



Directorate of  
Intelligence

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# Near East and South Asia Review



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4 December 1987

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At the conference of the People's Democratic Party of Afghanistan, General Secretary Najibullah concentrated on the party's debilitating disunity and the weakness of the Afghan regime's military forces. He praised the efforts of the Armed Forces but admitted that few units could survive without Soviet support. [Redacted] 25X1

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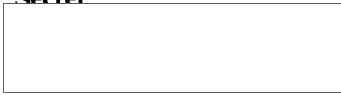
The Pakistani Army is seeking to modernize its tanks and antitank weapons. The Army has not found satisfactory packages to upgrade its aging tanks, has poor quality ammunition, and may not be able to afford the tank it really wants—the US M-1A1. [Redacted] 25X1

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The conflict between business and religious interests in Saudi Arabia is growing more contentious. At the center of the controversy is the religious establishment's opposition to the payment of interest. Some business leaders believe that a more dynamic financial sector and economic expansion rest on the resolution of the interest issue. [Redacted] 25X1

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**Omanization—Still a British Tea Party**



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Oman has made little progress in reducing the role of British expatriates in Oman's military decision making, despite a major military reorganization last spring. Nationalists in Oman's officer corps have criticized the slow pace of Omanization and Qaboos's continued reliance on British officers.



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**Arab States: Bilateral Assistance Supplanting Baghdad Pact Aid**

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The Arab League summit meeting in Amman in November set the stage for Gulf states' bilateral economic assistance to supplant aid payments under the Baghdad Pact when the pact ends in 1988. Gulf leaders will try to tie aid payments to closer recipient cooperation on key issues such as the Iran-Iraq war and the Arab-Israeli conflict.



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**Jordan: Struggling To Enter the Electronic Age**



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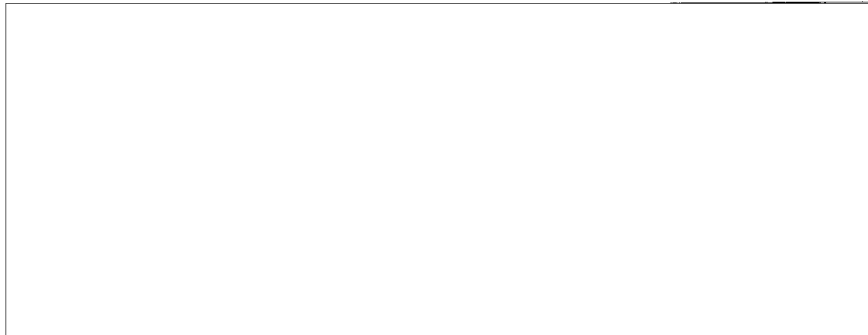


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Rivalry between the Air Force and Army, Jordan's lack of funding for military procurement, and a general lack of technical expertise have prevented Jordan's military from improving its modern electronic warfare capability. Jordan's minimal electronic warfare capability contrasts sharply with its neighbors, Israel, and Syria.



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**Sudan's Anya Nya II Militia: Shifting Allegiance to the Sudanese People's Liberation Army?** [redacted] 37

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The Sudanese Government augments its armed forces with tribal militias to combat the southern insurgents—the Sudanese People's Liberation Army. The armed forces depend heavily on the Anya Nya II militia, but the militia is considering shifting its allegiance from the government to the southern insurgents. [redacted]

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**Mauritania: Aftermath of the Coup Attempt** [redacted] 43

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President Taya narrowly thwarted a violent coup attempt of black military officers of the Toucouleur tribe on 22 October, but his grip on power remains precarious. Taya's ability to continue in office depends on how he handles the underlying racial problems that helped to produce the coup attempt. [redacted]

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**Nepal: Relations With India and China** [redacted] 45

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Although Nepal's closest ties are to India, there are several disputed issues between them. Kathmandu is worried that New Delhi's intervention in Sri Lanka is just the beginning of Indian efforts to assert its authority in the region. As a result, Kathmandu has recently pursued closer relations with Beijing. [redacted]

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**Bangladesh Textile Industry Threatened by Its Own Success** [redacted] 49

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Rapid expansion of Bangladesh's garment exports over the past five years has resulted in the imposition of quotas by the United States—Dhaka's major market. US quotas could be a blessing if they caused a more balanced development of the Bangladesh garment industry through diversification of products and markets and a shift into more sophisticated manufacturing. [redacted]

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**Coming to Grips With the Nonofficial Economy  
in the Middle East and South Asia**

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Focusing economic analysis in the Middle East and South Asia exclusively on the official economy creates a skewed image and can lead to faulty assumptions about the relative economic health of individual countries. Nonofficial economic activity includes subsistence agriculture and handicraft industries and encompasses a large and diverse share of the private sector.

[Redacted]

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*Some articles in the Near East and South Asia Review 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 view of a single analyst; an item like this will be designated as a noncoordinated view.*

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**Near East and South Asia Review** 

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**Articles**

**Conference of the People's Democratic Party of Afghanistan: Rearranging the Titanic's Deck Chairs** 

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The speeches of General Secretary Najibullah at the conference of the People's Democratic Party of Afghanistan (PDPA) in mid-October were marked by an urgent, nearly desperate tone and concentrated on the party's debilitating disunity and the weakness of the Afghan regime's military forces. Building on the removal of the remaining supporters of former General Secretary Babrak Karmal from the PDPA Central Committee before the conference, Najibullah called for an end to factionalism—which he said was slowing the implementation of national reconciliation—and threatened retribution against those obstructing party unity. Najibullah praised the efforts of the Afghan Armed Forces but admitted that few of its units could survive without Soviet support.



