



Directorate of
Intelligence

~~Secret~~

25X1

Near East and South Asia Review

25X1

16 January 1987

RECEIVED 11 FEBRUARY

~~Secret~~

NESA NESAR 87-002
16 January 1987

Copy

326

Page Denied

Secret
[Redacted]

25X1

Near East and South Asia Review [Redacted]

25X1

16 January 1987

Page

Articles

Libya: Qadhafi on the Defensive in Chad [Redacted]
[Redacted]

1

25X1
25X1

Recent Chadian successes have significantly raised the cost of the war to Libya. Libyan leader Qadhafi has given top priority to reversing these defeats and reestablishing control over northern Chad, but he almost certainly realizes that a protracted and costly campaign risks a domestic political backlash that could lead to his removal. [Redacted]

25X1

Libya: The Warfalli Affair (U)
Paul Draper, 482-8648

7

The killing of one of Libyan leader Qadhafi's most ruthless officials by antiregime elements in Banghazi last August is having significant political repercussions. It has heightened concern over personal security among regime loyalists and is prompting Qadhafi to weed out his most fanatic followers and rebuild domestic support.

25X1

Algeria: Growing Challenges for Bendjedid [Redacted]
[Redacted]

11

25X1
25X1

The eight-year-old regime of President Bendjedid is both internally factionalized and struggling to manage growing public disgruntlement. Bendjedid's position appears fairly secure, but he is likely to face economic and political difficulties this year that could force him to compromise with his opponents. [Redacted]

25X1

Youth in the Maghreb: A Growing Opposition [Redacted]
[Redacted]

15

25X1
25X1

Students in the North African countries of Morocco, Algeria, and Tunisia are an increasing social and political problem for their governments. Government inability to meet student demands for higher education and jobs almost certainly will lead to greater political instability and further alienate these countries' youth.

25X1

Secret




25X1

Egypt: The Threat of Labor Strife Grows  19

25X1



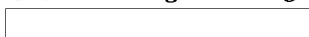
25X1

The Mubarak regime's efforts to restructure Egypt's antiquated economy have ominous implications for organized labor, particularly in the moribund public-sector industries. Serious labor strife in the coming period of economic transition could provide a catalyst for even more serious political instability in 1987. 


25X1

Sudan's Foreign Exchange Dilemma  23

25X1



25X1

Sudan's unrealistic foreign exchange rates have reduced remittance transfers, export earnings, and critical imports. Failure to revamp the exchange rate system will contribute to the Sudanese economy's downward spiral. 

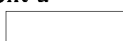
25X1

Syria: Growing Burden of Military Spending  25


25X1



25X1

The Syrian military is experiencing major economic problems and is retreating from the growth of the early 1980s. Nevertheless, defense spending will continue to dominate the government budget as Assad seeks to pacify the professional military establishment, present a strong front against Israel, and suppress internal opposition. 


25X1

**Syria: Backlash in Air Defense Forces After Violation of Syrian
Airspace**  29

25X1



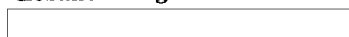
25X1

President Assad took strong punitive measures following the failure of his air defense units to react to foreign military aircraft violating Syrian airspace last November. The violation almost certainly increased Assad's resolve to strengthen Syria's coastal defenses and may be used to justify requests for new Soviet air defense equipment. 


25X1

Lebanon: High Noon in West Beirut  33

25X1



25X1

The reentry of Syrian special forces into West Beirut last July has done little to improve security conditions there. Damascus will most likely maintain its current low profile in the Beirut area, resorting to increasingly unreliable Lebanese surrogates to do its bidding. 

25X1

Secret

ii

Secret

25X1

Lebanon: Sidon's Sunni Popular Nasirite Organization [redacted] 3725X1
25X1

The Popular Nasirite Organization and its military arm play a pivotal role in Sidon, the port city fast emerging as the center of Palestinian influence in Lebanon. The organization is ostensibly neutral toward the conflict between the pro-Arafat Palestinians and the Syrian-backed Shia Amal movement, but it secretly supports the Palestinians. [redacted]

25X1

Jordan: Gambling on West Bank Development [redacted] 4125X1
25X1

King Hussein's economic development program for the West Bank and Gaza is aimed at improving the local quality of life and, more important, establishing Jordan as the representative of the Palestinians in the occupied territories. Severe cash shortages, PLO opposition, and general skepticism challenge Amman's ability to implement the plan. [redacted]

25X1

Kuwait: The Diplomacy of Accommodation [redacted] 4725X1
25X1

Kuwait follows a nonaligned foreign policy designed to gain maximum protection against regional threats and terrorism and to support its aspirations for leadership among the Gulf states and the nonaligned nations. Although nonaligned, Kuwait's economic and cultural orientation is predominantly Western. [redacted]

25X1

Qatar: The Elusive North Field Natural Gas Project [redacted] 5525X1
25X1

Qatar is likely to soon begin development of its large North Field natural gas reservoir to meet growing domestic demand and to offset declining gas output from currently producing fields. Doha probably will be unable to export significant volumes of gas for many years, however, because of weak foreign demand and high development costs. [redacted]

25X1

Omani-Soviet Relations: Life in the Slow Lane [redacted] 5925X1
25X1

Omani-Soviet relations will improve slowly in 1987, but Soviet influence is likely to remain limited. Muscat wants to use its ties to Moscow to exert pressure on the United States in the hope of increasing financial assistance, but it would not cooperate with the USSR at the expense of its relationship with Washington. [redacted]

25X1

Secret

[Redacted]

25X1

North Yemen's Military Mishaps: The "Y" Factor

[Redacted]

61

25X1

[Redacted]

25X1

The North Yemeni Air Force and air defense forces have experienced significant accidents with Soviet equipment in the last month. These accidents probably have set back North Yemen's efforts to improve its military defenses and also complicated Sanaa's reliance on the Soviets for military expertise and sophisticated weapons. [Redacted]

25X1

[Large Redacted Block]

25X1

25X1

25X1

25X1

India-Pakistan: Tensions Over Sikhs

[Redacted]

69

25X1

[Redacted]

25X1

Charges by India that Pakistan is supporting Sikh terrorists have put an additional strain on bilateral relations already burdened by touchy nuclear and border issues. Any Pakistani support probably is relatively small, and New Delhi may be playing up the Pakistani angle to deflect public frustration with the Sikh problem. [Redacted]

25X1

Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views. [Redacted]

25X1

[Redacted]

25X1

Secret

Secret



25X1

Near East and South Asia Review

25X1

Articles

Libya: Qadhafi on the Defensive in Chad

25X1

The military situation in Chad has changed dramatically since Libya consolidated its hold on the north in 1983. Libyan garrisons and lines of communication are being threatened for the first time. The defection from the Libyan-backed Chadian rebel forces of the Forces Armees Populaires (FAP)—the faction loyal to ex-rebel chief Goukouni Weddeye—paved the way for establishment of a new coalition with the Chadian Government.

Recent successes achieved by the combined forces of the new alliance have significantly raised the cost of the war to Libya in terms of money and lives. The collapse of the Libyan garrison at Fada in the face of a Chadian Government offensive resulted in several hundred Libyan casualties. The debacle was the most costly defeat for Tripoli since its ill-fated intervention in Uganda in 1979. Libyan leader Qadhafi has given top priority to reversing these embarrassing defeats and reestablishing control over the north. He almost certainly recognizes that a protracted and costly campaign risks a domestic political backlash that could lead to his removal.

The View From Tripoli

In our view, Qadhafi's determination to maintain control over northern Chad is driven by a belief that Washington and Paris intend to foster an insurgency in southern Libya—an area inhabited by Toubou tribesmen traditionally resistant to Tripoli's control. Although Qadhafi probably recognizes that the French have preponderant influence in Chad, we believe he is especially worried about US intentions there. Qadhafi believes Washington's support for Habre is part of a broader US plan to isolate Tripoli and remove him from power.

Qadhafi probably expects Washington to exploit Habre's desire to go after Libyan forces and believes that increased US influence in N'Djamena would result in a more aggressive Chadian posture than that tolerated by the French. Paris traditionally has sought opportunities to negotiate an end to its confrontation with Libya in Chad. Press reports suggest, for example, that Paris was even willing to accept a provision prohibiting intervention in Chad by a "third country"—a euphemism for the United States—in its abortive troop withdrawal agreement with Tripoli in 1984.

25X1

25X1

The Military Option

Qadhafi regards a decisive military victory over the Habre-Goukouni coalition as the quickest and potentially most enduring means of securing Libya's southern flank. He needs a quick military success in Chad both to develop a strong bargaining position in the war and to protect his regime from a domestic backlash. Beginning last October, the Libyan force began reinforcing and reorganizing. We estimate that it now numbers between 7,000 and 8,000, compared with about 5,000 last summer.

25X1

25X1

25X1

Qadhafi probably anticipated that this strengthened force would quickly subdue the Chadians north of the 16th parallel. The Fada defeat, however, almost certainly has prompted him to question whether the Libyan force can hold its ground against what he views as a heavily US- and French-supported Chadian Government effort.

25X1

Tripoli is now taking the war more seriously:

25X1

- Libyan reserves have been mobilized, almost certainly to make additional reinforcements available for the Chad war.

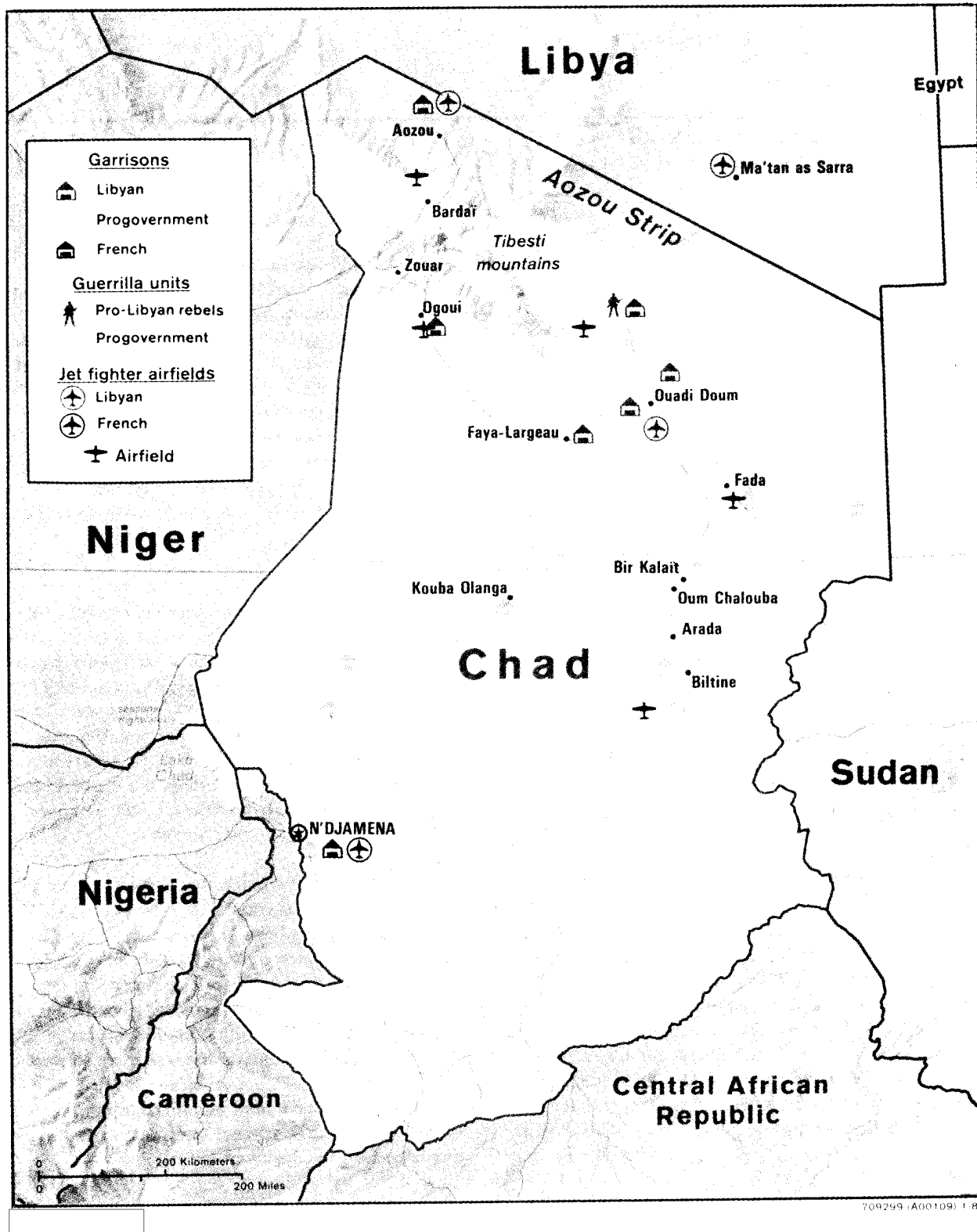
25X1

25X1

Secret

NESA NESAR 87-002
16 January 1987

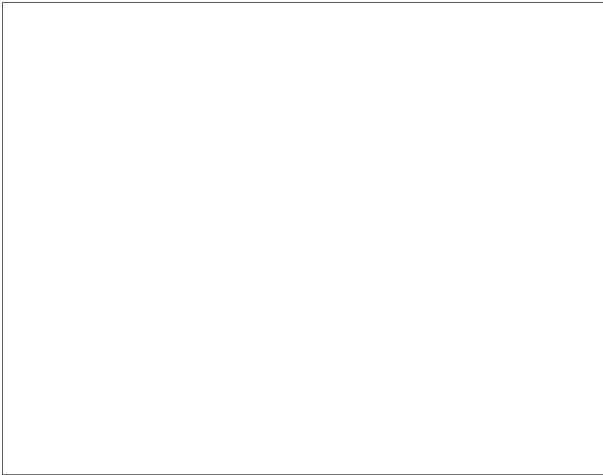
Secret



25X1

Secret

Secret



personnel stationed there have increased, [redacted]

25X1
25X1
25X1



The Diplomatic Option

Increased domestic discontent over Chad could prompt Qadhafi to seek a face-saving solution. He may also move in this direction if he perceives the likelihood of prolonged fighting. Qadhafi has always been careful to avoid foreclosing the diplomatic option in Chad. [redacted]

25X1
25X1

The Libyan force, while too large for Habre and his Chadian allies to evict from Chad, cannot suppress quickly a well-led joint campaign by FAP and Chadian Government fighters. Even with the aircraft that have been dispatched to support the Libyan force in the last few months, finding and striking units scattered in the rugged Tibesti Mountains has proved difficult. In addition, the guerrillas are avoiding decisive combat against superior forces. They abandoned villages in December when they faced a Libyan assault. The Libyan force appears to be organizing to find, trap, and destroy pockets of guerrillas, but such a campaign could drag on for months. In the meantime, Chadian raids and ambushes are costing Libya over 100 casualties a month, a rate that can be sustained for at least three or four months, with the number dropping to perhaps half that as the Libyans gain experience in guerrilla warfare. [redacted]

[redacted] Since 1983, Qadhafi at varying times has attempted to engage Senegal, Congo, Gabon, Nigeria, and Morocco in mediation efforts. In playing his diplomatic cards, Qadhafi would hope to string out negotiations to gain maximum relief from Habre's campaign in the north. [redacted]

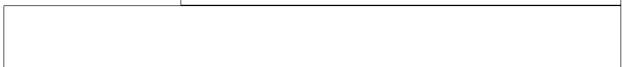
25X1

25X1

Qadhafi's Achilles' Heel

In the likely event Libyan forces cannot soon suppress the insurgency, Qadhafi will reassess his options. The more costly that military operations become—in terms of money and lives—the greater will be the likelihood that domestic opposition to Qadhafi's regime will grow. [redacted]

[redacted] Qadhafi's military intervention in Chad has been unpopular since the latest intervention by Libyan forces in 1983. [redacted]



[redacted] desertions of military

Qadhafi's posturing may include an offer to withdraw Libyan forces as part of a deal that reduced US and French influence in N'Djamena. Qadhafi probably would demand a withdrawal of French troops and reestablishment of a Libyan diplomatic presence in N'Djamena that could be used to monitor US and French activities there as well as subvert Habre's regime. He also would press strongly for a reduction of the US presence in Chad. For example, he would seek to limit the number and activities of US Government personnel stationed there. [redacted]

25X1
25X1

As part of a cease-fire agreement, he might even make token withdrawals of Libyan troops as far north as the Aozou Strip to test French and Chadian willingness to make concessions. In our view, he would become more serious about negotiating if he detected a willingness by France to agree to a demilitarized zone between the Aozou Strip and the 16th parallel that would be policed by a combined African and Libyan peacekeeping force. We believe Qadhafi

25X1
25X1

25X1
25X1

25X1

Secret

Secret

would strongly resist any proposal that weakens Libya's ability to exert military control over northern Chad as a buffer against external threats. [redacted]

incentive for French support in limiting US activities in Chad, Qadhafi may offer Paris lucrative commercial opportunities in Libya. [redacted]

25X1

Qadhafi's Other Options

On the basis of his past behavior, we anticipate that Qadhafi would combine diplomatic initiatives with military and terrorist actions to raise the cost of the conflict to Habre and his supporters. Among his options are:

We do not believe Qadhafi has the option at this point of launching a major offensive across the 16th parallel. As long as the Chadians are a viable guerrilla threat to the Libyan rear, the Libyans in Chad will be largely occupied with securing the north. For the Libyans to begin seizing and holding territory in southern Chad, they would need as many as 3,000 additional troops and at least 100 additional tank transporters. [redacted]

25X1
25X1

- *Terrorism against N'Djamena.* [redacted]

Implications for the United States

A protracted guerrilla campaign that bleeds Qadhafi of both money and manpower could help to destabilize the regime that has for years aggressively challenged US presence and interests in the region. In this scenario, increased opposition among military officers and the public to Qadhafi's costly attempt to retain hegemony over northern Chad would undermine his ability to implement aggressive foreign policies in a number of regions. Qadhafi's low-risk policies would be designed to minimize the potential for US retaliation until he shored up his domestic position. A precipitate Libyan withdrawal to defuse domestic opposition—which we consider unlikely—would humiliate Qadhafi but probably not hurt his political position as much as would a protracted Chadian insurgency. [redacted]

25X1
25X1

- *Threatening to widen the war by regularly using Sudanese and Nigerien territory.* Libyan forces already have transited Niger during their operations. [redacted]

- *Sponsoring a coup or terrorist activity against moderate pro-Western regimes bordering on Chad that traditionally have supported Habre, such as Niger and Cameroon.* [redacted]

25X1
25X1

- *Isolated bombing of Abeche, Biltine, or any stronghold south of the 16th parallel not protected by French air defenses.* [redacted]

25X1

Qadhafi would try to exploit any differences between France and the United States on the Chad issue. [redacted]

Our educated guess, on the basis of previous Libyan military involvements in Uganda and Chad, is that Chadian forces would have to inflict between 50 and 100 casualties per month for at least six months to generate a significant domestic backlash in Libya. In the absence of casualties at this level, we believe a similar impact is possible through hit-and-run attacks on Libyan garrisons and the interdiction of much-needed supplies. This option, however, would require a much longer period, perhaps over a year. If the FAP-Chadian Government alliance breaks apart—a real possibility, considering the 11-year-old enmity between these parties—lesser guerrilla harassment of the Libyans can continue from across the 16th parallel but would have much less impact. [redacted]

25X1
25X1

25X1

[redacted] To increase the

25X1

Secret

Secret

Another key factor affecting US interests and compelling Qadhafi to moderate his tactics will be French willingness to pass up a potential deal with Libya. The new equation in northern Chad does not appear to have changed Paris's basic position on the war. Paris continues to see a diplomatic settlement as the best outcome short of a unilateral Libyan withdrawal and believes such a settlement is achievable.

