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LEBANON-PALESTINIANS: Restrictions

[redacted] The series of new restrictions on Palestinian activity in Lebanon apparently agreed to on Saturday by the quadripartite committee--representatives of Syria, Egypt, Saudi Arabia, and Kuwait charged with overseeing the Lebanese cease-fire--appear designed to bring the fedayeen movement under closer Syrian control and to limit the ability of the Palestinians to obstruct the peace process.

[redacted] Under the new curbs, put forth in what is said to be a new agreement on applying the Cairo accord of 1969, which governs the fedayeen presence in Lebanon, the fedayeen would be prohibited from possessing arms or ammunition outside "specified border regions" near Israel. Armament in the refugee camps would be restricted to "light, individual weapons" to be carried by the Palestine Armed Struggle Command, the Palestinian police force. Rallies, demonstrations, and statements to the press would require authorization at least 24 hours beforehand from the Lebanese authorities. Fedayeen-operated radio stations would not be permitted.

[redacted] The ban on all but "light" weapons in the refugee camps would appear to be aimed primarily at the "rejectionists." Syria had earlier permitted the more moderate Palestinian groups to move into southern Lebanon, leaving the "rejectionists" occupying the camps in the north and central areas of the country.

[redacted] The largely Syrian Arab peacekeeping forces may, in fact, be preparing to move against the camps near Beirut to seize the heavy weapons held by the "rejectionists." In an apparent reference to the camps, the Saudi representative to the quadripartite committee said on Saturday that "next week will be the week of raids." Yesterday Palestinian leaders charged that Arab peacekeeping forces were massed around the refugee camps.

[redacted] The new restrictions also would reportedly limit the Palestinians in Lebanon to the number registered with the UN in 1969. It is doubtful that this restriction, which would force some 150,000 of the 350,000 Palestinians in Lebanon to leave, can be put into effect anytime soon. [redacted]

[redacted]

sensitivity to the parties' complaints by expressing his willingness to make further modifications. Christian Democratic party secretary Zaccagnini has even broached the possibility of the parties' parliamentary leaders' resolving outstanding differences.

[redacted] Up to now, only the Republican Party has threatened to vote against the measures, and this may be just a tactical move. The other parties are seeking further clarifications of the cabinet decision and probably will attempt to modify the law during the debate.

[redacted] The Communists will probably push for some changes in the decree law, but seem likely to abstain in the vote to avoid any threat to the government. [redacted]

EGYPT: Containing Consumer Pressures

[redacted] During the last week in January, rioting by Egypt's normally docile population focused international attention on the political-economic tightrope that President Sadat is walking. The rising expectations of the people constitute the most pressing problem facing Sadat and any successor regime.

[redacted] For almost a decade, the discontent among urban Egyptians was kept under control by the threat of war. Both Nasir and Sadat were prevented by a lack of foreign exchange from increasing consumption in the import-dependent economy and therefore blamed economic hardship on the confrontation with Israel, in effect promising a better life when the confrontation ended.

[redacted] To the average Egyptian, however, the Sinai II agreement of 1975 marked the end of war and the beginning of a perplexing new economic era. Relaxation of the economic restrictions imposed under Nasir exposed Egyptians for the first time in two decades to the conspicuous consumption of a rich elite and to the uncertainties of market forces.

[redacted] For a time, the opportunities offered by growth in the private sector offset both the effect of the excesses of the newly rich and the impact of worsening inflation. Public tolerance, however, was pushed past the limit last month by the government's badly bungled attempt at further economic reform. By summarily slashing consumer subsidies--many of which had been in place since 1948--Cairo forced consumer prices sharply upward. Sadat restored the subsidies when serious rioting erupted.

[redacted] Sadat now undoubtedly expects substantial amounts of new cash aid from conservative Arab states to bolster his regime in the wake of the disorders. Even if the new aid tally is disappointing, Egypt has still begun 1977 in far better financial shape than it did in 1975 or 1976. Thanks largely to rising Egyptian oil output and the resumption of subsidy payments from other Arab states, Cairo faces an unfinanced foreign payments gap this year of $1 billion at most, compared with $2 billion last year.

[redacted] Most of Cairo's 1976 overdue debt service payments have been paid off with a $250 million direct loan from the newly established Gulf Organization for Development of Egypt and a $250 million bank loan guaranteed by the same organization. In addition, $570 million in Arab subsidies have been authorized for 1977, and another $570 million in retroactive 1976 payments may be approved. Other subsidies from Arab donors, US aid, project aid from other sources, and some private investment will provide another $1.4 billion.

[redacted] Armed with the expectation of ample aid but threatened by the prospect of further civil unrest, Sadat is now seeking to modify the economic reform package proposed by the International Monetary Fund. The terms of the package--currency devaluation, reduced subsidies, and other measures--are designed to realign domestic prices, reduce the role of the public sector, and control inflation. They will also result in reduced consumption over the short run.

[redacted] The political risks to Sadat of such measures have been considerably multiplied by his loss of stature during the January riots. On the other hand, Sadat feels he can now dilute the reform program and still count on conservative Arab states to come up with new cash aid to bolster his regime.

[redacted] A slowdown in implementing the IMF reforms will force Egypt to continue to depend heavily on foreign aid rather than private foreign capital. During the 1978-80 period, at least $5 billion will be needed to finance the foreign exchange component of investment in plant and equipment. Another $5 billion in balance-of-payments support or debt relief will be required to provide a small increment in urban consumption levels and to permit some progress in renovating Egypt's economic infrastructure. Much more substantial foreign aid will be needed if expectations for Egypt's major export industries, especially oil and tourism, are not realized.

[redacted] //The oil sector is the main question mark. Since 1967, exploration and development activity in the Gulf of Suez area has been subject to Israeli harassment and to the threat of Israeli drilling in concessions let by Egypt to foreign oil companies. Unless it can freely exploit the Gulf of Suez, Egypt's oil revenues in 1980 may drop to $900 million (at 1976 prices) instead of the $1.4 billion projected until recently by Egyptian planners.

[redacted] //Lags in hotel construction and in expanding the Suez Canal, moreover, could easily cause eventual earnings to fall below plan. Export shortfalls might well cost Egypt as much as $3.5 billion in foreign exchange earnings over the next four years.//

[redacted] Even if foreign exchange supplies are ample, Egypt's ability to increase imports will be limited for several years by bottlenecks in port capacity and the internal distribution system. In turn, import constraints will limit the growth of the economy and of consumption. [redacted]

DENMARK: Election Forecast

[redacted] //The Danish election tomorrow will probably result in few changes in the present parliament, and the current minority Social Democratic government will probably continue in office.//

[redacted] //Prime Minister Jorgensen called the election when it appeared that he would have to rely on one-vote majorities on several important and controversial bills. With recent polls running in his favor, Jorgensen hopes to increase the parliamentary representation of his Social Democrats.//