In Gorbachevian tones, Najibullah called for the "restructuring" of the PDPA's organizational structure and for the intensification of *glasnost* in publicizing Kabul's policies to bring the party more closely in contact with the people. Underlying this boilerplate, however, were Najibullah's frank and often repeated declarations that the PDPA was prepared to "share power not surrender it," that it would remain the dominant element in any coalition government arrangement, and that it reserved the post of president under the soon-to-be-enacted constitution. Najibullah's performance almost certainly indicates that the PDPA—apparently with Moscow's concurrence—will henceforth define national reconciliation as a situation in which it is the prime repository of political and military power.

**Trying To End Factionalism**

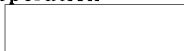
Najibullah's purging of Babrak Karmal's supporters from the PDPA Central Committee paralleled efforts to rid the Afghan regime's ministries of supporters of

the former general secretary. Although he has won a battle by depriving these individuals of party and government posts from which they could obstruct his policies, Najibullah may ultimately lose control of the party by driving his opponents underground where they are less accessible and therefore probably more dangerous. Najibullah has not resorted to imprisoning, exiling, or executing his many opponents, but these steps, in our view, may not be far off.



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Najibullah made efforts to reconcile his Parchami faction and the rival Khalqis, promising that such a melding would maintain the party as "the experienced vanguard of the Afghan people." Bemoaning the failure of the PDPA to heal the factional split that occurred in 1967, Najibullah warned that the current critical political situation inside Afghanistan made it imperative for the factions to reconcile. Failure to do so would be "stabbing our party and friends in the back" and, according to Najibullah, would eventually result in a situation where the party loses "its leading role in society and will be taken out of the political system." Najibullah, according to press reports, forced each conference delegate to pledge to work for party unity and threatened expulsion or worse for those who broke their promise. In a thinly veiled threat to the Khalqis' recent growing power, Najibullah said the party was considering calling its second congress since 1964 to "renew the composition of the PDPA Central Committee and Politburo," implying that the Khalqis would be removed from the party's most powerful organs if their cooperation toward unification was not forthcoming.



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Despite Najibullah's threats, cajolery, and promise of future glories, PDPA factionalism is likely to continue unabated. [redacted] a bomb set off by anti-Najibullah dissidents caused hundreds of casualties near PDPA headquarters in Herat the morning after the conference concluded. Having driven Babrak Karmal's supporters underground and so far only slowed the Khalqis' rising power, Najibullah continues to face a party in which most of the rank and file almost certainly oppose him, his subservience to Moscow, and the Soviet-mandated policy of national reconciliation.<sup>1</sup> Moreover, Khalqi Minister of Interior Gulabzoi has built—with Soviet acquiescence, if not their outright support—a personal power base over the last year that makes him a contender that Najibullah must face [redacted] most of the military, half of the Ministry of State Security, and virtually all of the Ministry of Interior would support Gulabzoi in an effort to seize power from Najibullah. [redacted]

**Drawing the Line on National Reconciliation**

Najibullah's conference speeches made clear that the PDPA would make no further pretence of sharing power with its opponents. Reasserting the PDPA's "duty" to remain the "guiding and organizing force" of Afghan society, Najibullah said he would convoke a "grand assembly" of politicians and ethnic, religious, and tribal elders this fall to ratify the new constitution and to elect the PDPA's General Secretary president of Afghanistan. The assembly opened on 29 November. He said that soon thereafter an election would be held to allow the PDPA to enter into a coalition with four parties that have formed under a recent Kabul regime statute authorizing a multiparty political system. The four parties will represent Islamic clerics, small businessmen, intellectuals, and peasant farmers. [redacted] the parties were formed by Kabul to enable the PDPA to organize a coalition charade. [redacted]

<sup>1</sup> Khalqi Army Chief of Staff General Tanai, a bitter foe of Defense Minister Rafi, was made a candidate member of the Politburo at the conference. [redacted]

In locking the Kabul regime into this soon-to-be-completed schedule of "democratizing" events, Najibullah made clear that he was appealing to the government's opponents "inside" Afghanistan and that he had no interest in making substantive concessions to entice support from the seven-party insurgent alliance or from prominent Afghan exiles. He said that, since no response was forthcoming from the alliance, Kabul would seek to deal with insurgent commanders and "second-ranking commanders living abroad." Likewise, Najibullah said the regime would welcome home former King Zahir Shah and other Afghan expatriates and allow them to set up headquarters in Kabul so long as they "express their principled agreement" with the national reconciliation guidelines laid down by the PDPA. Overall, Najibullah left the unmistakable impression that, once the constitution is ratified and an election held, the domestic side of national reconciliation—at least as far as the PDPA is concerned—will be complete. [redacted]

**Hard Facts Behind Ritual Fawning Over The Soviets**

Najibullah concluded his major conference speech by offering Afghanistan's thanks for the USSR's "great selfless help" and insisting that, "as long as the sun shines, Afghan-Soviet friendship will persist." More important than this unctuousness were Najibullah's pointed reminders to the PDPA rank and file—with its growing nationalistic, anti-Soviet sentiment, according to the US Embassy in Kabul—of the government's near total economic and military dependence on the Soviet Union. Afghanistan's economic well-being depends, Najibullah said, on "expanding and broadening long-term economic cooperation" with the USSR. Afghan military units, Najibullah candidly admitted in a statement that was quoted in the Soviet press, "are not capable enough to, independently and successfully, resist the enemy." [redacted]