25X1

A perception of Washington's reluctance to provide substantial assistance to Habre could reduce the willingness of other moderate regional governments to support US policy in the region. Of particular concern would be efforts by countries currently helping to transport US equipment to Chad, such as Cameroon, Niger, and Senegal, to terminate or dramatically reduce their involvement.

25X1

25X1

Page Denied

Next 2 Page(s) In Document Denied

Algeria: Growing Challenges for Bendjedid [redacted]

25X1

The eight-year-old regime of President Chadli Bendjedid is both internally factionalized and struggling to manage growing public disgruntlement. At the heart of Bendjedid's difficulties is the country's oil-related economic crisis, which has hamstrung government efforts to deal with serious social problems. The economic downturn has aggravated factionalism within the government, the ruling party, and the military and has fueled personality clashes and bureaucratic rivalry. The internal debate is a battle over policy, pitting Bendjedid against old-guard leftists opposed to the President's economic reforms and opening toward the West. Bendjedid's position appears fairly secure. Nevertheless, he is likely this year to face economic and political difficulties of such magnitude that they could force him to compromise with his opponents. As a result, he probably will be less able to promote closer ties to the United States. Moreover, expanding US-Moroccan military cooperation and Algiers's diplomatic courtship of Libya will complicate relations with Washington.

The Economic Crunch

President Bendjedid is facing the most serious challenge since he took office in 1979. The drastic drop in world hydrocarbon prices last spring led to an economic crisis because of the 50-percent reduction in Algeria's oil income, according to the US Embassy. Ninety-eight percent of the country's export receipts, nearly 50 percent of government revenues, and about 25 percent of GDP come from hydrocarbons. To deal with the financial shortfalls, the government cut its operating budget, reduced development and investment expenditures, and slashed imports.

Consequently, for the first time since independence, economic growth in 1985 was less than the 3-percent annual increase in population. The new round of austerity measures has required the government to cut programs addressing social problems. We believe unemployment has reached 25 percent in many areas, and unemployment and underemployment together

may exceed 30 percent. Food, water, and housing shortages—and their cost—also have become increasingly burdensome to the rapidly growing population. For example, the Embassy says a kilogram of meat now costs \$30 [redacted]

25X1

Economic strains seem to have increased social tension. Last November, rioting by students and the unemployed rocked Constantine, the third-largest city, and minor disturbances occurred in other cities, including Algiers. The violence appears to have stemmed from poor living conditions and grievances over corruption among government officials. These incidents were the first serious outbreaks of violence attributable to economic conditions since Bendjedid took power. The regime also is concerned about the growing assertiveness of Muslim Brotherhood dissidents, [redacted]

25X1
25X1

Internal Politics: From Consensus to Conflict

Public disturbances have encouraged fighting within the regime. Bendjedid is most vulnerable to attack from leftist ideologues of the ruling National Liberation Front (FLN) and government bureaucrats who want expanded welfare programs to meet the needs of youth and the unemployed, and from religious groups who claim that a return to the country's Islamic roots will solve the country's ills. Although the regime has featured a high degree of collective decisionmaking incorporating the views of these elements, bickering has intensified over the allocation of resources. [redacted]

25X1

Information on power centers within the government is sketchy and often inconsistent, mainly because the country's tightly knit, military-civilian oligarchy has cliques that cut across clan and professional lines.

25X1

[redacted] the most intense struggle is between the Bendjedid group and leftists in the FLN

25X1
25X1

Secret

and the Army, led by Permanent Secretary Messaadia, who want to preserve the socialist aspect of the Algerian revolution. They object to the President's efforts to reform the economy by encouraging privatization and local initiative. These ideologues also oppose Bendjedid's diplomatic opening to the United States and favor strengthened ties to the Soviet Union, Libya, and other radical states. Although these differences are largely concealed from the public, the various sides have increasingly carried the dispute into the national press. [redacted]

The debate within the FLN is widening to include broader segments of the military. The faltering economy has delayed long-sought military modernization and has led to morale problems within the officer corps. These developments, in turn, have strengthened the hand of those officers critical of the President. Feuding between the President and officers over promotions, strike activity within some units, and the Army's response to austerity measures have led Bendjedid to reassert his hold over the military. In late November, following a rare meeting with the senior echelon of the Army, the President fired Chief of Staff Beloucif and reorganized the presidential guard, [redacted] probably as a preemptive move against potential coup plotters. [redacted]

[redacted] Bendjedid probably acted because he believed Beloucif was attempting to challenge his authority. Beloucif's replacement, General Belhoucet, probably is less sympathetic to the idea of developing ties to the United States. [redacted]

Prospects for Bendjedid

In our judgment, Bendjedid remains first among equals within the country's ruling military hierarchy and is not in immediate danger of losing his position. The President's opponents have yet to coalesce against him. Bendjedid demonstrated in his removal of Beloucif that he can have his way with the military. He continues to hold firm on the need for economic reform, and we believe his agenda is intact. [redacted]

Nevertheless, Bendjedid's political position has slipped over the past year, and he will face even greater challenges unless he comes to grips with the

deteriorating economy, in our view. For example, the President made several senior personnel shifts in the Cabinet and the FLN in 1985 and early 1986 in line with his effort to revise the country's economic policies and consolidate power, but he has not been able to make other significant changes in nearly a year. In addition, he failed to deliver what the US Embassy was told by Algerian officials would be a landmark speech on the economy in Oran in early November. According to the US Embassy, the 17th session of the FLN Central Committee in December witnessed stiff resistance to Bendjedid's reforms. [redacted] the President is increasingly frustrated by his inability to bring about economic liberalization. [redacted]

25X1
25X1
25X1

25X1

Given the likelihood of continuing financial austerity, President Bendjedid probably will not make much progress in achieving economic reform. Moreover, he probably will be forced to divert resources from the public sector to the military to placate officers and burnish his tarnished image. We believe austerity will encourage the government to continue traditional socialist policies, even though reform probably would alleviate some of the country's economic and social problems. [redacted]

25X1

Implications for the United States

Algeria's foreign policy probably will become more ambiguous because of the government's political drift. Bendjedid's weaker position and need to balance political factions will result in inconsistent or even contradictory decisions. For the United States, such a course, in our view, would mean limited progress in bilateral ties or even a deterioration of relations because of the continuing importance of radicals in the regime. In any event, Algiers will have fewer funds available to purchase military equipment from Washington, and US commercial firms will have fewer business opportunities. [redacted]

25X1
25X1
25X1

25X1

25X1

In addition, Algerian-US positions with regard to North Africa are likely to diverge. Budding US-Moroccan military cooperation will complicate ties between Washington and Algiers, even though

25X1

Secret

Secret

Algerian officials still hope that the United States will play an intermediary role between Algeria and Morocco in ending the war in Western Sahara. [redacted]

25X1

Algerian leaders [redacted] share Washington's view of Libya, but they continue to develop relations with Tripoli in ways that belie their claim that they simply want to monitor Libyan political developments. Bendjedid's sudden trip to Libya in early December was his first and followed several high-level contacts during the previous two months. [redacted]

25X1

25X1

25X1

[redacted] We believe that contacts, such as the recent travel of Libyan Foreign Secretary Mansur to Algeria following the summit meeting, confirm progress in the relationship. Short of resolving serious bilateral differences, Bendjedid probably hopes expanded contacts with Tripoli will appease hardliners within his government and dissuade Qadhafi from meddling in Algerian affairs.

25X1

[redacted]

25X1

**Youth in the Maghreb:
A Growing Opposition** [redacted]

25X1

Students in the North African countries of Morocco, Algeria, and Tunisia are an increasing social and political problem for their governments. Demonstrations or riots during the past few months have focused on student issues such as inadequate housing, declining student aid, and higher failure rates. The underlying causes of student unrest, however, are profound: a deteriorating economy, high unemployment, and rapid population growth. Government inability to meet student and youth demands for higher education and jobs almost certainly will lead to greater political instability and further alienate youth—the largest segment of the populations of these three countries. [redacted]

appeared to be largely apolitical, some incidents, such as reported police clashes with students expressing solidarity with the Palestinians, have political overtones. [redacted]

25X1

A Troubled School Year

Student demonstrations have erupted in North Africa in recent months. These incidents appear similar to demonstrations in France because students in both regions are protesting education issues. [redacted]

Algeria. Student militancy came to a head in Algeria last November, when antigovernment disturbances occurred in Constantine, Algiers, and Setif. The most notable incident erupted in Constantine, where several thousand students and other residents went on a rampage, sacking the headquarters of the National Liberation Front, the country's sole political party, as well as the Algerian press service office and numerous public buildings. The government announced that over 100 persons were arrested and 56 imprisoned. In Algiers, high school students boycotted classes for several days, smashed windows, and shouted antigovernment slogans. The Algerian students had grievances similar to those in Morocco—poor housing, inadequate food and water, stiffer exam requirements, and lack of political freedom. [redacted]

25X1

25X1

25X1

Morocco. Student activism on high school and university campuses has been building since last October. Demonstrations have occurred in Rabat, Casablanca, Tangier, Fes, and several other cities. The most violent outbreak took place in Meknes in mid-December, where 300 students rioted and clashed with the police. [redacted] one to four students were killed and about 100 arrested. [redacted] reports renewed demonstrations in Meknes during early January, including a student walkout. [redacted]

Tunisia. Although Tunisia has long been a hotspot in North Africa for student demonstrations, there has not been as much activity during this school year. Following disturbances last spring, the government rounded up approximately 1,600 students. Of these, 95 were conscripted into the Army and sent to work camps for their participation in student demonstrations at Tunis University, [redacted] [redacted] In a preemptive move to intimidate students, the Tunisian police arrested between 50 and 70 Islamic students in late December. They were later released. Nevertheless, student boycotts by university students in Tunis closed several campuses. Students in Tunisia also are reacting to economic cutbacks on campuses, but political factors, in our view, are the driving force behind youth disturbances. Demonstrations usually include either fighting between Islamic-oriented and Marxist students or antigovernment demonstrations by both groups. [redacted]

25X1

25X1

25X1

25X1

25X1

These disturbances are attributable to student grievances, according to the US Embassy in Rabat. They include inadequate campus transportation, expulsion of failed students, insufficient housing and food facilities, police vigilantes on campus, tougher grading policies, cramped classrooms, cutbacks in aid, and the establishment of government-sponsored student associations to replace a suppressed popular student organization. Although the demonstrations

25X1

Secret

Broader Social Problems

Problems with youth and students in Morocco, Algeria, and Tunisia reflect changing government policies toward education in response to increasing economic austerity and rapid population growth. The governments, as part of their efforts to impose economic austerity, are trimming outlays for education, traditionally a large segment of government budgets. Funds are being diverted from higher education to vocational training to make education more relevant for youth in a tighter marketplace. [redacted]

Governments in the region are taking these actions because youth represents the largest segment of the population in the Maghreb. A majority of the area's 53 million people are under 20. Algerian President Bendjedid, following the Constantine riots, noted in a speech to the country's governors that the student population had risen from 57,000 in 1980 to 200,000 in 1985. Algeria will have to provide 275,000 jobs annually; Morocco, 320,000; and Tunisia, 80,000. This demand comes at a time when unemployment throughout the region is about 25 percent of the work force. [redacted]

Implications for Political Stability

We believe the regimes in all three countries are incapable of satisfying the rising expectations of the burgeoning youthful population. Greater discontent seems inevitable. Students are better educated than their parents and view the governments with less awe than their elders do. Spending cuts have forced reductions in the numbers of pupils admitted to universities—widely viewed by youth as the key to better jobs and higher social standing. Vocational programs are unpopular alternatives because most youth want a general education and believe it is their right. University graduates expect the government to provide them with jobs if they cannot find suitable employment themselves. [redacted]

We believe that students and unemployed youths will be increasingly willing to express their views through violence. Rising prices and cuts in social services, especially in education, are potential flash points for further demonstrations. Some of these socially and intellectually uprooted young people are starting to

Algeria's Generation Gap

Last fall, the Algerian weekly magazine Algeria Actualite published an article on attitudes among youth a few days before the 32nd anniversary of the start of the country's insurrection against France. A survey of 540 youths between 16 and 20 revealed:

- *Only 29 percent of the respondents knew that the negotiations for independence were concluded at Evian, France. Forty-five percent said they did not know the answer, and the rest listed a number of Algerian cities, or Tripoli, Libya.* 25X1
- *Forty-six percent said that television was their means of information about the war, while less than 18 percent referred to books.*
- *Only 21 percent considered that knowledge about the war of liberation given by teachers was sufficient. One-third believed the contrary, while 45 percent were undecided.* [redacted] 25X1

With regard to the heroes of the Battle of Algiers, nearly two-thirds of the youths interviewed knew the circumstances of the deaths of the Algerian martyrs killed by the French. Most, however, admitted that their knowledge was derived primarily from the popular film "Battle of Algiers." Moreover, the youths viewed the main Algerian antagonist in that battle, Ali la-Pointe, as "a sort of James Dean"—a view that reflects the enduring popularity of US entertainment. [redacted] 25X1

The director of the magazine lamented the poor state of Algeria's "collective memory" and noted, for example, that youths are ignorant that Boumediene removed Ben Bella from power in 1965. [redacted] 25X1

25X1

Secret

Secret

turn their backs on modernization and, as a corollary, to reject the United States, other Western countries, and the Soviet Union, which they see as the principal agents of change. This impulse has been the driving force behind the recent spread of Islamic fundamentalism in the Maghreb, according to regional scholars. Fundamentalism, to these youths, appears to be the only viable alternative to the socialism of the East and the liberal capitalism of the West.

25X1
25X1

Secret

Secret

Egypt: The Threat of Labor Strife Grows

25X1

Since President Sadat's assassination by religious extremists in 1981, the attention paid to the role of Islamic fundamentalists in fomenting political unrest in Egypt has obscured the equally serious threat of instability posed by labor strife. The cautious Mubarak regime is already tentatively beginning to restructure Egypt's antiquated economy—with ominous implications for organized labor, particularly in the moribund public-sector industries. With even more reforms likely under an IMF-monitored standby program, the pace of change in the economy and pressure on labor will probably accelerate.

Any serious attempt to reorganize the way public-sector companies do business risks a head-on collision with Nasir-era labor practices, predicated on guaranteed employment and automatic cost-of-living pay increases. Organized labor's leadership finds itself caught between a government that is no longer willing or able to honor the implicit social contract that bound the unions to the regime in the past, and an increasingly disenchanted and militant union rank and file in the factories. These trends may produce serious labor strife in the coming period of economic transition and could provide a catalyst for even more serious political instability during 1987.

The Public Sector Under Assault

Egypt's rapidly deteriorating economy is placing extraordinary pressure on the government to make the public sector more efficient. Until quite recently, public-sector companies, which engage in a wide range of commercial, industrial, and agricultural processing activities, have been operated more as institutions providing guaranteed employment to Egypt's exploding urban population than as cost-conscious, market-oriented firms. These enterprises, generously subsidized by the state, were allowed to function in this manner, thanks to the buoyant economy Egypt enjoyed through much of the 1970s and early 1980s. Spurred by large inflows of foreign assistance and sharply rising foreign earnings from oil and worker remittances, the economy absorbed such inefficiencies.

The sharp decline in Egypt's economic fortunes over the past year, however, has radically altered the ability of the government to support a bloated and inefficient public sector. A steep drop in oil earnings, falling remittances from expatriate workers, and declines in most other sources of foreign exchange have led the official economy to the brink of bankruptcy. Without a combination of major cuts in imports, debt rescheduling, and significant increases in external assistance, Egypt's economy is poised for a tailspin.

The outline of an IMF standby program—which would yield substantial new assistance and debt rescheduling—remains to be hammered out, but it is likely that such a program will be put in place within the next few months and contribute to even greater pressure on the government to reform public-sector enterprises. Any standby program will almost certainly call for significant cuts in the state budget, with allocations for public-sector enterprises experiencing a proportionate share of the expenditure decline. Moreover, unification of exchange rates, another IMF priority, will undercut business practices in the public sector. The public enterprises have until now benefited from overvalued exchange rates for imports of industrial raw materials and equipment.

The Mubarak government has already begun to restructure public-sector enterprises, albeit with only limited results. Cairo's effort to collect a minimum return of 2.6 percent on its equity investment in nonfinancial public enterprises has proved largely unattainable, however, since most enterprises are simply not profitable enough. Moreover, frequent exhortations directed at public-sector managers to "boost productivity" have led nowhere. Government intervention in pricing and investment decisions, insufficient levels of working capital, and poor management are all responsible for low performance in the public sector.

Secret

NESA NESAR 87-002
16 January 1987

Secret

Regime efforts to deal with public-sector inefficiency are unlikely to be effective, [redacted] without a concerted assault on Nasir-era labor practices. The first signs of a government attempt to challenge such practices are beginning to appear and could alter dramatically the government-labor relationship that has ensured labor peace.

