in such an agreement he would not renounce Egypt's right to recover the areas still under occupation.

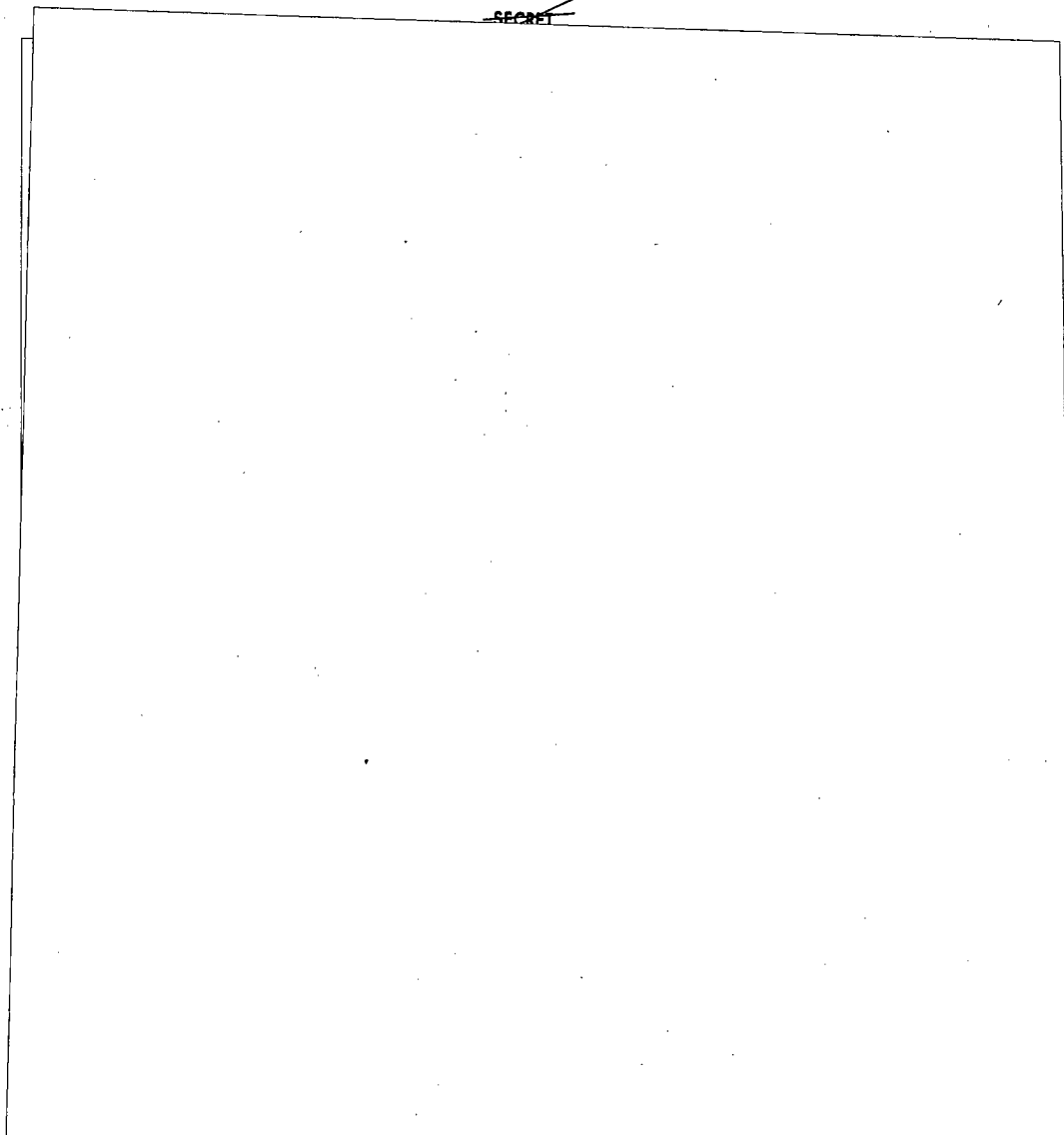
96. Another approach that might be acceptable to Sadat would be a protracted phasing of Israeli withdrawals and Egyptian political concessions, culminating in Israeli withdrawal on all fronts to something close to the 1967 borders and substantial normalization of relations. This would permit Sadat to agree only to the principle of normalization of relations upon signing the agreement and would allow him to point to a time-frame consistent with his assertion that full peace is something for the next

generation. Apart from probable Israeli unwillingness to withdraw almost to the 1967 borders only for an end to belligerency, the difficulty of such an approach lies with Sadat's desire to keep in step with Syria, the Palestinians, and Saudi Arabia.

97. Sadat could probably also accept demilitarization of any territories returned to the Arabs, and some degree of phased improvement in Arab relations with Israel. He would be highly sensitive, however, to whether the US was inducing comparable concessions from Israel and would consider that its inability or unwillingness to do so reduced its credibility as an objective mediator. This would be especially true of any attempt on the part of the US to push Egypt toward full normalization of relations with Israel within what he views as an unrealistic time period.

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