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**Outlook**

Najibullah's purging of Babrak Karmal loyalists, demands for factional unity, and lack of interest in supporting "genuine" sharing of power with the insurgents almost certainly indicate that Moscow and Kabul have concluded that national reconciliation is both an irretrievable domestic failure and a threat to the stability of the PDPA regime. Najibullah's string of "democratizing" events will allow Soviet and Afghan diplomats to continue to hawk national reconciliation in the international arena, although probably with limited success in the wake of the UN General Assembly's overwhelming passage on 10 November of Pakistan's annual resolution condemning the Soviet presence in Afghanistan. In the meantime, Najibullah appears prepared to resume the brutality he practiced while heading Kabul's security service by embarking on what promises to be a ruthless—and probably bloody—Soviet-backed effort to force unity on the PDPA's recalcitrant and proliferating factions.

[Redacted]

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**Pakistan: Modernizing Tank and Antitank Capabilities**

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The Pakistani Army is seeking to modernize its tanks and antitank weapons. The Army, however, has not found satisfactory packages to upgrade its aging tanks, has poor quality ammunition, and may not be able to afford the tank it really wants—the US M-1A1. Pakistan has excellent antitank missiles but does not have many launchers for them. We believe Pakistan's tank and antitank capabilities will improve slowly but will be outstripped by Indian improvements in its own tank forces.

**Upgrading Old Tanks**

Having no capability to manufacture modern tanks and unable to afford the hundreds of new tanks needed to replace the Army's 1950s-vintage M48s and T-59s, Islamabad hopes to upgrade these tanks with more powerful guns, modern gunsights, and computers to improve the gunners' accuracy. Although these plans have been in the works for more than three years, the Army seems no closer to implementing them.

The Army's 283 M-48s are the easiest tanks to refit. Most already have 105-mm guns, which, with the right ammunition, are powerful enough to destroy every type of Indian tank but the T-72 in a frontal engagement.

is seeking a package that will improve the M48's fire control system, stabilize its turret for firing on the move, add a fire and explosion suppression system for the crew compartment, install night vision devices, and wrap a thermal sleeve around the gun to control barrel flexing and improve accuracy.

the fire control systems will cost about \$300,000 per tank and Pakistan plans to spend about \$90 million on this part of the M48 upgrading.

Several companies have offered proposals to meet these requirements, but all fell short when tested last summer. The

best showing was that of the tank modified and operated by a team from Cadillac Gage that only failed to hit its targets at night. the tanks and ammunition supplied by the Pakistanis for the tests were poor. The guns would not return to their original settings after firing, and the Pakistani-made rounds were uneven in quality. The Army is delaying a decision on which package to procure. It is planning to hold a second competition this winter. A final decision will be made in early summer of 1988.

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Pakistan's 1,210 Chinese-made T-59s are the backbone of its tank force, but these need much more work than the M48s. Islamabad has told China it wants to refit 800 of these tanks. The Army wants to give them NATO-standard 105-mm guns, reworked hulls and turrets, new suspensions, and electronics similar to those sought for the M48s.

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Islamabad plans to perform these modifications on 200 tanks as soon as possible, with the remainder being refitted over a five-to-eight-year period.

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Firms from the United States, China, France, and the United Kingdom have offered to perform the work. A firing competition was held last August. we believe the US and UK entries performed best. At least one more firing competition is scheduled for next year, and no decision is likely until late 1988.

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the proposed modifications would probably cost between \$500,000 and \$750,000 per tank.

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A US-made M48-45 on parade in Pakistan [redacted]

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The Pakistani T-59 tank is a Chinese copy of the Soviet T-55.  
[redacted]

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***The Tank Imbalance: Pakistan Loses in Quality and Quantity***

*Pakistan has about 1,790 main battle tanks as compared with roughly 3,470 in India's inventory. The Pakistanis have 34 tank regiments, and the Indians have 56. In terms of operational tanks that could be used in a potential conflict, we believe India enjoys a 2 to 1 advantage over Pakistan. Moreover, India has received or assembled about 840 Soviet-designed T-72s—460 of which are the more heavily armored T-72M1s—and plans to acquire several hundred more. India's T-72s are greatly superior to Pakistan's M48s and T-59s in firepower, mobility, and armor protection. In the wars of 1965 and 1971, Pakistan counted on the superiority of its M48s to offset greater numbers of Indian tanks and to provide the margin of success for quick strikes into Kashmir. In our judgment, because Pakistan's M48s are outnumbered and outgunned by India's T-72s, the Pakistani Army will face much greater risks if it concentrates its armor and once again tries to wage a limited offensive campaign.*

The snail's pace of the M48 and T-59 modernization programs may be deliberate, in our judgment. Islamabad probably does not want to upgrade these tanks at all, preferring instead to purchase a new tank—particularly the M-1A1. Pakistan is using the T-59 firing competitions to show that US-made equipment is incompatible with the Chinese-made tank and that Chinese and European systems do not improve the T-59's capabilities.