Organized Labor's Dilemma

The labor-government relationship during most of the past 35 years has been characterized by an implicit contract in which the government provided economic security to workers in exchange for labor peace. Mubarak's government, like its predecessors, uses organized labor as a tool to facilitate and legitimize government policies. Worker loyalties are ensured through annual cost-of-living increases and bonuses as well as an extensive structure of subsidies and price controls. In exchange, labor has, until recently, been generally quiescent. Wildcat strikes and slowdowns have taken place periodically, but most have been short lived and settled through arbitration.

This social contract is in danger of unraveling in the face of constraints imposed by Egypt's acute economic crisis. The extensive subsidies and price controls will probably come under increasing assault. Moreover, important changes in the way public-sector firms do business appear inevitable—even with sizable new assistance from the IMF and bilateral sources. One method of change, apparently successfully introduced in an Alexandria-area textile factory, involves large-scale upgrading of capital equipment combined with incentive pay for quality and productivity. In this particular showcase, workers are apparently unconcerned that the introduction of more capital-intensive machinery has resulted in a company policy of not hiring new employees to replace those who retire or quit. Such labor quiescence may not be representative of worker attitudes, however, particularly in a low-growth, austere economic environment that provides few alternative employment opportunities.

[redacted] the upgrading of plant equipment may not yield the qualitative increases necessary to improve public-sector performance. [redacted] labor laws that,

among other rules, permit workers up to 18 consecutive days of unexplained absence, lie at the root of productivity problems. Although some managers, with tacit government support, are experimenting with incentives to instill greater discipline, a strong argument can be made that the laws themselves are badly in need of revisions that would give plant managers more flexibility in hiring and, when necessary, firing workers.

Caught in the middle of this struggle is organized labor's leadership, closely linked to the government by politics and patronage, yet aware that regime policies are slowly undermining labor's previously privileged status. The removal last November of Saad Muhammad Ahmad, the president of the Egyptian Trade Union Federation (ETUF), from his position as Minister of Manpower in Mubarak's Cabinet has further complicated the leadership's ability to control the union movement. Although Saad Ahmad's penchant for influence peddling and corruption were as much to blame for his dismissal as his increasingly truculent stand against government policies, his removal was widely interpreted as a move by Mubarak to cut the labor movement down to size. The ETUF leadership issued an unprecedented protest against his removal from the Cabinet, but the action had no apparent effect on the government's decision and badly embarrassed union leaders.

ETUF's old-guard leadership now finds itself dangerously exposed. The labor movement's official position that strikes and work stoppages are not legitimate means of resolving labor disputes leaves it with little bargaining power with a government that is widely seen by workers as having ceased to deliver on its promises. In January 1986, and again in April, thousands of militant textile workers went on strike after promised wage increases were delayed by the government. The likelihood of more broken promises by the regime will grow as the need for economic austerity increases, and so will the probability of more wildcat strikes and labor protests in 1987. Such actions could grow even larger and more violent than last year's demonstrations and may undermine the

25X1
25X1

25X1

25X1

Secret

Secret

labor leadership's role even further as workers become more disenchanted and younger, more radical leaders emerge from the factories and barricades.

Outlook

The gloomy prognosis for Egypt does not mean that labor unrest will be translated immediately into regime-threatening instability. President Mubarak remains basically committed to maintaining consumer subsidies and will be reluctant to drop such supports. The manner and timing of government reforms will play a crucial role in determining how volatile the labor element becomes.

Furthermore, the regime will continue to watch the union movement carefully, sacking those leaders who become too obstreperous, and monitoring closely rank-and-file disgruntlement through the omnipresent state security apparatus. Finally, even if workers resort to violence at a few plants, the government has already proved it can quell such disturbances, with force if necessary.

Nevertheless, the danger remains that labor strife could become a critical element in igniting more general civil unrest in Egypt. If such strife is effectively combined with other elements of discord, including fundamentalist protests and popular disgruntlement as subsidies are reduced, it could provide the catalyst for a major political crisis for the Mubarak regime. Although such a convergence of opposition is unlikely over the near term, the threat posed by labor strife bears careful watching during 1987.



25X1

Secret

Secret

Sudan's Foreign Exchange Dilemma

25X1

Sudan's practice of maintaining fixed foreign exchange rates above the market value has reduced remittance transfers, export earnings, and critical imports. Meanwhile, with the government's poor record on economic reform, balance-of-payment support from aid donors has dropped off during the last year. Failure to revamp the exchange rate system will contribute to the Sudanese economy's downward spiral.

to a higher "free" rate. As a result, total remittances dropped. In addition, importers also were prevented from buying hard currency on the black market and then using the illegally obtained funds to buy letters of credit from the official banks.

25X1

Background

Before 1985 Sudan used three different exchange rates, depending on the commodity or transaction. The official rate, kept at 1.3 Sudanese pounds to \$1, covered cotton and gum arabic exports, petroleum imports, and most government foreign exchange receipts and payments. The second rate, at 2.1 Sudanese pounds to \$1, was offered by authorized banks and covered the rest of Sudan's exports, some import payments, and receipts of aid. A third rate, left to fluctuate in response to market forces, was offered by authorized private foreign exchange dealers to cover worker remittances and private-sector payments.

Effects of Exchange Rate Tampering

By refusing to devalue the pound, Sudan is adding to the woes of an economy already overburdened with the southern insurgency and a massive foreign debt of approximately \$11 billion. Remittances, once bringing in about \$30 million per month, have dropped to approximately \$3 million per month. Expatriate workers are bringing home their savings in the form of consumer items or are holding their money in foreign banks and sending it home illegally.

25X1

25X1

Exports of Sudan's key agricultural items—cotton, gum arabic, and livestock—have been hurt by the country's exchange rates. By forcing exporters to use the official rate to export goods, the price of their commodities in the world market is increased, thereby decreasing the competitive edge. In addition, the government adjusts the rates for selected exports to enhance their competitiveness, creating daunting administrative problems. This practice rewards producers of Sudan's least competitive commodities and fails to encourage production of its more competitive ones.

25X1

25X1

In February 1985 the government reorganized the foreign exchange system and set in place a dual exchange rate: the official and the commercial rate. With the reorganization, the government outlawed private foreign exchange dealers and placed more stringent limitations on foreign exchange accounts held by residents. The result was a growth in the unofficial or black-market handling of remittance transfers and imported goods.

On the other side, with hard currency in short supply, imports have dried up. Industries cannot obtain the machine parts and raw materials they require to run their factories. According to a US Embassy report, businessmen are complaining that the lack of hard currency for purchasing raw materials is the major obstacle they face. Some factories are idle, yet their workers still receive regular paychecks.

25X1

In January 1986 the government, acting through a committee of bankers, devalued the Sudanese pound to a new, supposedly "free" rate of 4.5 Sudanese pounds to \$1. This "free" rate was actually a revaluation since the government closed down unofficial foreign exchange markets (where the pound was traded at 5 to \$1), forcing remittance transfers to be sent through the banking system at what amounted

25X1

Secret

NESA NESAR 87-002
16 January 1987

Secret

Each of the consequences of fixed hard currency rates has had a negative influence on Sudan's economy, while the overall effect has been to dampen the willingness of aid donors to provide assistance, especially in balance-of-payments support. Many donors are eager to support Sudan's return to democracy if the government initiates economic reforms. The donors have continued to supply piecemeal project aid but are withholding more significant support until Sudan puts some reforms in place. [redacted]

Possible Solutions

Any long-term improvement will require a comprehensive economic plan to deal with the exchange rate, the budget deficit, growing inflation, and poor productivity. Piecemeal reform will only increase hardships and offer no relief in the long term. The results may even be counterproductive. [redacted]

Aid donors, including the United States, the IMF, and Saudi Arabia, are encouraging Sudan to improve its foreign exchange position by devaluing the pound and implementing one fixed rate. The government, however, does not have the political will to enact such a plan, which would risk adverse reactions by trade unions and students. By devaluing the Sudanese pound, the government would cause local prices to increase, heightening the possibility of riots among the poor. [redacted]

An alternative approach, tried by Zambia, is the auction system. Zambia's experiment allocates a specific amount of foreign exchange and allows interested parties to bid for the funds, setting a foreign currency rate by averaging the bids. The money is then disbursed to interested buyers until it runs out. In Zambia the majority of the money in the auction is supplied by aid donors, as would probably be the case in Sudan. [redacted]

The auction system has made foreign exchange obtainable for importers in Zambia. Spare parts, industrial inputs, and other goods are entering the country and supporting production, which is increasing. Another benefit has been the sharp decrease in corruption that controlled the allocation of foreign funds in the past. The parallel market is no longer the primary source of hard currency. [redacted]

On the negative side, inflation and unemployment in Zambia have risen because of the government's hesitation in enacting tighter controls over liquidity. Nevertheless, although there have been complaints against the system, the situation would have been far worse had no initiative been undertaken. [redacted]

Outlook

The government in Khartoum probably will continue to stall on significant reform, allowing the economy to flounder. Devaluing the foreign exchange rate would be a key to attracting additional foreign aid, spurring production, increasing remittance transfers, and allowing exports to regain their competitiveness. An auction system may present the best practical option, but it appears unlikely to be tried in the foreseeable future. [redacted]

25X1

25X1

25X1

225X1

25X1

25X1

25X1

Secret

Secret

Syria: Growing Burden of Military Spending [redacted]

25X1

The Syrian military is experiencing major economic problems and is retreating from the growth of the early 1980s, in our judgment. Domestic inflation and the foreign exchange shortage have slashed military buying power and reduced overall military strength. Despite the military's favored status with President Hafiz al-Assad, economic realities are forcing overdue spending cuts in key areas. Nevertheless, defense spending will continue to dominate the government budget as Assad seeks to pacify the professional military establishment, present a strong front against Israel, and guard against internal opposition. [redacted]

Military Spending Buried Deep

Syrian official statistics do not reveal the full impact of the military buildup. As a share of GDP, real military outlays have remained between 14 and 17 percent since 1980. Despite the substantial transfer of real resources to the military during the 1980s, budget data alone suggest that real spending has fallen by 17 percent. It is more likely that military expenditures were sustained by shifting resources from unspecified civilian areas and development projects. The Defense Ministry may have absorbed a portion of budgeted investment credits that were never implemented. Military outlays were probably further supplemented by "unallocated expenditures for the presidency" amounting to about \$25-53 million in 1985. [redacted]

25X1

25X1

Budget statistics offer a useful guide to Damascus's military objectives and political priorities. Although Syria's published budget presents an incomplete picture of total military outlays, official statistics reveal the heavy burden of the military on the Syrian economy. The sustained resource transfer to Syria's defense establishment has weakened other sectors of the economy and depressed living standards for most of the population. [redacted]

The increased force strength has been complemented by over \$12 billion in Soviet military deliveries in the 1980s:

25X1

Syrian Objectives

Under Assad, Syria has traditionally allocated 50 to 65 percent of its planned current expenditures to the military and has steadily expanded arms imports. [redacted]

- Current authorized force strength is estimated at 404,500, with a wartime manning capability of 500,000. Manpower growth probably accounts for most of the 64-percent nominal increase in defense spending since 1980. [redacted]

25X1

25X1

[redacted] Damascus publishes an aggregate figure for national security expenditures. We believe this outlay represents domestic spending, including salaries, training, and logistic support. Defense-related imports, especially Soviet arms, are almost certainly excluded from published figures and are largely dependent on the level of aid from Saudi Arabia and credits from Moscow. [redacted]

- Rapid growth in personnel and hardware has eclipsed the military support structure, including logistic and training facilities. Syria is also underfunding the pay and allowances for its officer corps. [redacted]

25X1
25X1

Draining Domestic Resources

Damascus's military spending strategy emphasizes force strength and technology acquisition. Syrian force strength has doubled since 1979 and tripled since immediately before the 1973 Arab-Israeli war.

The Assad regime has consistently generated large structural deficits because of high investment spending, large subsidies, and a heavy defense burden.

Secret

NESA NESAR 87-002
16 January 1987

Secret

Syria: Public Finances, 1980-86^a

Million US \$

	1980	1981	1982	1983	1984	1985 (Budget)	1986 (Budget)
Current expenditure	3,999	4,376	4,883	5,496	5,834	6,000	6,244
National security	2,243	2,416	2,727	2,881	3,372	3,483	3,669
Investment expenditure	2,332	2,513	3,071	3,077	3,085	4,952	4,926
Total expenditure	6,332	6,889	7,954	8,573	8,920	10,951	11,170
Budget deficit	2,827	2,671	3,061	3,164	4,246	4,606	-4,426
GDP in current prices	13,197	16,940	17,969	18,611	19,141	21,317 ^b	

^a Converted at official exchange rate (\$1 = 3.925 pounds).^b Government estimate.

Note: Because of rounding, data may not add to the totals shown.

25X1

Before 1982, deficits were largely covered by official transfers or grants from Arab donors, which funded 53 percent of Syria's budget deficits from 1980 to 1982. Arab aid has fallen sharply since 1982, and the drop in grants has been compensated by domestic borrowing and increased net borrowing from external sources. We estimate that, between 1983 and 1986, official transfers covered less than 25 percent of planned deficits.

among the fastest in the Middle East—about 3.4 percent, with a median age under 16—and emigration by the educated population is high. The armed forces are absorbing a growing share of the male labor force, about 17 percent of all males between 15 and 49, and a higher percentage of those with technical skills required to operate and maintain modern Soviet equipment.

25X1

25X1

Consequently, Damascus is relying more on domestic resources to finance its military buildup. As grants have fallen, Damascus has turned to borrowing from the Central Bank to finance the budget deficit. In 1984 the net increase in bank lending to the government totaled 14.1 percent of GDP at current prices. The domestic financing component was only 2.7 percent of GDP in 1981:

- Damascus's deficit spending has proved highly inflationary. The US Embassy estimates consumer price inflation for 1986 at well over 100 percent.
- Damascus has been slow to cut the budget. National security spending has grown by 9 percent annually since 1982. Actual investment spending has expanded at a much slower rate.

To minimize the burden of personnel expenditures, Damascus froze government salaries and wages between 1981 and 1985. Military personnel have received only one pay raise—of about 20 percent—since 1980, despite a 96-percent rise in the consumer price index over the same period. A brigadier general, for instance, earns only \$1,800 annually, at the black-market exchange rate. This partly explains the high level of smuggling by military personnel, especially those posted in Lebanon, who must supplement their incomes to survive in Syria's inflationary environment. Likewise, senior officers typically profit from their positions by controlling lucrative civilian housing projects and the importation of automobiles.

25X1

25X1

Military manpower requirements have aggravated shortages of skilled labor and slowed implementation of development plans. Population growth in Syria is

Secret

Secret

Forced Retreat in Spending

Syria's economic problems have touched all levels of Syrian society, including the defense establishment. Real domestic defense expenditures have fallen by at least 17 percent since 1980, after adjusting for wholesale price inflation. The rapid deterioration of the Syrian pound on the black market—now trading at 25 per dollar—has further reduced the purchasing power of military personnel. [redacted]

possible that Syria has drawn down its emergency stocks of fuel to meet civilian needs. Damascus will probably press its radical allies, Iran and Libya, for concessional oil shipments. [redacted]

25X1
25X1

In addition, Syria faces great difficulty obtaining desired Western-origin arms and equipment. [redacted]

25X1

25X1

Recent measures to curtail spending focus on personnel. [redacted]

25X1

[redacted]

25X1

[redacted] The measure may significantly reduce Syrian capabilities in technical fields—such as air defense, electronic warfare, and communications—where technically skilled reserve officers were typically retained for one to two years beyond their required terms of duty. Other measures to reduce salary expenditures include:

- Lowering the mandatory retirement age for officers of all grades, which will allow the release of older, less effective officers, according to the [redacted]
- Refusing funds to cover air fares for official visits abroad, ending free medical care for the families of officers, and denying special loans to officers with financial hardships.
- Delaying meeting payroll commitments. Damascus occasionally misses scheduled military payrolls [redacted]

Syria's financial problems have also produced a critical shortage of medical and pharmaceutical supplies in both the civilian and military sectors. Basic medical supplies such as X-ray film, antibiotics, and intravenous solution packages are extremely limited, and doctors are performing only the most critical operations. The Ministry of Defense canceled all pending medical supply contracts for the past two years because of a lack of funds, according to an informed source of the US Embassy in Damascus. [redacted]

25X1

25X1

25X1

Syria's largest corporation, which is deeply involved in multiple military contracts, is also suffering from spending cuts. The director of the Military Housing Establishment, Milihouse, will soon be replaced, according to the US Embassy in Damascus. The move is probably part of Prime Minister Kasm's anticorruption drive, which apparently has Assad's sanction. Milihouse is notorious for its corrupt management practices, including the diversion of construction materials to the black market and the addition of friends to the payroll. The company employs possibly 100,000 persons, although many

25X1
25X1

The foreign exchange shortage, coupled with high seasonal demand, has produced electrical power shortages and a scarcity of home heating and diesel fuels, which is felt by both civilians and the military. The US Embassy in Damascus reports that the unexpected early curtailment of military exercises this winter reflects the fuel shortages. We believe that a yearend divisional exercise was canceled because of the fuel problem. Given the severity of the crisis, it is

Secret

Secret

have not worked in the past year and workers have not been paid since October. There have already been substantial layoffs in the public-sector companies. [redacted]

25X1
25X1

[redacted]

Outlook

Syria's economic problems will continue to affect the military despite efforts to insulate this area. Sustained growth in the military will be difficult without a substantial boost in external support or a heavier burden on the civilian population. Recent measures to streamline armed forces personnel probably will reduce near-term combat readiness, especially in technical fields, but may improve overall efficiency in the long run. Persistent shortages of fuel and medical supplies will limit the frequency and complexity of military training in 1987, further degrading combat readiness. Arms imports from the USSR are not likely to fall further in 1987, but the volume and composition of deliveries will be subject to fluctuations as Moscow presses Damascus for repayment of its estimated \$7 billion debt. [redacted]

25X1

Growing economic problems could have still broader political and military implications for Damascus. Assad may become more cautious in his approach to Israel in Lebanon and elsewhere, knowing that he cannot afford to risk even a limited clash at this time. The rotations of military units into and out of Lebanon—which were beginning to become routine—may be postponed because the Syrian military may not be able to send returning units through the usual refit and refresher training cycles. [redacted]

25X1

Even at its present strength, defense will probably absorb a growing share of Syria's financial and labor resources. The high rate of deficit spending will almost certainly stimulate inflation and frustrate economic development objectives. As in the past, Assad will rely on a military-dominated government to preserve his legitimacy and ensure domestic stability. Meanwhile, economic deterioration in Syria will increase pressure on Damascus to further cut defense outlays and will pose new and unprecedented challenges for Assad's regime. [redacted]

25X1
25X1

[redacted]

Secret

Syria: Backlash in Air Defense Forces After Violation of Syrian Airspace [redacted]

25X1

President Assad took strong punitive measures following the failure of his air defense units to react to foreign military aircraft violating Syrian airspace last November—underscoring the strain he has been under because of domestic and international pressures during the past year. US airstrikes against Libya last spring touched a raw nerve in Damascus, aggravating Syrian officialdom's long-lived fears that similar attacks by Israeli or US aircraft would catch Syria offguard. Soon afterward, the unfolding of the Hindawi affair, which exposed official Syrian backing of an attempt to destroy a crowded El Al airliner, compounded jitters in Damascus about US or Israeli reprisals and fueled speculation that Assad was losing control of his government. By swiftly imposing harsh disciplinary measures against several Air Force and air defense officers in December, Assad probably sought to refute rumors of his weakening control and show he would not tolerate negligence in the air defense sector. The airspace violation almost certainly increased Assad's resolve to strengthen Syrian coastal defenses and may be used to justify his periodic requests for new Soviet air defense equipment. [redacted]

domestic and foreign pressure, and the possibility of Israeli or US airstrikes against Syrian targets almost certainly was weighing heavily on his mind. The Hindawi trial had concluded in London only two weeks before—with British charges that Syrian Air Force Intelligence Chief Muhammad al-Khuli was behind the scheme to blow up an Israeli passenger jet. There was rampant speculation that Khuli's involvement indicated that Assad was losing control of his lieutenants. [redacted]

25X1

Touch and Go?