**Plans for New Tanks**

The Pakistani Army has expressed interest in purchasing or even coproducing the US-made [redacted] and we believe this interest indicates the Army's overriding concern with countering India's superiority in heavy tanks. [redacted] the Pakistanis like the M-1A1 because of its 120-mm

gun. US experts believe this gun could defeat T-72M1s in frontal engagements only if supplied with US-made M829 depleted uranium rounds, but the United States has rejected a Pakistani request for another depleted uranium round—the M833. [redacted]

[redacted] the Army is not concerned by the fact that many of Pakistan's roads and bridges cannot handle such a heavy tank. In our opinion, Pakistan would like to field the M-1A1 in its southern deserts opposite India's concentration of T-72s. The M-1A1 is a relatively expensive tank. Vice Chief of Army Staff General Beg told US military officials in August that Pakistan believed the \$3.9 million per unit price tag was too high. [redacted]

Pakistan is acquiring or seeking more capable tanks to provide for the long-term capabilities of its armored force. According to US Embassy reporting, General Beg recently negotiated a purchase of 95 Chinese T-69IIs that are faster and more powerful than the Army's T-59s but still inferior to India's T-72s. We believe this may be the opening wedge of a larger tank purchase because Beijing is trying to develop foreign markets for its arms industries and the tanks were sold at a low price that suggests they were part of a larger deal. [redacted] sold him 95 tanks at a cost that he expected would get him only 40. [redacted]

Islamabad has proclaimed its desire to manufacture its own main battle tank, which officials call the MBT-2000, but we believe Pakistan cannot design and build a tank like the MBT-2000 before the end of the century. [redacted]

[redacted] In our opinion, these specifications may have been written to reflect the Army's desire for either the M-1A1 or a new Chinese tank rumored to be nearing full-scale production. [redacted]

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**Antitank Weapons Improve**

The Pakistani Army has approximately 3,000 Improved-TOW antitank missiles and at least 1,000 more on order, but it has few launchers for them. The Army has deployed these missiles on 20 AH-1 Cobra helicopters and 24 M901 antitank vehicles and has about 200 other launchers. The I-TOWs are potent enough to consistently destroy T-72s, but, in our judgment, India could greatly diminish the missiles' potency by fitting its tanks with relatively inexpensive reactive armor.

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**Ammunition.** Another obstacle in the path of tank modernization is the poor quality of much of the Army's ammunition. Pakistan manufactures armor-piercing discarding-sabot rounds for its M48s and T-59s, but the quality of the propellant ingredients used in these rounds is uneven. At the M48 upgrade competition last summer, identical tanks fired rounds made in the United States and Pakistan at targets 2,000 meters downrange. The tanks scored hits more than 90 percent of the time when firing US-made rounds but less than 50 percent when firing Pakistani rounds.

Ordnance Factory has had problems with its tungsten press, resulting in faulty penetrators for its discarding-sabot rounds, but the recent installation of a new tungsten press should solve this problem. We believe poor quality ammunition would degrade the performance of whatever fire control systems the Pakistanis select and partly nullify any investment in upgrading the Army's tanks.

Pakistan has received US-made ammunition for its M48s, but, in our judgment, the rounds supplied are too few and lack the hitting power needed to ensure success against India's T-72s. The United States has sold Pakistan 5,000 M735 rounds—about 20 rounds for each Pakistani tank equipped with a 105-mm gun. These are the most powerful and reliable tank rounds in Pakistan's inventory but are incapable of penetrating a T-72's frontal armor. Islamabad has asked the United States to sell it the more powerful M833 depleted uranium round—which probably cannot defeat the T-72M1's frontal armor either—but this request was recently turned down.

The Pakistani Air Force has a small number of Maverick missiles.

deploying them on F-16s. These would be deadly against T-72s because, when launched from aircraft, they would strike the tanks' thinly armored topsides. The biggest problem with the Mavericks, in our opinion, is that most of the Air Force's 38 F-16s would almost certainly be committed to air defense missions in a conflict with India and would often be unavailable for antiarmor attacks.

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Pakistan owns other antitank weapons that, although they would not defeat T-72s, could still destroy other armored vehicles in India's inventory. The Army has about 4,400 older TOW missiles. The Pakistan Ordnance Factory produces 106-mm recoilless rifles, which are old but still useful jeep-mounted antitank weapons.

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**Outlook**

The Army's tank modernization is proceeding at a snail's pace. In our judgment, even if the Army completes its ambitious upgrade programs, its T59s and M48s would still be inferior to India's main battle

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tank, the T-72. Acquisition of US-made M-1A1 tanks would give the Army the ability to confront India's tanks, but the expense of the M-1A1 will prohibit Pakistan from buying enough of these tanks to offset New Delhi's advantage in armor. Pakistan, however, could purchase the new Chinese T-79 tank. In our opinion, these tanks would not be significantly superior to upgraded T-59s.

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The Pakistani Army has good antitank missiles, and we believe Islamabad could strengthen these forces significantly by purchasing additional mobile launchers. The Army's attack helicopters and mobile antitank vehicles could then be used as the forward elements of a defense in depth, with the tanks held in reserve to be used in powerful counterattacks. This strategy, however, carries risks. The antitank forces have to be well trained and disciplined because they would often have to fight under intense enemy fire. In addition, India could, to a large extent, negate Pakistan's investment in antitank missiles by purchasing cheap, readily available reactive armor to apply to the hulls and turrets of its tanks. This development, if undertaken by New Delhi, would tip the current imbalance of tank forces even more dramatically in India's favor.

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### Saudi Arabia: Reconciling Business and Islamic Interests

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The conflict between business and religious interests in Saudi Arabia is growing more contentious. At the center of the controversy is the religious establishment's opposition to the payment of interest and other Western business practices. Islamic tenets governing the role of women, education, and commercial law also are complicating modernization and economic development in Saudi Arabia. Although the influence of the religious establishment is circumscribed by the government, the hand of the religious elite will probably be strengthened by continued austerity and the spread of Islamic fundamentalism.

a growing number of businessmen faced with bankruptcy are turning to religious courts for relief from interest and principal repayments. This turn of events has fueled criticism of Western banking practices and forced the government to establish a banking claims tribunal under the auspices of the Saudi Arabian Monetary Authority to adjudicate overdue accounts with domestic banks.

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#### What Belongs to Caesar and What Belongs to God?

Rapid economic development in Saudi Arabia since 1970 has pitted an increasingly dynamic economy against a conservative religious establishment. Complicating efforts to find a balance between modernization and tradition is the kingdom's commercial law which is based on the *sharia*—Islamic law. The *ulema*—Saudi Arabia's religious leadership—through numerous Islamic scholars, teachers, judges, and preachers exerts authority over the legal system and religious affairs and supervises the kingdom's system of education. Although religious scholars have been most outspoken on domestic financial practices, their influence on business matters spans labor relations, economic theory, property rights, and the distribution of resources.

Religious authorities are unrelenting on the subject of interest. One prominent Islamic scholar equates the payment of interest to "the moral equivalent of adultery," according to the US Embassy in Riyadh. Moreover, most Saudi Islamic scholars advance a much broader interpretation of interest than is common among businessmen. Any form of unearned income is considered "interest" to these scholars and is forbidden under Islamic tenets against usury. The widespread discomfort with interest payments is underscored by the spread of Islamic banking in Saudi Arabia. Islamic banking institutions control about 20 percent of bank assets, and 35 percent of bank depositors in Saudi Arabia voluntarily receive no interest.

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The definition of what constitutes payment of interest is one of the most contentious issue separating the secular and religious communities in Saudi society. Although Saudi businessmen acknowledge the conflict between Western business practices—primarily the payment of interest—and Islamic tenets against usury, many accept simple interest payments as a business cost as long as no exploitation is involved, according to the US Consulate in Jiddah. Many business leaders view the objections of the religious establishment to interest payments as out of touch with the needs of modern society. Nevertheless,

Saudi Arabia's interest crisis contributes to the depth and duration of the current economic slowdown. The controversy over banking practices has caused many depositors to reduce or remove funds from commercial banks. The US Embassy in Riyadh says that concern over the growing incidence of Islamic court decisions in favor of delinquent debtors has caused banks to restrict new loans to only the most financially sound clients. Government efforts to raise interest rates and stimulate more loan activity have been too limited to have much effect. Some business leaders believe that a more dynamic financial sector and, in turn, economic expansion rest on the resolution of the interest issue.

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**Islamic Banking**

*Islamic banking is based on a strategy of joint investment. Islamic banks invest in real estate or projects rather than making interest-bearing loans. Depositors allow their funds to be placed in a range of investments. In return, each depositor receives a share of the profits but no guaranteed rate of return. In this way, there is no risk of engaging in usury. Islamic banks are usually limited to four types of investment:*

- *Trust financing in which the bank supplies all of the capital required, and clients supply the management skills. Profits are shared on a prearranged basis. Capital losses are borne by the bank alone, while clients lose the value of their work.*
- *Participation financing in which the bank provides part of the capital, and the bank and the client share any profit or loss.*
- *Rental financing in which the bank acquires equipment or buildings and leases them to clients. In some cases, clients may purchase the rental property by paying installments into a savings account. The bank reinvests the money, allowing clients to offset rental costs.*
- *Cost-plus trade financing in which the bank purchases raw materials, goods, or equipment and sells them to clients on an agreed cost-plus basis.*

[Redacted]

Less contentious, but perhaps of greater significance to the economy, are religious precepts on the role of women. Although more women are earning college degrees, their role in the work force is circumscribed. Islamic tenets on dress and the separation of the sexes sharply limit the role of women and increase the cost of female employees. In most cases women are relegated to nurturing duties around the home or nursing and teaching positions in female-oriented environments. The exclusion of half the work force is a primary cause of Saudi Arabia's reliance on 4

million expatriate workers who cost over \$5 billion annually in foreign exchange remittances alone. The exclusion of women from the work force also drains brain power from the economy. [Redacted]

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The *ulema's* control over education is an increasingly important means of influencing business practices in Saudi Arabia and the direction of the economy. The education curriculum favors the study of traditional subjects, including Islamic law, theology, and literature. The study of economics, in particular, is highly influenced by Islamic thought on correct business practices. Science and technical disciplines such as mathematics and engineering are not stressed, according to the US Embassy. As a result, Saudi Arabia is not training sufficient numbers of skilled workers to meet the demands of its economy [Redacted]

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**Of Princes and Priests**

The *ulema's* relationship with the monarchy is more symbiotic than equal. The Al Sa'ud govern, while the *ulema* lobbies to exert its influence, according to the US Embassy in Riyadh. Religious leaders do not have a clear veto, even when they believe the regime is violating Islamic principles in areas of state administration or commerce affairs under their authority. In banking matters, for example, the government has chosen to permit the use of Western business practices over the objection of the religious community. At the same time, the Al Sa'ud are minimizing the objections of the *ulema* through compromise and adaptation of such practices to conform more closely with Islamic tradition. [Redacted]