The incident that infuriated President Assad occurred while NATO exercises involving US and Turkish forces were under way in the eastern Mediterranean.

Shortly after the trial's end, Assad made several military decisions that betrayed his deep concern about Israeli or US reprisals and some worry about heightened domestic discontent. [redacted]

25X1
25X1

[redacted]

25X1

25X1

[redacted] Assad was already under

25X1

Page Denied

Assad Takes Charge

Assad reacted immediately and forcefully when he learned that Syrian air defense units observed, but did not counter, the intrusion by foreign military aircraft into Syrian airspace. [redacted]

[redacted]

[redacted] In a nationally televised speech on 16 November, Assad made an apparent reference to the incident by saying, "He who retreats before the enemy is a traitor and must die."

[redacted]

In his fury, Assad also fired the commander of the air defense forces, Maj. Gen. Ali Salih, [redacted]

[redacted] Salih, who has been a senior air defense officer since the early years of Assad's regime and is a fellow Alawi, retained his position as deputy commander of the Air Force.

[redacted]

In the weeks following the incident there were signs that Assad had ordered air, naval, and, probably, air defense forces to increase their vigilance against another foreign military incursion. In December, for example, the Syrian Air Force conducted unprecedented defensive patrols over northwestern Syria. Such patrols usually occur along the Syrian-Lebanese border farther south. Syrian naval patrols also exhibited unusual wariness that may have been at least partly related to the incident. In mid-November, a Syrian patrol boat intercepted a Soviet cargo vessel off the coast near Tartus and began escorting it into port before releasing the vessel. [redacted]

[redacted]

Chagrin Over a Missed Opportunity

Although primarily concerned about preventing attacking US or Israeli aircraft from entering Syrian airspace, the incident near Latakia also frustrated Assad. [redacted]

[redacted]

[redacted] His humiliation over the affair probably accounts in part for the harshness of his reaction. [redacted]

The incident almost certainly increased Assad's resolve to continue strengthening Syrian coastal defense capabilities and to avenge his embarrassment by successfully defending Syrian airspace against any such incursion in the future. The pattern of defensive patrols conducted by the Syrian Air Force in the northwestern sector during December probably will become more common, and the Air Force may begin conducting more frequent and more aggressive overwater activity. Assad may also use the incident to justify his periodic requests for new Soviet military equipment. He may convince the Soviets to accelerate delivery of the additional SA-5 equipment he needs to occupy a new SA-5 site in the coastal area, which has stood empty since construction was completed last summer. [redacted]

The unexplained airspace violation has added to Assad's troubles and may encourage personnel changes in the President's inner circle. The US Embassy in Damascus reports widespread rumors that a broad realignment of power among those traditionally close to Assad is under way, and several reports link these rumors to the airspace violation and the Hindawi affair. Even if no further personnel changes occur, Assad's strong reaction to the November air incursion underscores his sensitivity to violations of Syrian airspace and to a possible airstrike against Syrian territory. [redacted]

[redacted]

25X1
25X1

25X1
25X1

25X1

25X1
25X1

25X1

25X1

25X1
25X1
25X1

25X1

Page Denied

**Lebanon: High Noon
in West Beirut** [redacted]

25X1

The reentry of Syrian special forces into West Beirut last July has done little to improve security conditions there. West Beirut still resembles Dodge City on Saturday night with practically everyone in possession of weapons. Kidnapings, arbitrary killings, extortions, bank robberies, bombings, and intermilitia firefights are rampant throughout the western sector of the city, and Syrian intelligence and military authorities are doing little to halt the area's daily security violations. In East Beirut, the situation is somewhat better but far from secure. [redacted]

Union was also kidnaped but was released after four days. A British journalist narrowly avoided kidnaping late last year. [redacted]

25X1

The Syrian Factor

Syrian control of West Beirut is extremely limited.

According to [redacted] control of the various neighborhoods by Lebanese factions remains essentially unchanged since Syrian forces entered West Beirut last June and July. [redacted]

25X1

25X1

25X1

Economic conditions are a major factor in the worsening security situation, making life dangerous and difficult not only for the city's local inhabitants but also for the remaining foreign residents, who must brave street gunfights to survive. West Beirut is increasingly suffering from periodic cutoffs of electricity and water, forcing residents to rely on local militias to provide them with fresh food and water at exorbitant prices. The continuing devaluation of the Lebanese pound, now standing at 96 to the dollar (it was 20 to the dollar in early 1986), is making it difficult for the lower classes to buy food and other necessities, and many are resorting to criminal activities that go unchecked because of the absence of effective police authority. [redacted]

Palestinian infiltration into West Beirut is increasingly taking place from Christian areas north of the capital—a development that has angered both Damascus and Tel Aviv. In response, Israel is interdicting ferry service between Cyprus and the Christian port of Juniyah, according to the US Embassy in Tel Aviv. The Palestinians are entering Lebanon with official Lebanese passports provided on orders from President Gemayel. Christians view their rapprochement with the Palestinians as a temporary, financially lucrative arrangement designed to undermine Syria's influence in Lebanon and to weaken the growing power of the Shia community. [redacted]

25X1

Although Palestinian infiltration from Beirut International Airport has declined drastically, the security situation there is chaotic, with Syrian intelligence personnel sharing security duties with other Lebanese officials and militias. Turf battles between these security personnel often take the form of fistfights and threats of armed violence. The Syrians periodically harass travelers—often just to shake them down. [redacted]

25X1

25X1

We believe that the deteriorating security situation is endangering the lives of all prominent figures and the remaining Westerners in Beirut. Local gun battles are likely to spread as fighting between militias escalates. As the chaos continues, the likelihood that more kidnapings will take place increases. Press reporting indicates that kidnapings are already frequent. For example, two weeks ago the Lebanese Dean of the American University's School of Engineering foiled an attempted kidnaping as he was traveling in the direction of the airport with a Lebanese friend. In mid-November the wife of a Lebanese Ba'th commander was kidnaped; she is still missing. On 4 December the Lebanese head of the Engineering

Moreover, heavy shelling of the airport forced its closure on 8 January—the first time since it reopened in August 1985—after a parked Middle East Airlines jet was destroyed. More such incidents are likely, as Christians and Palestinians regularly shell the airport to punish Syria and the Muslims. [redacted]

25X1

Secret



Aftermath of shelling of a West Beirut neighborhood [redacted]

Al Nahar

25X1

The Syrian military and intelligence presence is at full strength only at major locations and roads, with Syrian security patrols into militia-held neighborhoods having declined drastically over the past two months. The Syrians are deferring security duties to their main surrogates—the Shia Amal movement, the Syrian Social Nationalist Party militia, and the Lebanese Ba'th Party militia, also known as the Assad Brigades—a situation that puts these militias on a collision course with competing Druze, Islamic fundamentalist, and pro-Palestinian fighters in the city. [redacted]

bribes and Lebanese patronage to support one group against another. Damascus has all but given up policing West Beirut, a situation that is leading Syrian officers there to behave as barons exercising arbitrary authority away from the watchful eyes of the Syrian leadership or of General Kan'an, who no longer resides in West Beirut but shuttles between Anjar—Syria's main intelligence center in Lebanon—in the Bekaa Valley, and Tripoli and Sidon. [redacted]

25X1

Constraints on Syria

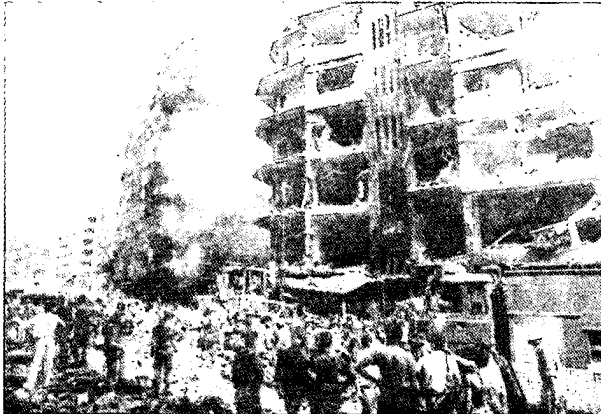
The inability of Ghazi Kan'an, Syria's chief of intelligence for Lebanon, to bring the radical Shia Hizballah and the pro-Arafat Palestinians under control has put his security and intelligence personnel on the defensive. Syrian security personnel are increasingly confined to the Beau Rivage Hotel, near Ramlah Al Baydah, a combined administrative and interrogation center. Press reports indicate that Syrian officers at the hotel are using torture and scare tactics against Lebanese political prisoners and that these officers and their subordinates are relying on

We believe that the preoccupation of the Syrian regime with the camps war, with domestic political turmoil, and with the publicity surrounding Damascus's involvement in terrorism makes it difficult for President Assad to alter the situation in Beirut any time soon. We estimate Syrian forces in Beirut at about 1,500. To impose order on the city would require at least several thousand more troops, which Syria is reluctant to commit to the debilitating job of policing the city and which would have little long-term impact in any case. [redacted]

25X1

25X1

Secret



Scene of car bombing in Christian East Beirut [redacted] Al Nahar

Typical of Syria's problems is the increasing incidence of unchecked civil violence. In mid-December, Druze and Shia Amal students at the local branch of the Lebanese University drew guns on each other on the campus, quickly prompting their respective militias to engage in a gun battle. Explosives and handgrenades are being thrown from speeding vehicles against both military and civilian targets almost on a daily basis, and Syrian forces cannot or will not halt this practice. Car thefts are a daily occurrence in West Beirut, with most cars wrested from their owners at gunpoint and sometimes at midday. Last December armed men hijacked a Red Cross transport pickup truck for the handicapped. [redacted]

25X1



Water distribution in West Beirut becoming a way of life following daily cutoffs [redacted] Al Nahar

Outlook

Civilian and military casualties will continue to rise in West Beirut over the next few months. The US Embassy reports that in 1986 there were 2,550 killings, 7,237 woundings, 42 political assassinations, 242 dynamite charges and booby-trapped cars, 33 kidnappings, and 37 executions. In addition, there were hundreds of armed robberies and thefts, including against institutional and civilian targets. The violence in West Beirut is certain to persist in 1987. This situation is likely to accelerate the departure of Westerners from the city and add to the anarchy and lawlessness. [redacted]

25X1

We believe that the camps war will continue for the next several months, assuring the continuation of factional battles between pro- and anti-Palestinian forces. In Christian East Beirut, an intra-Christian power struggle for domination of the Christian enclave remains a strong, near-term possibility. [redacted]

25X1



Palestinian fighters such as these are a common sight in refugee camps in West Beirut. [redacted] Al Nahar

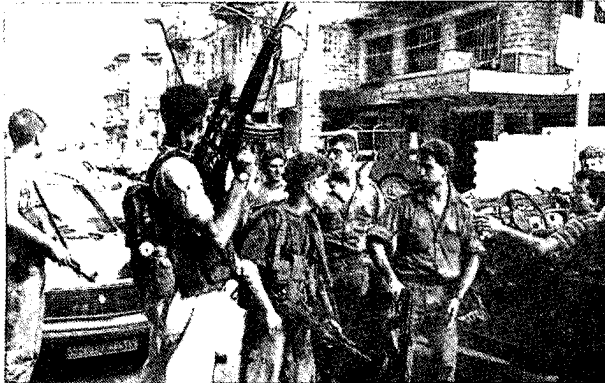
Damascus will most likely maintain its low profile in the Beirut area, even as it tightens its control over northern and eastern Lebanon, in keeping with its policy of policing only those areas deemed essential to Syrian national interests. The Syrian forces will be [redacted]

25X1

25X1

Secret

A Typical Week's Security Problems



Christian militias take to the streets following intra-Christian skirmishes. [redacted]

Al Nahar

throughout the city in the last few weeks. West Beirut also experienced heavy fighting on 6 January between the Druze militia and pro-Syrian gunmen belonging to the Syrian Social Nationalist Party. On 8 January Druze gunners began shelling Christian neighborhoods along the line separating West and East Beirut. Intense clashes between the Amal and the Palestinians continued—as they have since September—around the refugee camps. [redacted]

25X1

In Christian East Beirut, fighting erupted on 5 January between Lebanese Army units and elements of the Phalange Party militia loyal to President Gemayel. Although the situation was brought under control soon after the fighting started, the skirmish aggravated an already volatile political climate in the Christian enclave. On 6 January an assassination attempt against former President Camille Chamoun, the godfather of the Christian community and an opponent of Syrian-Lebanese reconciliation, heightened tension in the Christian community and increased the probability of more violence in the near future. The attempt on Chamoun's life was claimed by a hitherto unknown splinter of the Christian militias. Clashes followed between rival Christian groups. [redacted]

25X1

25X1

vulnerable to occasional resistance and armed uprisings against their occupation from Islamic and Christian militants. In such cases, Damascus will use force in Tripoli and the Bekaa but will turn to increasingly unreliable surrogates to do its bidding in Beirut and South Lebanon. [redacted]

25X1

[redacted]

25X1

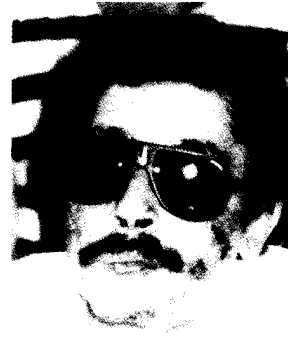
Secret

**Lebanon: Sidon's Sunni
Popular Nasirite
Organization** [redacted]

25X1

Mustafa Sa'ad commands the most important Sunni militia in Sidon, the port city fast emerging as the center of Palestinian influence in Lebanon. Sa'ad's Popular Liberation Army, the 1,000-man fighting arm of his Popular Nasirite Organization, plays a pivotal role for the Palestinian movement, since the militia controls Sidon and, potentially, the security of the surrounding camps. Sa'ad has publicly assumed neutrality toward the conflict between the pro-Arafat Palestinians and the Syrian-backed Shia Amal movement. [redacted]

[redacted]



Mustafa Sa'ad [redacted]

25X1

al-Majalla

25X1

Mustafa Sa'ad the Man

Mustafa Sa'ad is the son of Maruf Sa'ad, a key Sunni politician in Sidon and a deputy in Lebanon's parliament. His main rival was Nazih al-Bizri, a physician whose constituency came mainly from the middle and upper classes of Sidon. Maruf was killed in February 1975 during a lower-class antigovernment demonstration in Sidon. The assassination is generally regarded as the catalyst for the Lebanese civil war. At the time of Maruf's assassination, his 26-year-old son, Mustafa, was studying in a Soviet agricultural engineering college, and he did not expect and was not prepared for the succession. Although inexperienced at the time, Sa'ad knew that, without the Palestinians and their resources, his militia would be insignificant and vulnerable to Christian militia attacks from the hills overlooking Sidon. The Palestinians firmly controlled key positions around Sidon and acted as a buffer against outside attacks on the city. [redacted]

In January 1985, Sa'ad was the target of an assassination attempt when his residence was destroyed by a car bomb that killed his 12-year-old daughter and left him scarred and blinded by flying glass. Lebanese across the board blamed Israel for the attack, although he could have been the target of

Shias, Christians, or Palestinians, or even the victim of an intra-Sunni conflict. Sa'ad did not speak out sharply against his attackers following his recuperation. [redacted]

25X1

Sa'ad is approximately 37 years old. He has a Soviet wife, who was also injured in the bombing. Sa'ad speaks Russian as well as a little English and French in addition to his native Arabic. He has relatives in West Virginia. Following the bombing, Sa'ad underwent surgery and three months of medical treatment in Boston. [redacted]

25X1

History of the Popular Nasirite Organization

The Popular Nasirite Organization was established in Sidon in 1976 by followers of the deceased Maruf Sa'ad. The organization is predominantly Sunni Muslim. [redacted]

25X1
25X1

[redacted] Since early 1985, the organization has prospered and, because of its rapid political growth, has attracted considerable attention. Contributing to this was the elimination by Syria in 1984-85 of the only other secular Sunni Muslim organization in Lebanon, the Independent Nasirite Organization (Murabitun), in

25X1
25X1

Secret

street battles in West Beirut. [redacted]

We believe Nasirism is important to Sa'ad and perhaps his immediate followers, but it takes a back seat to tactical alliances. We believe ideology is less important for the average fighter in Sa'ad's Popular Liberation Army, whose primary motivation is protection of Sunni privileges and Sunni turf. The legacy of Nasir as a charismatic personality, however, plays an important role in motivating Sa'ad's militia to remain loyal to the organization. [redacted]

25X1
25X1

The Popular Nasirite Organization receives financial assistance from Sunni organizations in Beirut, again as a result of the decline of the Murabitun organization. [redacted]

Allies and Enemies

Sa'ad has close ties to Syria, is hostile toward Israel, and is frequently called to Damascus to receive instructions on issues of interest to Syria. Sa'ad's relationship with Damascus is complex, given his ties to the Palestinians. Syria is attempting to court Sa'ad as a power in Lebanon's third-largest city but is having difficulty maintaining his loyalty, mainly because of Sa'ad's special relationship with the PLO. Both sides are playing a delicate balancing game. [redacted]

25X1
25X1
25X1

In Sidon, the main Sunni elements have established a joint leadership, the Political Council of Sidon, that is supposed to coordinate key issues concerning the town. Chief among the Sunni political leaders are Mustafa Sa'ad, Sidon Deputy Nazih al-Bizri, and Rafiq Hariri. Bizri leads the old families of Sidon, while the Sa'ad family represents the upstarts. These two families have drawn closer during the Lebanese civil war and the Israeli invasion. [redacted]

Sa'ad has close ties to Druze leader Walid Junblatt, whose militia controls the Sidon-Beirut road. [redacted]

25X1

Nasirist Ideology: A Sunni Cloak

Sa'ad's political statements generally reflect an ill-defined pan-Arab ideology that has its roots in Nasirist thought. In the early 1950s, the Sunnis of Lebanon derived much of their political clout from Egyptian influence, and most Sunni activists today belong to organizations advocating the ideology of Egypt's late President Kamal Abd al-Nasir. Nasirism as an ideology is anti-Western and pan-Arab, and seeks to promote Arab socialism. In the 1970s the Lebanese Sunnis made common cause with Palestinian guerrillas—primarily Sunnis—in Lebanon. Nasir's death in 1970, Egypt's signing of the peace treaty with Israel in 1979, and Syria's growing presence in Lebanon, however, have undercut the Sunni position in Lebanon. [redacted]

Sa'ad also collaborates with several Palestinian organizations. His cooperation with the Syrian-backed Palestine National Salvation Front (PNSF) (which opposes Arafat) is at Syria's behest and reflects the traditional cooperation in Lebanon between the Sunnis and the Palestinians. [redacted]

25X1

25X1
25X1

25X1

Secret

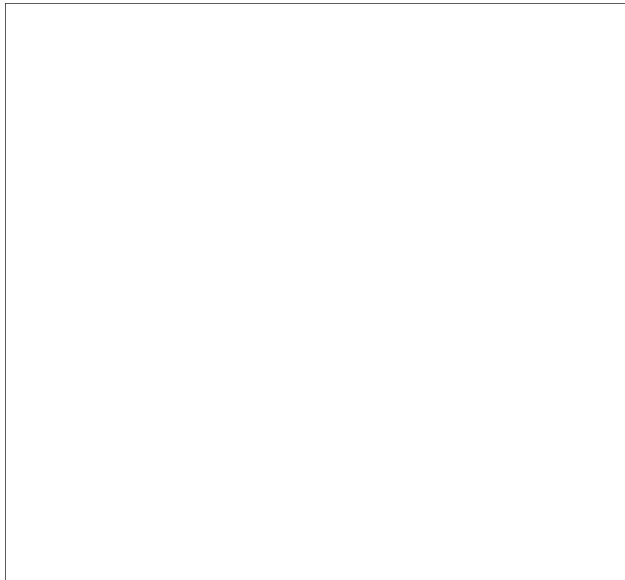


to win this support and reestablish themselves is complicated by the struggle between the Palestinian organizations in the PNSF and the Arafat loyalists. The increased tension between the Shia Amal and the pro-Arafat Palestinians (and Sa'ad's collaboration with the latter) could in time increase tension between the Amal and Sa'ad, and ultimately between Syria and Sa'ad. [redacted]

25X1

There is also evidence of increasing cooperation between Sa'ad and the pro-Arafat Palestinians over the past year. As of April 1986 there was no indication of direct and open cooperation, possibly for fear of Syrian reaction. There were indications, however, that Sa'ad was increasingly turning a blind eye to the growing strength of Arafat loyalists,

25X1



As an example of Sa'ad's tactics, following Syrian-Lebanese discussions in Damascus on 10 January, Sa'ad publicly announced that he had asked mediator Hariri to press Arafat to withdraw his fighters from Maghdushah. If the Fatah fighters withdraw, Sa'ad's militia would be free to move in as a buffer between the Palestinians and the Shias, gaining new turf.

25X1



25X1

We believe that Sa'ad has adopted an outwardly neutral stance for political purposes—linking himself publicly to the PNSF to please Syria, while secretly forging a tactical alliance with the pro-Arafat Palestinians against Amal (in defiance of Syria). As the Palestinians grow stronger in Sidon, Sa'ad will attempt to obtain their cooperation to strengthen his own position. [redacted]

25X1



25X1

Sa'ad and the Sunnis have a bitter feud with the anti-Palestinian Shia Amal in Sidon. Amal influence is based on a large Shia population in the southern and eastern suburbs, control of several Christian villages in the area, and growing Shia social and religious activity in the city. [redacted]

25X1



25X1

[redacted] Amal is opposed to the return of the Palestinians to Sidon for fear the Palestinians will reestablish their power there. [redacted]

25X1

25X1

Outlook

The recent influx of Palestinians has affected the fluid security situation in Sidon. In our judgment, the Palestinians cannot operate effectively in the area without Sa'ad's support. The effort of the Palestinians

Secret

Jordan: Gambling on West Bank Development

25X1

King Hussein's first economic development program for the West Bank and Gaza is aimed at improving the local quality of life and, more important, establishing Jordan—in place of the PLO—as the representative of Palestinians in the occupied territories. Severe cash shortages, PLO opposition, and skepticism on both sides of the Jordan, however, challenge Amman's ability to implement the plan. Without rapid and visible progress on the program, Jordan runs the risk of losing its bid to become the Palestinians' major negotiator in the peace process.

Hussein also has a more parochial desire—to head off another potentially disruptive wave of Palestinian emigration to Jordan. Amman expects new entrants to Jordan's labor force to increase by at least 60,000 persons by 1990, in addition to the influx of returning workers who are losing their jobs in the Persian Gulf. The US Embassy in Amman reports that Hussein is concerned that a mass migration of out-of-work West Bank and Gaza Palestinians to Jordan—which has serious unemployment problems of its own—eventually would pose a security threat.

25X1

25X1

Hussein Bets on Development

Jordan's poor record in helping the West Bank and Gaza has left it with substantially less influence than the PLO among Palestinians. Development of the occupied territories has languished as a result of Jordanian policy restrictions and a legacy of outright neglect. King Hussein did not help Jordan's reputation when he broke off relations with PLO Chairman Arafat last February, a clumsily handled move that deeply disappointed Palestinians. Despite Hussein's promise to step up aid to the territories, the West Bank and Gaza continue to struggle with stagnant growth, declining worker remittances, and rising unemployment in the wake of a regional recession brought on mainly by declining oil prices.

The development program, which Jordanian planners expect to have a price tag of about \$1.3 billion through 1990, focuses on social projects that will give maximum benefit to the general populace. Almost three-fourths of the planned investments are earmarked for education, social welfare, and construction, according to the US Embassy. Spending in these areas is designed to improve the quality and skills of the West Bank and Gaza work force and to stimulate employment opportunities. Outlays for construction and infrastructure—more than 40 percent of the development budget—demonstrate Jordan's desire to reduce the pressures to emigrate by providing the Palestinians with adequate housing and public services.

25X1

Jordan already has employed a variety of more overtly political tactics to strengthen ties to the occupied territories. Measures Amman has introduced so far include reopening the Cairo-Amman Bank, participating in the appointment of three Arab mayors on the West Bank, and launching a public relations blitz to improve its image.

25X1

25X1

Rather than engage in direct political competition with the PLO, Hussein has adopted a long-term strategy designed to capitalize on disarray within the ranks of the PLO and its inability to provide economic and social support to the Palestinians. By providing economic and municipal development aid, Hussein hopes to reestablish a Jordanian political presence among the Palestinians in the West Bank and Gaza. He believes that improving economic conditions is the best way to win Palestinian acceptance of Jordan—and not the PLO—as their key representative in negotiations with Israel, according to the US Embassy.

Jordan, however, is reluctant to liberalize trade and bridge-crossing procedures. Amman fears that easing these restrictions would induce Palestinians to leave the occupied territories for Jordan.

25X1

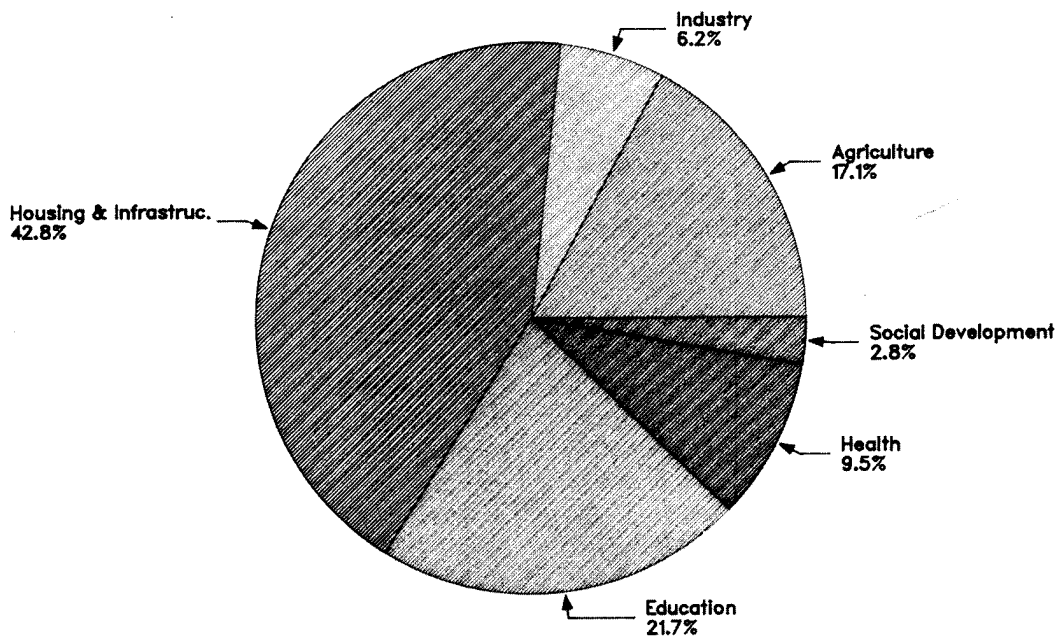
25X1

Secret

NESA NESAR 87-002
16 January 1987

Secret

JORDAN: WEST BANK & GAZA DEVELOPMENT PLAN



25X1

But No Cash in Hand

The key obstacle to the development plan's success is Jordan's inability to pay the bill. Worker remittances—Jordan's most important source of foreign exchange—tourism, and merchandise exports continue to perform poorly, saddling Jordan with the problem of financing another foreign payments gap this year. Foreign exchange reserves of about \$360 million—the equivalent of less than two months' imports at current rates—are woefully inadequate to cover these revenue shortfalls. Despite holding expenditures at last year's level, the 1987 budget projects a deficit of at least \$188 million, according to the US Embassy, and it may well approach the 1986 record of \$644 million if overly optimistic revenue projections do not materialize.

Without foreign assistance, Jordan has no hope of making the development plan work. As a result, senior Jordanian officials have scrambled to obtain critically needed financial aid, according to US Embassy reports. Last September, Prime Minister Rifa'i traveled to West Germany, France, and the United Kingdom to seek subventions for the plan, and followed that trip with a visit to Kuwait the next month. Emphasizing the importance the government places on the program, both King Hussein and Crown Prince Hassan last year also visited Middle Eastern and European capitals to make a pitch for funds. Jordan's drive to attract international financial support for the program culminated in November at the Development Conference held in Amman.

25X1
25X1

Secret

Secret

Donor response to the Jordanian initiative has been unenthusiastic. Although participants at the Development Conference gave a guarded endorsement of the concept, nearly all countries evaded bilateral financial commitments to Jordan. The US Embassy reports that several members of the European Community (EC), especially France, Spain, and Greece, continue to believe that aid to the West Bank and Gaza that is funneled through Jordan would compromise their neutrality regarding the legal status of the occupied territories. Some European countries probably are concerned about the possibility of a retaliatory Arab boycott should they assist Jordan. [redacted]

To avoid the adverse political implications of dealing with Amman, the EC Commission has decided to channel part of its \$3.1 million commitment directly to the West Bank and Gaza rather than through Jordanian Government institutions or private organizations—a decision that Amman vehemently opposes. Only the United Kingdom has pledged direct assistance—about \$7.3 million through 1990—which London intends to disburse with minimal fanfare to avoid political controversy that might jeopardize implementation of projects. West Germany intends to follow the British lead, but German assistance is only at the planning stage. [redacted]

A major disappointment for Jordan has been the tepid response from its traditional Arab benefactors. Saudi Arabia, Qatar, and Oman—some of Jordan's most important donors—sent only low-level representatives to the Development Conference and have not committed additional funding beyond their scheduled Baghdad payments. Even the Baghdad grants are likely to decline this year to about \$450 million from the 1986 level of \$562 million. Saudi Arabia also is insisting that Jordan pay \$195 million for Saudi oil deliveries in 1985, using a more favorable repayment plan. [redacted]

View From the West Bank and the PLO

Yasir Arafat has denounced Jordan's development plan, declaring it would lead to a de facto normalization of relations between Amman and Tel Aviv, according to Palestinian media reports. He has cautioned Arab countries not to support the plan,

contending that such assistance would prolong Israeli occupation of the West Bank and Gaza. Arafat instead has called for adherence to the 1978 Baghdad resolutions, a clear signal for a return to the PLO-Jordan Joint Committee as the official conduit of development funds to the occupied territories. For now, Arafat probably wants to avoid risking a more direct confrontation with Jordan in order to concentrate on reconciling with rival Palestinian factions in Syria and Lebanon. [redacted]

25X1

Most Palestinians apparently are willing to give Hussein a chance to make good on his commitment, but even the staunchest supporters of the plan are skeptical of long-term Jordanian objectives and capabilities. Many Palestinians fear the development plan is a veiled strategy for Jordan to supplant the PLO as the legitimate representative of the Palestinians in the occupied territories. At the same time, many Palestinians retain unpleasant memories of Jordanian rule, when Hussein's minions brutally suppressed opposition to the King's policies. [redacted]

25X1

25X1

View From Jordan and Israel

In principle, Israel supports the development program, including quality-of-life improvements for the Palestinians. Tel Aviv much prefers an increase in Hussein's moderate influence to the PLO's continued sway in the occupied territories. Reflecting its common interests with Jordan, Israel has cracked down on PLO militants, closed radical newspapers, and deported some activists, according to the press and US Embassy. Israeli participation was instrumental in arranging the recent appointment of the mayors in three West Bank towns and the opening of the Cairo-Amman Bank. Much to Jordan's irritation, however, Israel has attempted to link itself publicly to the implementation of the development plan. Moreover, Tel Aviv has insisted on vetting proposed development projects and would veto any initiative that threatens Israeli economic and security interests in the occupied territories. [redacted]

25X1

25X1

25X1

Although most key officials in the Jordanian Government support the development plan, some misgivings exist among political conservatives. These

Secret

Secret

Jordan-firsters are pressing Amman to abandon the development plan because they believe the country's scarce financial resources should be used at home. Moreover, they have allies in the government who share their concerns about the security and unemployment implications of closer ties to the occupied territories, according to the US Embassy. [redacted]

Jordan has yet to decide how it will represent the Palestinians in the peace process and, by implication, what role, if any, the PLO will play. Hussein still insists that, if the PLO recognizes UN Resolution 242, it will retain its right to represent the occupied territories, according to the US Embassy. But Prime Minister Rifa'i—with the King's quiet support—is encouraging the Palestinians to consider alternative leaders, including Abu Zaim, a PLO dissident based in Amman. With Palestinian support at stake, Hussein is keeping his options open while seeking to strengthen Jordan's political influence in the West Bank and Gaza. [redacted]

An Uncertain Payoff

Jordan's chances of keeping the development plan on schedule or gaining political advantage in the territories at the PLO's expense are not good. Any failure to make rapid and coordinated progress will cost Jordan some credibility by making it appear too weak to represent Palestinian interests. Many public and private Palestinian officials in the West Bank already are complaining about the lack of discernible progress, according to the US Consulate General in Jerusalem. [redacted]

A lack of money is the major roadblock to Jordan's timetable. Financially strapped, Amman has allocated only \$64 million in 1987 for the development program, which has an average annual cost of about \$250 million. [redacted]

Foreign donors will continue to be tightfisted. Riyadh told Hussein it cannot provide more aid because of its own cash problems, according to the US Embassy. Other Arab oil states are sounding the same theme and are unlikely to help Jordan substantially. In any event, the Saudis and other Arabs will be most reluctant to assist a perceived Jordanian-Israeli

strategy to circumvent the PLO. As a result, we estimate that total Persian Gulf aid in 1987 will continue last year's decline, falling to about \$542 million from \$690 million in 1986. EC members will probably also drag their feet until they are more certain that no negative political fallout will ensue. [redacted]

The best we believe Jordan can expect is enough money to start a few smaller projects that demonstrate to the Palestinians that the program is a viable method of improving their standard of living. This might give the Jordanians a chance to line up additional funding, especially from the EC. Jordan also is likely to launch an aggressive public relations campaign touting existing projects to maintain Palestinian confidence in the program. Still, Amman has promised much and faces an uphill battle to maintain the program's momentum. New money probably will come too late to give Jordan the opportunity to make much headway on larger projects this year. [redacted]

Regardless of the financial outcome, Jordan cannot discount the prospect that the PLO will attempt to undermine the plan if Arafat or local supporters believe they are losing political ground. The Embassy reports some evidence that pro-PLO Palestinians are noting the threat the Jordanian strategy presents to Arafat and themselves. A PLO counteraction almost certainly would include increased violence and acts of intimidation against Palestinian participants in the development plan. The recent stabbing of a Jordanian Government employee on the West Bank is a harbinger of what the PLO would be likely to do to derail the program. [redacted]

Implications for the United States

Jordan knows the constraints on US foreign aid this year and, as a result, will look to the United States for support, principally on the diplomatic front. Amman believes that US approval could spur the EC countries to boost their assistance to the development effort. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

Jordan also will look to the United States to intercede on its behalf with the Israelis and, perhaps, the Saudis. If Hussein's plan falls, Amman may lose the opportunity to create a Jordanian-Palestinian negotiating team that eliminates the PLO—and thereby forfeit the chance to remove a major obstacle to the peace process.