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The Al Sa'ud's influence in religious matters is at least as great as the influence of the *ulema* on the royal family. The monarchy has managed to identify the *ulema* so closely with the regime that the *ulema* regards criticism of the Al Sa'ud as a challenge to Islam. As a result, broad religious legitimacy is bestowed upon the Saudi monarchy. For their part, members of the religious elite receive material support for themselves and for Islam and deference from the rulers on specific religious issues. [Redacted]

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Despite the *ulema's* success in enforcing their beliefs about correct Islamic social order and morals, they have little influence in key economic areas such as trade relations and oil policy. Islamic tradition assigns responsibility for these issues to the ruler. As a group the religious community is cautious and conservative and avoids involvement in political matters. The complexity and pervasive nature of the economy, however, blurs the distinction between political, commercial, and religious matters and raises the prospect of greater conflict over authority in business affairs. [redacted]

**Outlook**

We believe the continuation of economic austerity in Saudi Arabia will strengthen the influence of the religious community in economic matters. Depressed economic conditions provide fertile ground for the growth of Islamic fundamentalism and weaken a primary source of the monarchy's support—a rising standard of living. Religious factions do not pose much of a threat to the government and are unlikely to act independently to oppose their longtime partner. Nevertheless, the religious community's primary importance to the regime stems from its ability to provide an aura of legitimacy to the Al Sa'ud during periods of uncertainty. In periods of economic austerity, religious leaders may be emboldened to

press their views on economic issues with more vigor, and the regime may feel more compelled to acquiesce to their demands. [redacted]

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The role of the religious community in business affairs probably will slow national development and the creation of a modern capital market in the kingdom. Islamic banking has been most effective in providing venture capital and least successful in dealing with short-term commercial financing. Greater reliance on Islamic banking will probably impede cooperation with Western banks and restrict access to foreign financing. Restrictions on domestic capital markets and interest-bearing securities also will hinder the use of monetary policy as a means of regulating the Saudi economy. Religious influence in education and objections to the employment of women will continue to limit the potential and the productivity of the domestic work force and frustrate efforts to trim Saudi Arabia's reliance on foreign expertise. [redacted]

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**Omanization—Still a British Tea Party** [redacted]

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Oman has made little progress in reducing the role of British expatriates in Oman's military decision making, despite a major military reorganization last spring. Although many Omanis have been promoted to senior command positions, particularly in the army, British military expatriates continue to wield decisive behind-the-scenes power—primarily because they retain the confidence of Sultan Qaboos. Nationalists in Oman's native officer corps have criticized the slow pace of Omanization and Qaboos's continued reliance on British officers. The recent South Yemeni border clash has highlighted tensions between Omani and expatriate military personnel and exposed shortcomings in the highly Omanized army. Qaboos probably will continue to rely on British military expertise, but military budget cuts will reduce significantly the size of the expatriate military contingent in Oman and reduce the fighting effectiveness of the Omani military. [redacted]

the Defense Ministry but outside the Omani chain of command.<sup>1</sup> Although the British staff nominally is subordinate to the Minister of State for Defense, they retain direct access to Sultan Qaboos and could effectively dictate Omani defense policy without consulting the Omani chain of command. The British staff also could override decisions made by the Omani military bureaucracy. For example, [redacted] Freddie Lockwood retains control of military resource management as an adviser to the Defense Ministry, even though that portfolio supposedly is controlled by the Omani Chief of Administration and Logistics. [redacted]

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**The Great Reshuffle**

A sweeping reorganization of Oman's Ministry of Defense last April was designed to reduce the influence of British expatriates. The reorganization, ordered by Sultan Qaboos, [redacted] formally disbanded the Defense Staff—a group of [redacted]

The appointment of Brigadier General Busaidi, a relatively weak figure, as Minister of State for Defense—the top military post in Oman—probably has undercut the credibility of the Sultan's efforts to Omanize the Defense Ministry. Busaidi's appointment apparently disappointed many proponents of Omanization, who had expected a more influential Omani to be named. The US Embassy in Muscat reports that Busaidi lacks a power base. [redacted]

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[redacted] Two subordinate offices were established to handle key responsibilities relinquished by the defense staff—the Chief of Staff of the Armed Forces to control Oman's military services and the Chief of Administration and Logistics to control military resources. [redacted]

[redacted] For the last [redacted]