25X1

25X1

Secret

Secret

Kuwait: The Diplomacy of Accommodation

[Redacted]

25X1

Kuwait follows a nonaligned foreign policy designed to gain maximum protection against regional threats and terrorism and to support its aspirations for leadership among the Gulf states and the nonaligned nations.¹ The wisdom of this policy has been confirmed by experience, in the view of the Kuwaiti Government. Kuwait's economic and cultural orientation is predominantly Western, and its nonalignment arises from its defenselessness and proximity to an area of strategic significance and chronic political and military conflict. The disclosure of US arms transfers to Iran has primarily hurt Kuwaiti and other Arab moderates who have argued for the benefits of cooperation with the United States, according to diplomatic sources. Nevertheless, the United States remains a critical and central factor in Kuwait's foreign policy equation.

[Redacted]

Balanced Relations With the Superpowers

Kuwaiti leaders have carefully cultivated ties to both the United States and the USSR to ensure that each has a stake in the regime's survival and to maximize Kuwait's bargaining position, according to US diplomatic reporting. They believe these ties can be useful in deterring regional threats and obtaining support against terrorism but fear that granting significant concessions to either superpower—for example, by offering military access or permanent bases—could ultimately trigger a superpower military confrontation in the region.

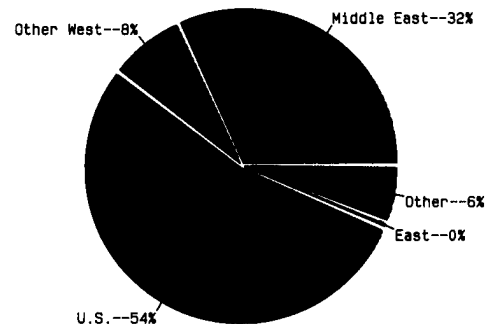
[Redacted]

Despite a concern to appear balanced in its foreign relations, Kuwait's economic and cultural orientation is toward the West:

- Kuwait's history and mercantile traditions have given it a cultural affinity with the West, including the United States.
- Kuwaitis have wide-ranging business and technical ties to the Western world.

[Redacted]

KUWAITI STUDENTS ABROAD BY REGION OF STUDY 1982/1983



Total Kuwaiti Students in Higher Education Abroad in 1982/1983 = 2682
Source: Kuwaiti Yearbook of Statistics

[Redacted]

GDA

- Over one-half of Kuwaiti students abroad attend schools in the United States. Almost none attend schools in the USSR or Eastern Europe.
- Kuwaiti trade is overwhelmingly with the West.
- Kuwait has benefited from many infrastructure development programs run by US agencies.
- Kuwaiti planners are seeking US advice on privatization, deregulation, and the budgetary process.
- Over one-half of Kuwait's large petrodollar investments are held in US institutions or dollar instruments.

[Redacted]

In nurturing its nonaligned image, however, Kuwait often takes diplomatic positions at variance with those of the United States. It generally sides with other Third World countries in forums such as the United Nations, the Nonaligned Movement, and the Islamic Conference Organization.

[Redacted]

Secret

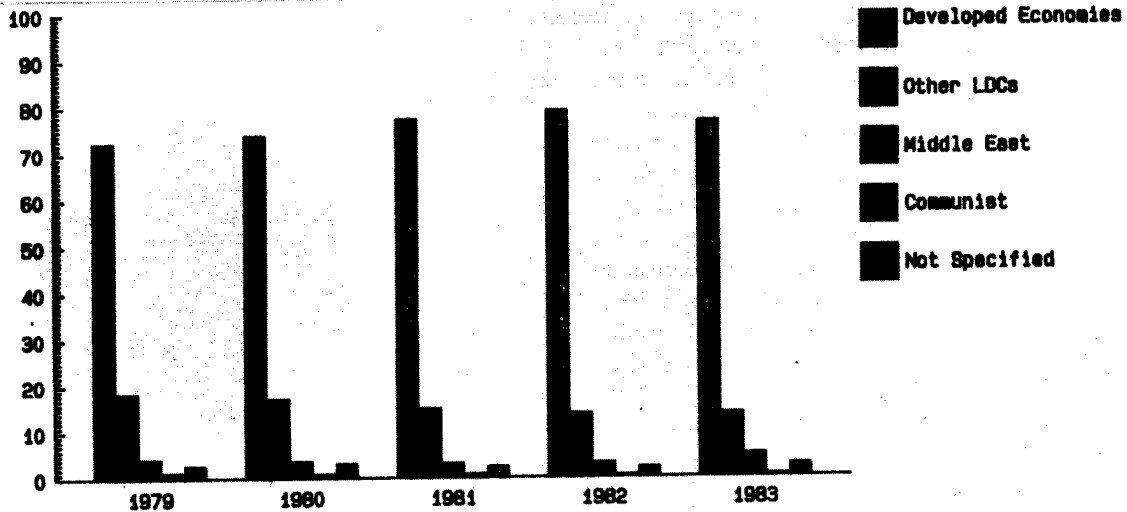
NESA NESAR 87-002
16 January 1987

Secret

KUWAITI IMPORTS AND EXPORTS, 1979-83

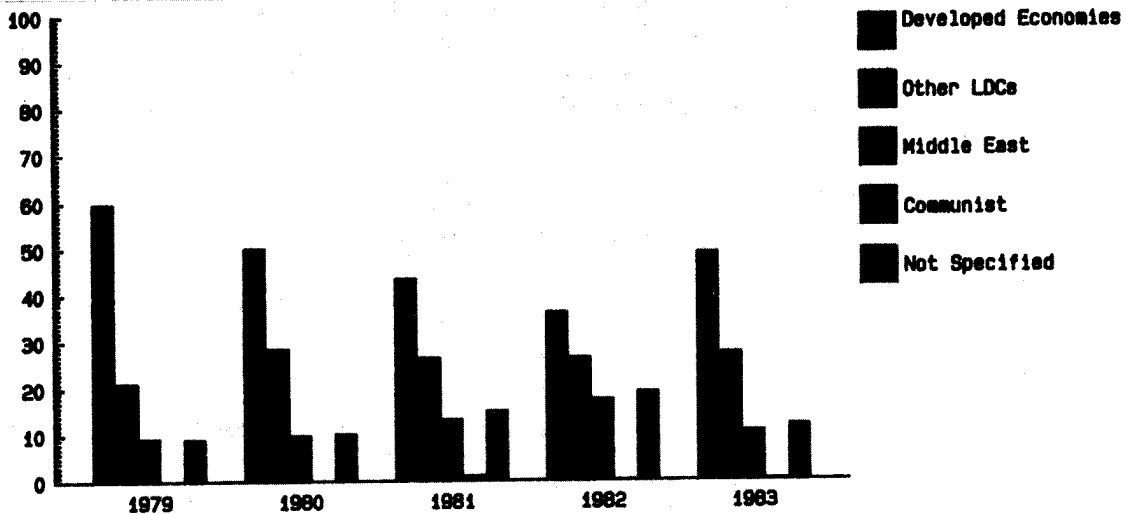
KUWAITI IMPORTS

Percent Partner Distribution



KUWAITI EXPORTS

Percent Partner Distribution



Source: IMF Direction of Trade Statistics



25X1

Secret

Secret

The range of Kuwaiti-Soviet ties is narrow, confined mostly to diplomatic and journalistic exchanges and some economic and military transactions.² Kuwait has developed its Soviet ties for tactical and defensive reasons, according to US Embassy reports:

- To enhance defense against an Iranian threat.
- To take advantage of Moscow's influence in Baghdad, Damascus, and Tripoli.
- To reduce the risk of Soviet or Soviet-sponsored subversion against Kuwait. [redacted]

Kuwait also cultivates Soviet ties as part of its role in the Gulf Cooperation Council (GCC), a key element in Kuwaiti security policy.³ Specifically, Kuwait seeks:

- To demonstrate its leadership in the GCC vis-a-vis Saudi Arabia and the other Gulf states.
- To gain Soviet acceptance of the GCC as a genuinely independent regional body.
- To strengthen the Gulf voice in Moscow on the issues of Afghanistan, the Iran-Iraq war, and South Yemen—areas where they believe the Soviets have influence. [redacted]

For their part, the Soviets court Kuwait with high-level visits and red-carpet treatment, apparently because they wish to use Kuwait as a bridgehead to other Gulf Arab states and because these ties have economic as well as political benefits. The Kuwaitis pay cash for their military equipment and have offered the Soviets sizable loans and cooperation on joint development projects, according to the US Embassy in Kuwait. [redacted]

The Kuwaitis believe that this Soviet interest promotes moderation in Soviet policy on the Arabian Peninsula, according to diplomatic reporting. They hope, for example, that it will motivate Moscow to ensure that the new regime in South Yemen respects its predecessor's pledges not to threaten neighboring states. The Kuwaitis probably realize, however, that friendly relations with Moscow will not inhibit Soviet

² Kuwait established relations with the Soviet Union in 1963 in return for Moscow's withdrawal of its veto over Kuwait's UN membership. [redacted]

³ Kuwait, Saudi Arabia, Oman, Qatar, the United Arab Emirates, and Bahrain formed the GCC in 1979, primarily in response to security concerns generated by the Iranian revolution. [redacted]

disinformation campaigns or Soviet efforts to introduce more personnel into Kuwait in connection with technical, commercial, or military missions. [redacted]

25X1

Challenges to the Regime

Of the range of problems facing the ruling Sabah family—including the decline in oil revenues, potential subversion from the large expatriate population, threats from powerful neighbors and from terrorists—we believe regional security and terrorism are the regime's top priorities. We believe the US arms transfers to Iran damaged US credibility in Kuwait because they cast doubt on the sincerity of stated US policies in both of these critical areas. [redacted]

25X1

25X1

Regional Security. Protection from external threats has been an important motivation for closer Kuwaiti cooperation with the superpowers, according to US Embassy analysis. As a small, vulnerable state in a volatile region, Kuwait has sought security largely by adjusting to the political realities of its situation, propitiating its neighbors, and buying off other potential threats—a consistent, longstanding policy of the Sabah family: ⁴

25X1

- The Iran-Iraq war poses the greatest threat to Kuwait since its independence. Iran has attacked Kuwaiti facilities several times, frequently hit oil tankers leaving Kuwaiti ports, and threatened to escalate its activities should Kuwait give Iraq direct military support. [redacted]

25X1

- Kuwait probably believes that Iraq will resume its claims on Kuwaiti territory once the need for Kuwaiti financial support has passed.

- Kuwait also probably worries that the Arab-Israeli dispute may once again erupt into a war that could spread more widely through the region than before, and even directly involve the superpowers. [redacted]

25X1

⁴ Like Jordan, Kuwait's domestic and foreign policies are closely linked. For example, its well-educated elite is tied in with regional Arab opinion through the media; 20 percent of its population is Palestinian; 20 percent is Shia; and its aid programs have been important to the economic well-being of numerous regional states, including Jordan, Syria, and Sudan. [redacted]

25X1

25X1

Secret

Secret

The Kuwaitis probably hope that a US presence “over the horizon” will deter Iran or other regional states that might wish to press the Gulf states militarily, as well as the Soviets. They also believe that the United States—along with the West Europeans—can help keep the Strait of Hormuz open to ensure the flow of oil. [redacted]

These regional security concerns have encouraged closer—though still limited—Kuwaiti cooperation with US military forces in the area, according to US Embassy officials. Kuwait is the only regional source of the specific kind of diesel fuel essential to the operation of US carrier task forces in the Indian Ocean and benefits indirectly from the Saudi-US AWACS program by virtue of information sharing with Riyadh. [redacted]

We believe that problems in US-Kuwaiti cooperation on regional security arise from doubts about US reliability as a defender, fear that too close an association with the United States might provoke retaliation from radical terrorists and incite domestic critics, and concerns that too close a relationship with one side might upset regional power balances. Kuwaiti leaders probably question whether the United States will protect those who link themselves openly to its interests and fear the United States will take for granted an ally that is dependent. They believe that the United States abandoned the Shah of Iran and Lebanon's President Gemayel after cultivating them openly as allies and clients. The US Embassy in Kuwait reports that recent revelations about the US-Iran arms arrangements confirmed the Kuwaitis' most cynical judgments about the pitfalls of relations with the United States. [redacted]

The Arab-Israeli conflict could again become a source of friction between Kuwait and the United States in the event of renewed military strife, although it does not affect relations as much today as in the early 1980s. Then, Kuwait appeared to be drifting away from the United States and closer to the Soviets, advocating expanded ties between Moscow and the Arab Gulf states and opposing closer regional security cooperation. The Israeli raid on Iraq's nuclear reactor in 1981, its invasion of Lebanon in 1982, and the US denial of Stinger missiles in 1984 marked a nadir in

Kuwait's US ties. They have since improved as the Iranian threat to Kuwait has intensified. Nevertheless, US policy on Israel and the peace process still generates criticism in the influential Kuwaiti press and regional media and creates opportunities for Soviet disinformation efforts, according to diplomatic reporting. [redacted]

In our judgment, the Kuwaitis take a pragmatic approach to Soviet ties and are cynical about the Soviet record in the region. The Soviet invasion of Afghanistan is still a concern of the Kuwaiti leadership, although perhaps less central to their everyday interests than in the years immediately following the incursion. Afghanistan reinforced existing Kuwaiti doubts about Soviet intentions and deepened distrust of the Soviet presence. The Soviet role in South Yemen has always troubled Kuwaiti-Soviet relations, according to US Embassy officials. The Kuwaiti press was highly critical of the Soviet role in the overthrow of the regime in South Yemen in early 1986. [redacted]

Nevertheless, we believe the Kuwaitis appreciate the assistance Moscow is providing Iraq against Iran and often call on the Soviets—as well as the United States—to restrain both Baghdad and Tehran. They rely, moreover, on Soviet diplomatic support for the Arabs against Israel. [redacted]

Terrorism. Terrorist attacks have shaken the Kuwaiti leadership in recent years. Incidents in 1985 included a car bombing that nearly killed the Amir in May, followed by bombings at two cafes that killed 10 persons. Shia terrorists supported by Iran have been arrested, and about 18,000 foreign-born Shias were deported, according to Kuwaiti Government figures. In addition, Kuwaitis also worry about the potential for radical Arab sponsorship of Palestinian terrorist attacks—particularly by the Abu Nidal organization, [redacted]

In dealing with its terrorism problem, Kuwait has not looked primarily to the United States or the Soviet Union for counterterrorism assistance, but to the British and the Yugoslavs, according to diplomatic

25X1

25X1

25X1

25X1

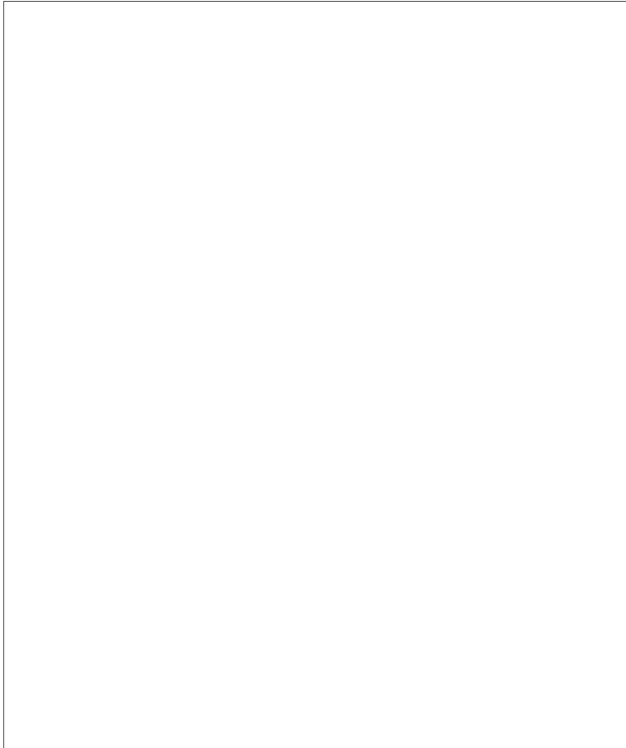
25X1

25X1

Secret

Secret

reporting. The Kuwaitis discuss terrorist incidents forthrightly with US officials, however, and have often expressed interest in US training programs but hesitate to enter into a formal relationship. [redacted]



European arms and because Kuwaiti political leaders have little confidence that the US Congressional review process will grant them what they want. [redacted]

25X1

We believe Kuwait's purchase of small quantities of Soviet military equipment—primarily surface-to-air missiles—reflects a politically based desire for evenhandedness rather than a military decision. The Kuwaitis are considering Soviet as well as US and British armored fighting vehicles for a large purchase that would probably bring more Soviet trainers to Kuwait, according to diplomatic reporting. Before 1984, the Kuwaitis avoided taking Soviet military training personnel. About 20 are currently stationed in country, according to US Embassy estimates. [redacted]

25X1

25X1

25X1

Outlook for Kuwaiti-Superpower Relations

Kuwait's policy of balancing its relations with the superpowers will almost certainly continue, with the specific application of that policy depending on the Kuwaitis' immediate threat perceptions.