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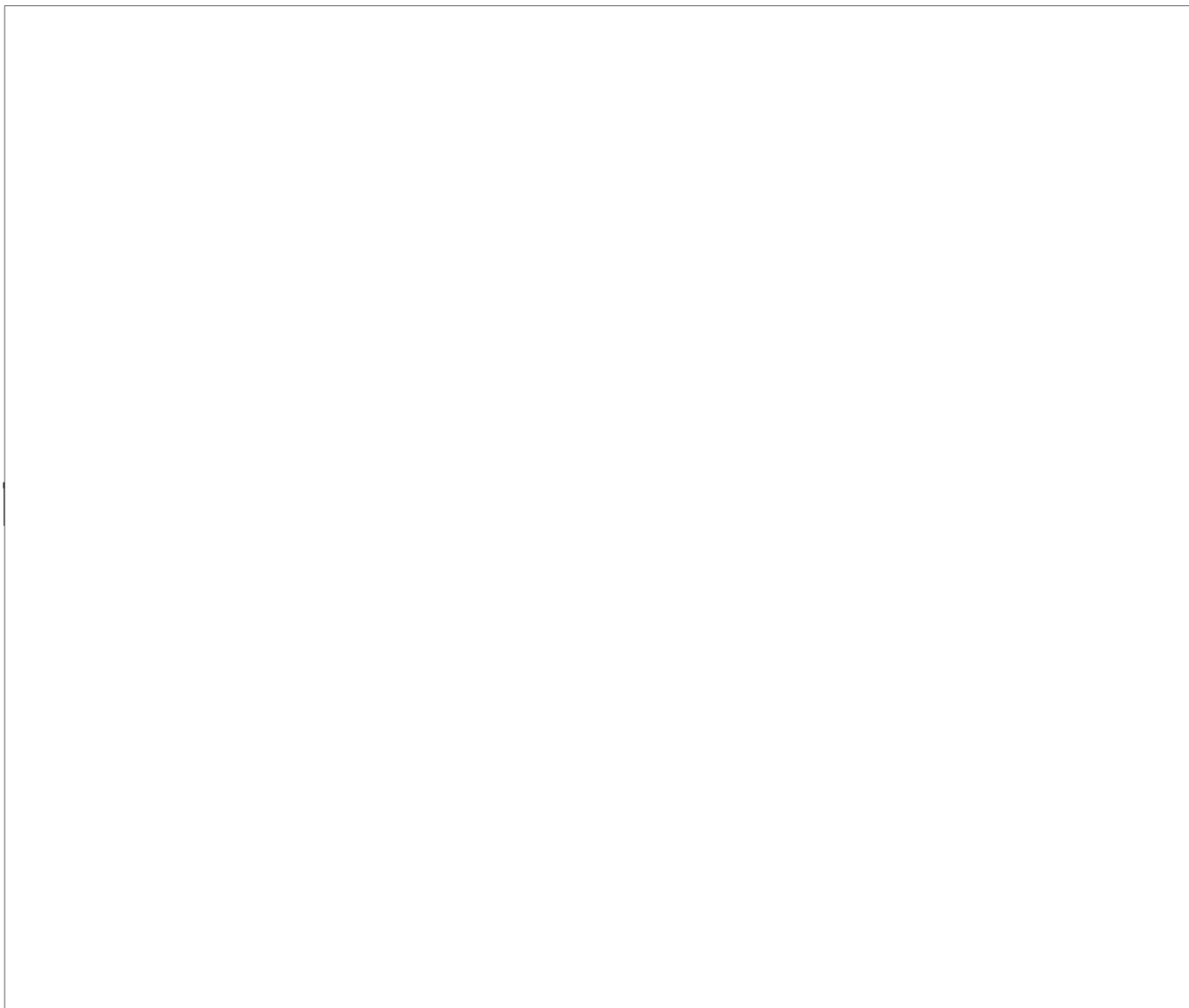
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In fact, the reorganization did not reduce the British role in military decision making, but it allowed them to exert influence more discreetly. [redacted]

[redacted] senior British advisers in the Defense Staff were reconstituted as a special staff in [redacted]

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several years he had been serving in an obscure Defense Ministry post. The US Embassy in Muscat recently questioned Busaidi's ability to overrule Qaboos's British advisers, despite his Anglophobic rhetoric. [redacted]

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**Nationalists Remain Skeptical**

The military reorganization has been viewed skeptically by nationalists in the Omani military, who suspect that Qaboos's British advisers will remain firmly entrenched in Oman's military establishment.

[redacted] believe—with some justification—that senior British expatriates exploited

the military reorganization to strengthen their influence under the guise of promoting Omanization.

[redacted] many Omani officers who were promoted during the recent reorganization have found themselves ranked beneath British advisers. [redacted]

[redacted]

[redacted] Omani naval officers recently began circulating a three-year-old document attributed to the British commander of the Omani

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**Expatriates in the Omani Military**

Although Omanis hold the command positions in the Land Forces and make up more than 80 percent of the Land Forces' officer corps—up from 60 percent two years ago—British expatriates hold key advisory and staff positions. [redacted]

[redacted] British military personnel hold 10 of 35 senior staff billets in the army, including training, logistics, and engineering. There are 200 British contract or loan service commissioned and noncommissioned officers in the Land Forces, [redacted] serving as advisers to Omani commanders at the regimental level and in several cases commanding Omani infantry battalions and companies. [redacted]

[redacted] British pilots would probably be expected to fly combat missions. Although Omanis command 85 percent of the combat ships in the Navy, the proportion of Omani naval officers has decreased over the last year from 42 percent to 38 percent of the 240-man officer corps. [redacted]

Navy urging British advisers to obstruct the pace of Omanization. [redacted]

Proponents of Omanization also have questioned the credentials of senior Omani military leaders appointed under the reorganization. [redacted]

[redacted] that the new military leadership—including Armed Forces Chief of Staff Gen. Hamid al-Aufi and Land Forces Commander Maj. Gen. Khamis al-Kilbani—are considered by many Omanis to be British lackeys. According to this view, Kilbani's predecessor, Maj. Gen. Nasib al-Rawahi, was dismissed because he refused to toe the British line. [redacted]

[redacted] Air Commodore Miran al-Raisi, the favored candidate to command the Omani Air Force when Air Vice Marshal Erik Bennet retires,

lacks the dynamism and professional respect accorded his predecessor, Air Commodore Mubarak, who was killed in an air crash last June—one month after his appointment. Anti-British sentiment in the Air Force was fueled among Omani officers by popular—although unfounded—rumors that Bennet engineered Mubarak's untimely air accident. Distrust of the new Omani military leadership has intensified because many—such as Kilbani—are African-born Omanis (Zanzibaris) whom native Omanis claim receive more favorable treatment from British military expatriates. [redacted]