Nonalignment allows Kuwait to obtain benefits from both sides without becoming dependent on—or too beholden to—either superpower. Heightened tensions in the Gulf will warm US ties; a reawakening of the Arab-Israeli dispute will chill them. The promise of US over-the-horizon protection against Iranian threats sustains US-Kuwaiti bonds, while Kuwait's pursuit of nonaligned support encourages a more critical posture toward Washington. [redacted]

25X1

Military Assistance

In line with its nonaligned posture, Kuwait has purchased military equipment from both the Soviets and the United States, as well as from West European states. We believe that the Kuwaitis consider the political benefits of these relationships to outweigh the military problem of maintaining diverse maintenance and support systems. [redacted]

Kuwait is also likely to continue its emphasis on regional security through the GCC. This trend may favor US involvement because of Washington's existing military cooperation with Riyadh, a key GCC leader. GCC members' efforts to coordinate on regional defense and to develop a rapid deployment force will rely on the United States to counter major Iranian or Soviet threats to the Gulf, according to US Embassy officials. [redacted]

25X1

25X1

West European countries, especially France, supply most of Kuwait's arms, while the once substantial US share has been declining over the past few years. The United States has supplied A-4 aircraft, I-Hawk surface-to-air missiles, and logistic support programs. The Kuwaitis will probably be choosing a new fighter in the next year or two and are considering US as well as French and British aircraft. We believe that they will select a West European fighter because the Kuwaiti military has generally been satisfied with

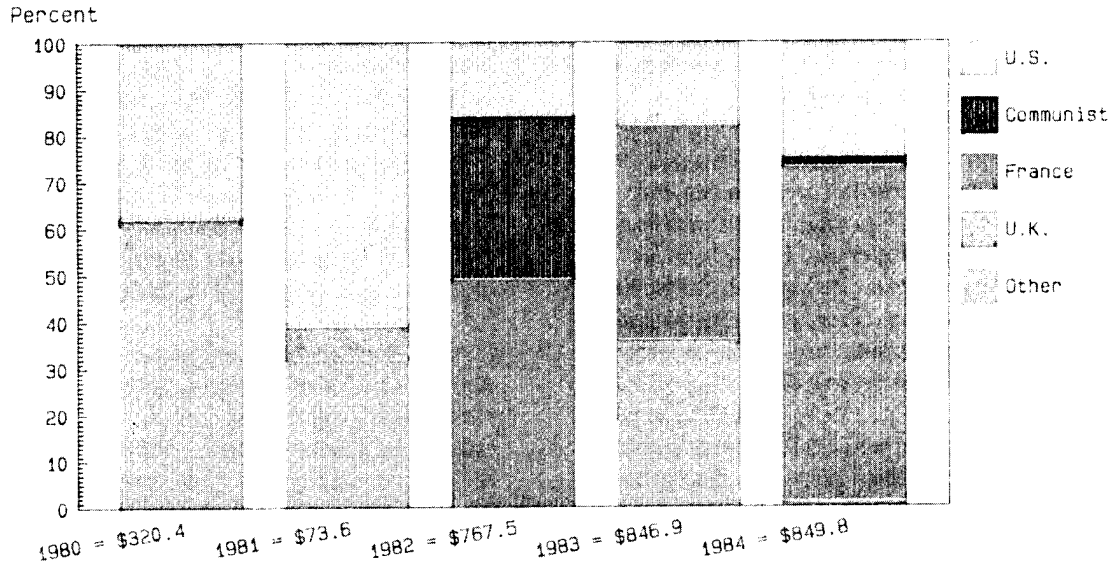
Kuwait's Western economic and cultural connections are not likely to diminish. We believe Kuwaiti investments abroad will remain predominantly in Western hands. Concerns about new US tax

Secret

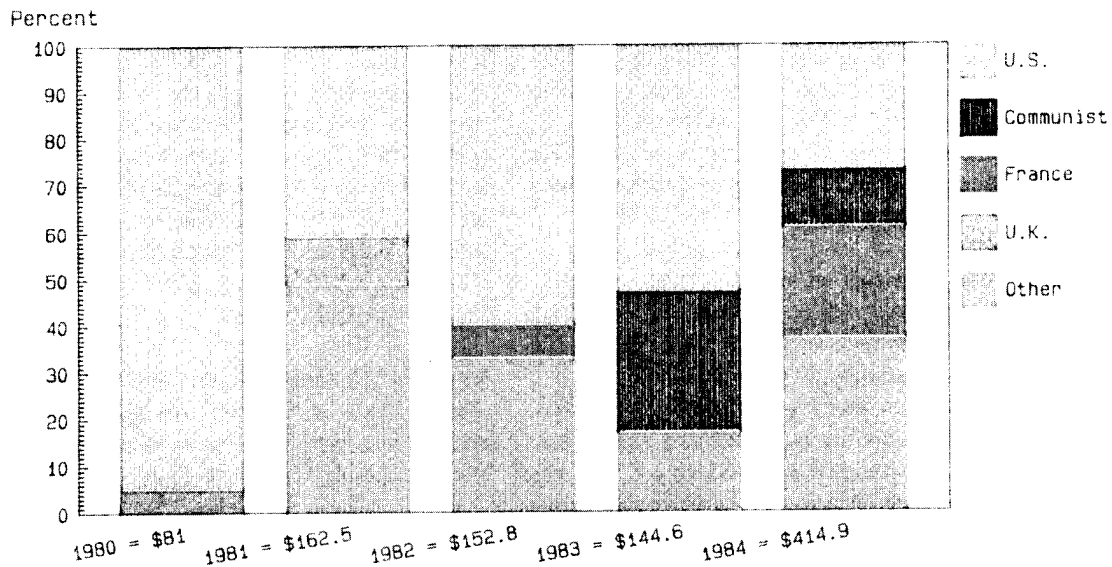
Secret

KUWAIT: MILITARY ASSISTANCE AGREEMENTS AND DELIVERIES, 1980-84

MILITARY ASSISTANCE AGREEMENTS



MILITARY ASSISTANCE DELIVERIES



Dollars in U.S. Millions

Sources:

U.S. Data - Foreign Military Sales 1985 DSAA
 Other Data - FDMA, Vol V, 1985 DIA



25X1

Secret

Secret

regulations have so far not provoked movement of Kuwaiti capital from the United States to Western Europe. [redacted]

25X1

We believe Kuwait will continue to criticize the United States for Israeli attacks on Arab states and lament the lack of US initiatives for progress on the Palestinian question and the Iran-Iraq war. In our judgment, it will continue to promote progress on both of these issues by working to heal divisions between the Arab states. This policy will entail maintaining good communications with Arab radicals associated with the Soviet Union as well as with moderates closer to the United States. [redacted]

25X1

The more limited Kuwaiti-Soviet relationship will focus on economic cooperation, with limited Kuwaiti purchases of Soviet weapons likely to continue. Cooperation with Moscow on internal security matters will probably remain at a modest level, although Kuwait may look to Moscow for additional counterterrorism assistance. Moscow could improve its image with Kuwait and other moderate Arabs by reaching an accommodation that would allow it to at least appear to withdraw from Afghanistan. [redacted]

25X1

[redacted]

25X1

Qatar: The Elusive North Field Natural Gas Project

25X1

Qatar is likely to soon begin development of its large North Field natural gas reservoir to meet growing domestic demand and to offset declining gas output from currently producing fields. Doha probably will be unable to export significant volumes of gas for many years, however, because of weak foreign demand and prohibitive development costs. Without development for export, North Field gas will not fully replace dwindling oil revenues.

Qatar has considered liquefied natural gas (LNG) exports as a viable option for North Field development.¹ In 1984 the government set up the Qatar Liquefied Gas Company to produce, market, and export LNG from the North Field. A majority share in the company is owned by Qatar General Petroleum Company (QGPC); British Petroleum, CFP, and Japan's Marubeni each own 7.5 percent shares.

25X1

Prospects for Exports

Discovered in 1972, the North Field is the world's largest natural gas reservoir, with reserves estimated at 4,000-11,300 billion cubic meters. The Qatari Government has stressed the need to develop the North Field for domestic consumption, but Doha would prefer to develop the field for export. This would ensure that the country's petroleum resources continue to provide foreign exchange earnings and would stimulate the local economy.

The lack of available markets has been the main stumblingblock for LNG exports. Gas markets in Japan, South Korea, Taiwan, and Western Europe have soured with falling crude oil prices. According to Embassy reporting, Marubeni promised to market 2 million tons of LNG in 1992, 4 million tons in 1994, and 6 million tons in 1996. A Marubeni official told Embassy officials, however, that the company regards its equity participation simply as an investment, in anticipation that the Japanese market for LNG will improve in the 1990s. Doha would like other Japanese trading firms to help market Qatari gas in Japan, but Mitsui, Mitsubishi, and C. Itoh doubt that even Marubeni's pledge is possible.

25X1

The most recent plan to develop the field for export came in late 1985, when the government called for bids on a three-phase development scheme for the North Field, including:

- Developing the field for domestic consumption.
- Supplying a gas grid for the Gulf Cooperation Council countries.
- Exporting gas to East Asia or Western Europe.

[Redacted]

25X1
25X1

The proposed gas grid was to connect Qatar and the United Arab Emirates with chronically gas-short Saudi Arabia and Kuwait. Spur lines to Jordan and Syria have also been considered,

In 1984 Amir Khalifa began considering a Turkish proposal to build a pipeline through Turkey to Western Europe, with Turkey taking a share of the production. The proposed pipeline would follow the Saudi Gulf coastline and traverse Iraq, Turkey, and Greece before passing through an underwater line to gas terminals in southern Italy. Political and economic obstacles had previously stymied plans to enter the European gas market, but, with Turkish support, Doha formed a committee in 1985 to review the feasibility of the project. The Turks, however,

25X1

[Redacted] The grid would allow these countries to meet seasonal demand for gas and electricity without switching to oil to generate electricity. Kuwait began importing gas from Iraq last September, however, and we do not expect either Kuwait or Saudi Arabia to seek significant quantities of Qatari gas in the near future.

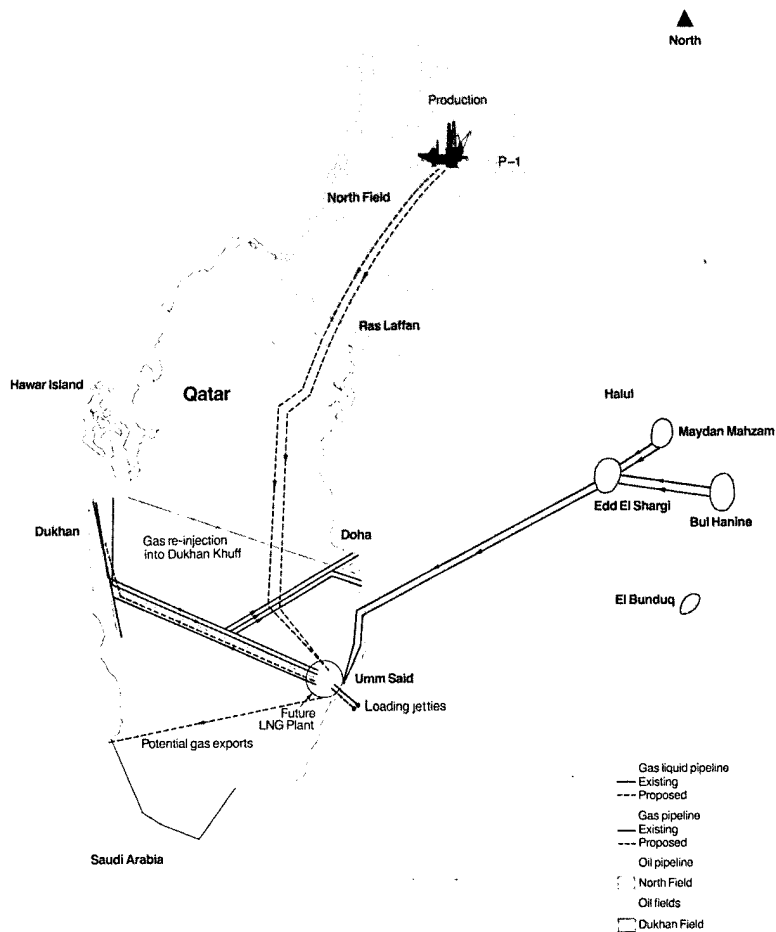
¹ Liquefied natural gas is natural gas that has been liquefied by severe cooling (to -160 degrees Celsius) for shipment and storage in high-pressure cryogenic tanks.

25X1
25X1

25X1
25X1

Secret

Oil and Gas Operations in Qatar and the North Field Project Stage I



Secret

Secret

may have been using the Qatari gas pipeline proposal as leverage in negotiations with Moscow. A gas pipeline that has been under construction since October 1986 will carry enough Soviet gas to Turkey to meet its demand. [redacted]

Although Doha is preoccupied with the political problems of a pipeline that crosses so many borders, it faces additional problems in marketing its gas in Europe, where there is an abundance of North Sea, Algerian, and Soviet supplies. Moreover, the cost of such a pipeline—estimated at about \$12 billion [redacted]—would be prohibitive. Doha probably would have difficulty securing foreign financing for the project because of the gas glut in Western Europe and the political risk of building a pipeline across so many hostile borders. [redacted]

Domestic Development Outlook

Because of the bleak prospects for gas exports, Doha is considering plans for domestic development. The project would produce 6-8 billion cubic meters per year of natural gas, the energy equivalent of about 100,000-130,000 barrels of oil per day. The gas would be brought ashore by pipeline to Ras Laffan and processed at the new Umm Said facility, where the natural gas liquids would be extracted for export and the dry gas would go to local industries.² [redacted]

Qatar has not yet named a management consultant for the project, but it is considering offers by a US firm and a partnership of a US and a French firm. The US firm has offered to produce 6 billion cubic meters per year of gas from the field at its own cost and supply it free of charge to Qatar if Doha agrees to share condensate output with the company. The US-French partnership has reduced the proposed cost from \$1.2 billion to \$950 million, according to Embassy reporting, with QGPC developing the field. The general manager of QGPC told Embassy officials that the consortium has lined up financing for the project, which includes funding from the US Export-Import Bank, several major Japanese trading houses, and local banks. [redacted]

² Natural gas liquids are heavier hydrocarbons such as propane, butane, pentane, and ethane. [redacted]

Marubeni has offered to arrange all financial loans and credits to suppliers for development provided Qatar buys all equipment and machinery from Marubeni, according to press reports. Marubeni also has offered to market the natural gas liquids produced along with the output of gas. [redacted]

25X1
25X1

Doha still faces many problems and delays in the development of the North Field. These include:

- Revenue shortfalls caused by the oil price decline, which limit Doha's ability to initiate large development projects.
- Difficulty in obtaining private financing under acceptable terms.
- Fiscal conservatism that hinders investment.
- Infighting among Qatari Government officials over the allocation of funds and the mode of development. [redacted]

25X1
25X125X1
25X1

Implications for the Qatari Economy

We believe that Qatar will develop the North Field for domestic use but will be unable to export significant quantities of gas for many years. The increased availability of gas for local industry will alleviate the economic recession and ease reliance on dwindling oil reserves. Sales of natural gas liquids will replace some of the revenue lost because of reduced oil exports. Unless Doha develops the field for export, however, Qatar will be unable to fully offset the revenue decline as oil reserves are depleted. [redacted]

25X1

Although Qatar's economy is relatively healthy, it is subject to fluctuations in the world oil market. Moreover, without North Field gas, Qatar would become more reliant on associated gas, making its petrochemical and related industries increasingly vulnerable to oil market conditions. Qatar uses natural gas as fuel for electricity generation and water desalination, and in the production of iron, steel, and cement. It is also used as a feedstock in the production of petrochemicals and chemical fertilizers. [redacted]

25X1

25X1

The drop in the availability of associated gas caused by lower oil production has already hobbled some domestic industries and has led to reduced exports of fertilizer and ethylene. Qatar's petrochemical plant

25X1

25X1

Secret

Secret

has been running at one-half to one-third capacity for the past year because of shortages of associated gas. In 1985 the Qatar Petrochemical Company suffered the worst loss in its five-year history. [redacted]

25X1

When the North Field reaches the production stage—possibly in three years—Qatar will earn additional funds from condensate sales. [redacted]

25X1

[redacted] the production of 8 billion cubic meters per year would yield about 30,000 barrels per day of condensates. This new production combined with current condensate production of 600 barrels per day would supply about \$117 million per year in revenue for the Qataris at current prices, [redacted]

25X1

[redacted] Moreover, condensate production is not subject to OPEC quotas or official prices, which would increase Qatar's marketing flexibility. [redacted]

25X1

25X1

25X1

[redacted]

25X1

Secret

Secret

Omani-Soviet Relations: Life in the Slow Lane

25X1

Omani-Soviet relations will improve slowly in 1987, but Soviet influence is likely to remain limited. Muscat established diplomatic relations with the USSR in 1985 as a means of balancing East and West in its foreign policy, but it has delayed exchanging resident ambassadors or signing significant agreements with the Soviets. Although Moscow has added another conservative Gulf state to its diplomatic list and will push for closer ties, its relationship with Muscat will continue to have more style than substance. [redacted]

Going Nowhere Fast

Muscat's surprise announcement of the establishment of diplomatic relations with Moscow in September 1985 attracted considerable attention in the region, as Oman was only the second Gulf state to make that move. The opening of relations was followed by Oman's acting as host to the sixth Gulf Cooperation Council summit meeting in Muscat and an extravagant celebration of the 15th anniversary of Sultan Qaboos's rise to power in what Muscat called its "Year of Diplomacy." Although it would have been an appropriate occasion for a first Soviet public appearance, according to the US Embassy, a Soviet representative was not invited to the National Day celebrations. Moreover, the Soviet nonresident Ambassador to Oman, Aleksandr Zinchuk, did not present his credentials until May 1986 and had to cut short his courtesy calls because of the Muslim celebration of Ramadan. Zinchuk returned to Oman for the National Day celebrations last November and met several high-ranking Omani officials, including Minister of State for Foreign Affairs Yusuf bin 'Alawi, the primary architect of Omani foreign policy. According to US Embassy reporting, the Ambassador discussed increasing agricultural cooperation with Oman, but no agreement was signed. Ambassador Zinchuk, apparently resigned to the glacial pace of Omani-Soviet relations, told the US Ambassador on leaving Oman that it would be "some time" before there would be a permanent Soviet presence in Muscat. [redacted]

The Diplomats

Khamis bin Hamad bin Sayf al-Battashi
Omani Ambassador to Jordan since 1982, Khamis bin Hamad bin Sayf al-Battashi became nonresident Ambassador to the USSR in May 1986. He is [redacted] an expert on African affairs. Battashi is the brother of the prominent Foreign Ministry Under Secretary Sayf bin Hamad al-Battashi. [redacted]

25X1
25X1

25X1

Aleksandr Zinchuk

Soviet Ambassador to Jordan since March 1985, Aleksandr Zinchuk became nonresident Ambassador to Oman in February 1986. [redacted]

25X1

25X1

[redacted] Zinchuk, who will be 67 this year, is a US specialist and has had three tours in Washington. He also served as Consul General in San Francisco from 1971 to 1979. Zinchuk is Ukrainian. [redacted]

25X1

25X1

Motivations for Relations

The underlying reasons for Oman's decision to establish diplomatic relations with the USSR in 1985 were a decline in the perceived security threat from South Yemen and frustration with the United States following the contentious review of the Omani-US access agreement in May 1985. According to the US Embassy, Oman had refused to establish relations earlier because of Soviet support for the Popular Front for the Liberation of Oman (PFLO), an insurgent group that used bases in South Yemen to stage cross-border raids into Oman and had been an irritant to Muscat for years. Qaboos moved to establish relations after he was convinced that Soviet support for the PFLO had lessened. [redacted]

25X1

25X1

Secret

NESA NESAR 87-002
16 January 1987

Secret

Muscat believes that better relations with the USSR will discourage Aden from renewing support for the Front, although Aden's support has been minimal since Oman and South Yemen established diplomatic relations in October 1982. Support for the Front did not increase following the coup in South Yemen in January 1986, and the threat of a rejuvenated PFLO has declined. Muscat also wants to reduce the threat from South Yemeni military forces along their common border, which were deployed to counter the Omani military buildup against the PFLO. The Omanis probably believe that the Soviets can press Aden not to deploy additional units to the area. [redacted]

Muscat probably also hoped that the announcement of formal Omani-Soviet relations would shock Washington into increasing financial support for Oman. Muscat has experienced decreasing levels of US financial assistance under the Economic Support Fund (ESF) program and probably questions the US commitment to Oman. In 1985, ESF loans and grants to Oman totaled \$20 million and were reduced to \$19.5 million in 1986. Even less—\$15 million—is budgeted for 1987. Muscat probably also believed that Omani-USSR ties would boost Muscat's claim of nonalignment and soften Arab criticism of the recently renewed access agreement with the United States. [redacted]

Moscow has long sought increased influence in the Gulf and probably hopes Omani and UAE recognition will encourage Qatar, Bahrain, and Saudi Arabia to follow suit. Moscow probably also anticipates that formal Soviet-Omani relations will improve its image in the region—tarnished by the Soviet invasion of Afghanistan and Moscow's stance during last year's coup in South Yemen. Better relations might also discourage increased military cooperation between the Gulf states and the West. [redacted]

Although the USSR probably realizes that significant expansion of its influence in Oman is many years away, Moscow's nearer term objective will be to encourage Muscat to adopt a less pro-Western posture. The Soviets will continue to try to exploit perceived policy differences between Washington and Muscat to discredit the United States. Their influence with Muscat, however, will not necessarily increase as a result of weakened Omani-US relations. [redacted]

Striving for Independence

Muscat's decision to establish diplomatic relations with the USSR is in part a reflection of the rise to prominence of a new set of advisers to Qaboos. From the time Sultan Qaboos came to power in 1970 until the early 1980s, Oman was governed by the "Muscat Mafia"—a small group of Omanis and British expatriates intensely loyal to London. Since 1982, a younger, more nationalist group has emerged as the dominant force behind the Sultan, including Yusuf bin 'Alawi and Maj. Gen. Ali Majid al-Maamari, President of the Palace Office. Both favor balanced relations with the Soviet Union and the United States as a way of reducing British influence and enhancing Omanization—replacing expatriate workers with Omanis. The Soviets will have little influence on the pace of Omanization, but Muscat probably believes it sent a signal to the West that alternative suppliers of equipment and advisers are available. [redacted]

The nationalists are worried that too close an association with the United States will jeopardize their efforts to develop closer ties to other Arab states. They want Oman to be more influential in regional and Arab politics. The nationalists probably believe that relations with the USSR will enhance Muscat's claim of nonalignment and help to avoid the charge that it allowed Washington to establish permanent bases in Oman. [redacted]

Prospects

Omani-Soviet relations are likely to improve slowly, with the first agreements probably expanding agricultural trade or extending fishing rights. Oman's financial problems may accelerate economic cooperation as Muscat seeks new customers for its oil and minerals. The likelihood of exchanging resident ambassadors is slim because Muscat probably sees little benefit to be derived from that step. [redacted]

Improving relations between Muscat and Moscow probably will not jeopardize the US-Omani relationship. Muscat wants to exert pressure on the United States in the hope of increasing financial assistance, but it would not cooperate with the USSR at the expense of its relationship with Washington. The United States will continue to have basing rights in Oman until 1990, under the 1980 access agreement. [redacted]

25X1

25X1

25X1
25X1

25X1

25X1

25X1

Secret

Secret

**North Yemen's Military Mishaps:
The "Y" Factor**

25X1

The North Yemeni Air Force and air defense forces have experienced significant accidents with Soviet equipment in the last month. These accidents probably have set back North Yemen's efforts to improve its military defenses against South Yemen and also complicated North Yemen's reliance on the Soviets for military expertise and sophisticated weapons. Moscow, however, may take steps to defuse growing anti-Soviet sentiment in the North Yemeni armed forces.

A Long Month

lost four of its Soviet-built MIG-21 fighter aircraft in accidents in December 1986. A MIG-21 conducting a training mission on 24 December crashed outside Hodeidah, but the pilot escaped injury. Another training mishap involving a MIG-21 occurred in the same area, killing the pilot and the flight instructor. Another MIG-21 crashed at Taiz airfield on 14 December, and one was lost and another damaged in a midair collision near Hodeidah during an air defense exercise. The North Yemenis also lost one of their highly regarded US-trained F-5 pilots who was providing North Yemeni MIG pilots training that the Soviets apparently were unwilling to offer.

North Yemen has lost at least 15 Soviet-built military aircraft since 1984, without losing any of its US-supplied aircraft,

North Yemeni air defense forces deployed to guard the Marib oilfields were recently involved in a disastrous training mishap. reported that on 16 December North Yemeni air defense personnel misfired an SA-2 surface-to-air missile that nearly struck an oil rig operated by US workers from the Hunt Oil Company. North Yemeni air defense personnel were killed in the SA-2 training mishap

North Yemen's Aircraft Losses Since 1984

	Aircraft Type	Number of Pilots Lost
1 April 1984	SU-22	1
3 May 1984	MIG-21	1
14 August 1984	MIG-21	1
13 May 1985	SU-22	1
14 December 1985	MIG-21	1
9 February 1986	MIG-21	1
1 March 1986	MI-8	1
17 April 1986	SU-22	Soviet instructor
3 May 1986	MI-8	1
12 October 1986	SU-22	0
2 November 1986	SU-22	1
1 December 1986	1 MIG-21 lost/ 1 damaged	1 ^a
14 December 1986	MIG-21	1
20 December 1986	MIG-21	2 ^b
24 December 1986	MIG-21	0

25X1

25X1

^a Two planes collided in midair.

^b North Yemeni pilot and instructor.

because they probably were attempting to fire the missile without Soviet assistance,

25X1
25X125X1
25X1
25X1

These incidents probably have further undermined the already poor cooperation between North Yemeni military personnel and their Soviet military instructors. the accidents have reinforced the belief of many North Yemeni Air Force personnel that US equipment and training are superior.

25X11
25X11

25X1

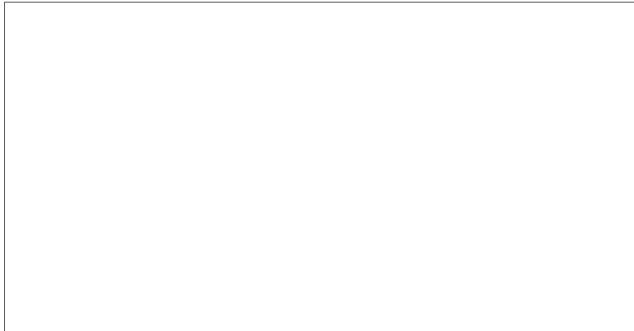
Secret

NESA NESAR 87-002
16 January 1987

Secret

Near Miss at Marib

On 16 December 1986, workers at one of the drill sites in the Hunt Oil concession in Marib reported seeing two extremely-low-flying missiles that exploded in midair just above their work site. The explosions damaged lights on the oil rig where they were working, but no one was hurt. North Yemeni air defense personnel initially claimed to have fired several missiles at intruding South Yemeni fighter aircraft, according to the US Embassy in Sanaa. Subsequent [redacted] however, that North Yemeni air defense units in the Marib area were conducting a training exercise at the time and that one SA-2 surface-to-air missile battery accidentally fired two missiles. Two men were killed by backblast from the launched missiles. The SA-2 crew failed to use proper safety procedures during the exercise, and the battery commander was arrested. Soviet advisers apparently were not at the site when the accident occurred. [redacted]



Salih has received offers of military assistance for his air defense forces from the East Europeans and from friendly Arab states that have Soviet-equipped forces.

[redacted] reports that the East Germans agreed in late November to provide maintenance technicians for North Yemen's Soviet-built aircraft. [redacted]



North Yemen has made overtures to Egypt, Iraq, and Jordan for similar aid, and an Egyptian air defense team arrived in North Yemen in early December, [redacted]

Outlook

Continuing misfortunes with its Soviet equipment probably have eroded the morale and readiness of North Yemen's Air Force and air defense units, while frustrating Salih's efforts to encourage his armed forces to reduce their reliance on Soviet advisers and technicians. The Air Force probably will be forced to reduce the number of aircraft sorties for training and patrol of the South Yemeni border, as Soviet-equipped squadrons are more likely to be idled by stepped-up aircraft inspections. Yemeni pilots also may evidence increased reluctance to fly Soviet aircraft. In addition, Salih may reduce training for his air defense forces—particularly the SA-2 and the SA-3 surface-to-air missile units—until he can obtain reliable foreign training. [redacted]

North Yemen's near total reliance on Soviet military aid probably will continue, but Moscow may encourage the Warsaw Pact countries to provide more maintenance and training support. The Soviets probably have been encouraged by Sanaa's continued failure to secure major military assistance from Western and moderate Arab sources. They may be concerned, however, that the influence of pro-Soviet elements in North Yemen's armed forces is being undermined by the poor safety and performance record attributed to Soviet military advisers in North Yemen by Salih and his supporters. Moscow may encourage and subsidize the presence of technicians and advisers from East European countries such as East Germany, which has a reputation in the Third World of providing effective Soviet equipment maintenance and operational training. The Soviets also probably are eager to discourage further North Yemeni overtures to the West and other Arab countries and to preserve their credibility and influence in Sanaa. [redacted]

25X1

25X1

25X1

225X1

25X1

25X1
25X1

25X1

25X1

25X1

Secret

25X1

Page Denied

25X1

25X1

25X1

Next 5 Page(s) In Document Denied

25X1

25X1

25X1

Secret

**India-Pakistan: Tensions
Over Sikhs** [redacted]

25X1

Charges by India that Pakistan is supporting Sikh terrorists have put an additional strain on bilateral relations already burdened by touchy nuclear and border issues. The Indian allegations of training and shelter provided by Pakistan stem largely from confessions by captured Sikhs. Islamabad has consistently denied New Delhi's charges while publicly insinuating that India provides aid to Pakistani dissidents. We have little evidence to corroborate India's allegations but suspect that Pakistan is providing low-level assistance to Sikhs agitating for independence from India. Even so, we believe that any Pakistani support is relatively small and that New Delhi is playing up the Pakistani angle to deflect public frustration over the Sikh problem.

[redacted]

These confessions give details on the assistance extended by Pakistani officials to Sikh extremists. We are skeptical, however, of these admissions, given the strong possibility that the Sikhs may have been forced to make them under pressure from the Indian authorities. [redacted]

25X1

The Indians also claim to possess videotapes that show Sikh militants being trained by Pakistanis. A source of the US Embassy in New Delhi told US diplomats that Indian officials showed the tapes to Pakistani authorities during bilateral meetings in Lahore, Pakistan, last December. The source said the Pakistanis accepted the authenticity of the tapes and that New Delhi might make the tapes available to US officials. [redacted]

25X1

Indian Charges, Pakistani Denials

India charges Pakistan with sheltering, arming, and training Sikh extremists who seek to create their own Sikh state—Khalistan—that would include the Indian state of Punjab. [redacted]

[redacted]

[redacted] The US Embassy in New Delhi reports that India believes Pakistan provides weapons training and money to Sikhs and encourages them to preach Sikh separatism in Punjab. [redacted]

25X1

25X1

25X1

25X1

25X1

Pakistan regularly denies involvement with the Sikhs, often characterizing the Indian allegations as "baseless propaganda." A Pakistani Foreign Ministry spokesman said last October that the government has made "detailed investigations" along the Indo-Pakistani border and that there was not "one iota" of truth in the Indian charges. He said New Delhi is trying to shift the blame to Islamabad for what is an internal Indian problem. [redacted]

At a minimum, the Pakistanis probably do not try hard to control Sikh dissidents. [redacted]

[redacted]

25X1

25X1

Where Does the Evidence Fall?

India backs up its accusations against Pakistan with "confessions" allegedly obtained from Sikhs who have been captured and interrogated by Indian police.

In our view, other recent activities by Pakistani officials contribute—perhaps unintentionally—to Indian suspicions. According to press reports, President Zia met in June 1986 with a delegation of

25X1

Secret

NESA NESAR 87-002
16 January 1987

Secret

Indian Sikhs who were making a pilgrimage to Sikh shrines in Lahore. Pakistani authorities have also been slow in prosecuting six Sikh activists accused of assaulting an Indian diplomat in Lahore last June, although this is probably due to the glacial pace of Pakistan's judicial system. New Delhi has complained about Islamabad's granting of appeals to 10 Sikhs convicted in 1986 of hijacking Indian airliners to Pakistan in 1981 and 1984. US diplomatic reporting indicates that Indian officials regard these issues as proof of Pakistan's complicity with Sikh terrorists.

[redacted]

Why Would Pakistan Support Sikh Militants?

Although we view the available evidence as inconclusive, the Pakistanis have several possible reasons for aiding and assisting Sikh activists. Islamabad might believe that an Indian government preoccupied with domestic problems would not want to engage in military action against Pakistan. Should the Sikhs succeed in establishing an independent Sikh state in what is now Indian Punjab, Pakistan would have a friendly buffer between itself and India.

Another reason would be to retaliate against what Pakistan alleges to be longstanding Indian support for Pakistani dissident and terrorist groups. Pakistani press accounts charge India with financing and aiding separatists operating in Pakistan's Sind Province.

[redacted]

India's Response

New Delhi's security crackdown in Punjab has focused heavily on the arrest of Sikhs infiltrating from Pakistan. According to press and US Embassy reports, Indian border security forces routinely capture Sikhs attempting to infiltrate Punjab from Pakistan.

[redacted]

[redacted] New Delhi has deployed as many as 19,000 paramilitary troops to Punjab districts bordering Pakistan.

New Delhi is also pursuing a public campaign against Islamabad. The US Embassy in New Delhi reports that Indian officials have been disclosing to the Indian press detailed information from interrogations of captured Sikh extremists, revealing alleged Pakistani aid. Statements by Gandhi and members of his Cabinet name Pakistan as the principal instigator of violence in Punjab. We believe the emphasis on Pakistan's involvement in Punjab will help Gandhi retain political support—especially among Hindus—for his policy in Punjab, and will provide a convenient scapegoat to blame for future extremist activity or the reimposition of New Delhi's direct rule.

In any event, we do not believe Pakistani aid to Sikhs is a major source of instability in Punjab. Sikh alienation after the 1984 Indian Army assault on the Golden Temple and anti-Sikh riots, in our view, have done the most to encourage Sikh extremism. Expatriate Sikh contributions, profits from narcotics trafficking, and thefts of Indian Army stocks provide the bulk of Sikh extremist resources.

Impact on Foreign Relations

The Sikh issue has become an increasing irritant in bilateral relations. After the attempt on his life in October 1986 by a Sikh, Prime Minister Rajiv Gandhi publicly insinuated that Pakistan may have been involved because of Islamabad's alleged support to Sikh extremists. He cited rumors in Pakistan of his death 24 hours before the assassination attempt. Gandhi also brought up the Sikh issue when he criticized Pakistan's handling of the attempted hijacking of a Pan Am airliner in Karachi in September 1986, saying that encouragement of terrorism begets more terrorism.

Meetings in December 1986 between the Pakistani and Indian Interior Secretaries on border problems, including the Sikhs, began a dialogue on the issue. According to a joint statement issued after the discussions, the two delegations discussed ways to establish a mechanism "against allowing the use of

25X1
25X1

25X1
25X1

25X1

25X1

25X1
25X1
25X1

25X1

Secret

Secret

their respective territories for . . . activities directed against internal peace, stability, and territorial integrity of the other state.” The two sides also agreed to form two bilateral committees to further discuss the Sikhs and other border problems, such as smuggling and narcotics. [redacted]

25X1

Prime Minister Gandhi’s public accusations of Pakistani training, support, and sanctuary to Sikh extremists, in our view, have left the United States vulnerable to Indian domestic suspicions—fueled by Soviet disinformation—of US aid to Sikh extremists. According to the US Embassy in New Delhi, senior Indian officials do not give credence to periodic Indian press allegations of US support to Sikh extremists in Pakistan. [redacted]

25X1

Outlook

Pakistan will probably continue its low-level support for Sikh extremists regardless of the recent Indo-Pakistani border talks or US expressions of concern. The large Indian military exercises taking place near the Pakistani border are more likely to reinforce than discourage such a policy. [redacted]

25X1

We believe Pakistan would significantly increase its support to the Sikhs only if hostilities were breaking out with India over other issues, such as Kashmir. In this case, Pakistan would see the Sikhs as a potential fifth column that could carry out terrorist activities in India and interfere with Indian military efforts. [redacted]

25X1

New Delhi would be skeptical of signs that Islamabad had ended its assistance to the Sikhs. Moreover, the Indians would probably still feel compelled to accuse Pakistan of providing support. Such accusations, in our view, help deflect domestic Indian criticism of New Delhi’s handling of Sikh-Hindu tensions in Punjab. [redacted]

25X1

25X1

[redacted]

Secret

Secret