Criticism of military Omanization also has been directed against Qaboos and his Palace Office [redacted]

The recent border clash with South Yemen has highlighted tensions between Omani and expatriate military officers and exposed shortcomings in the highly Omanized army. [redacted]

[redacted] after-action assessments of the fighting also criticized the lackluster performance of the Omanis, citing crippling Omani reliance on expatriate British officers and Baluch troops. [redacted]

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[Redacted]

**Outlook**

The departure of expatriate military personnel because of budget cuts is likely to adversely affect the combat effectiveness of Omani military forces. Oman's army will miss the command experience of departing expatriate officers. The departure of expatriate maintenance and support personnel also will degrade the operational readiness of Oman's military equipment. Muscat would be hard pressed to compensate for the loss of British military expertise by hiring less expensive Third World advisers.

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**Fewer British But Still Influential**

Despite growing criticism, Sultan Qaboos probably will continue to rely on British military expertise for the foreseeable future. The US Embassy in Muscat reports that Qaboos recently told the British he intends to keep a British officer as his senior military adviser.

[Redacted]

Tensions between Omani and British military personnel are likely to intensify, and Omani nationalists may be more critical of the Sultan's failure to further promote Omanization. British expatriates probably will resist attempts by newly appointed Omani military commanders to assert their authority, especially in the Land Forces, where the expatriate personnel turnover will be highest in the next year. Oman's native officer corps is likely to become more strident in its demand for a substantive role in military decision making. Qaboos may try to promote more Omanis to prominent military posts to placate the nationalists, but he risks growing criticism as long as he relies heavily on the counsel of British military expatriates.

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Nevertheless, budget cuts are likely to reduce the size of the expatriate military contingent in Oman, particularly in the Omani army. The Land Forces probably will be targeted because it has the most billets filled by expatriates.

[Redacted] billets filled by expatriates will be eliminated by next year. [Redacted] military salaries will be frozen until 1991 when the current Omani five-year plan ends. The pay freeze, coupled with the devaluation of Oman's currency in 1985, has effectively cut military salaries by 30 percent. Several British expatriates in the Air Force are planning to leave Oman in search of better paying jobs, [Redacted]

[Redacted]

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**Arab States: Bilateral Assistance  
Supplanting Baghdad Pact  
Aid** [redacted]

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The Arab League summit meeting in Amman on 8-11 November appears to have set the stage for bilateral economic assistance from the Gulf states to supplant aid payments under the Baghdad Pact when the pact expires at the end of 1988. Although Gulf Arab leaders may have avoided making specific commitments, Syria probably will see its aid increase if Damascus's efforts to pursue reconciliation with Iraq meet donors' expectations. Economic assistance to Jordan and the Palestine Liberation Organization (PLO) probably will remain at about current levels. Gulf leaders almost certainly will try to tie aid payments to closer recipient cooperation on key issues such as the Iran-Iraq war and the Arab-Israeli conflict. Nevertheless, Saudi Arabia and the smaller Gulf states are likely to continue funding Syria, Jordan, and the PLO because of strong interest in keeping them internally stable, preventing closer ties to either the Soviet Union or more radical benefactors, and avoiding a terrorist backlash. [redacted]

**The Baghdad Pact Issue**

Syria, Jordan, and the PLO hoped to gain a formal renewal of Baghdad Pact aid obligations at November's extraordinary Arab League summit meeting, but the Gulf Arab states—the principal financial backers of the confrontation states over the past 10 years—appear to have resisted their entreaties. [redacted]

[redacted] Saudi Arabia and the other Gulf Arab donors appear to have prepared Baghdad Pact aid recipients for a phasing out of the regularly scheduled aid payments in favor of ad hoc bilateral assistance. [redacted]

Crown Prince Abdallah of Saudi Arabia told the US Ambassador in Riyadh after the gathering in Amman that the Baghdad Pact payments would not be renewed and that Saudi Arabia would consider bilateral aid requests. Abdallah argued that the sharp drop in Saudi oil production—from an average high of about 10 million barrels per day in 1981 to

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**Baghdad Pact Subventions**

*The Baghdad Pact subventions, agreed to by Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Iraq, Algeria, and Libya at an Arab League summit meeting in November 1978, were designed to strengthen—economically and militarily—the confrontation states still at war with Israel and to discourage other Arab states from joining Egypt in recognizing Israel. Annual payments of \$3.5 billion, payable in three equal installments, were to continue for 10 years.* [redacted]

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*Only during the early years of the agreement—before the Iran-Iraq war and when oil prices were still strong—did donor countries come close to fulfilling their commitments. Arab donors, faced with reduced oil revenues, chose to slash aid disbursements rather than impose domestic spending cuts. We estimate Saudi Arabia will account for 85 percent of the Baghdad aid payments in 1987.* [redacted]

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approximately 4 million barrels per day in 1987—necessitated a cutback in Saudi aid. He said he told the Syrians and Jordanians that they should ask for what they needed, and the Arab Gulf states would provide whatever assistance they could. Abdallah told the US Ambassador that he made no firm aid commitments to the Syrians during the meeting. [redacted]

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**Syria's Pivotal Role**

Abdallah and the other Gulf state representatives may have been more generous at the summit meeting than the Crown Prince hinted to the Ambassador as a way to gain Syrian cooperation on the principal agenda item—the Iran-Iraq war. Abdallah, a strong

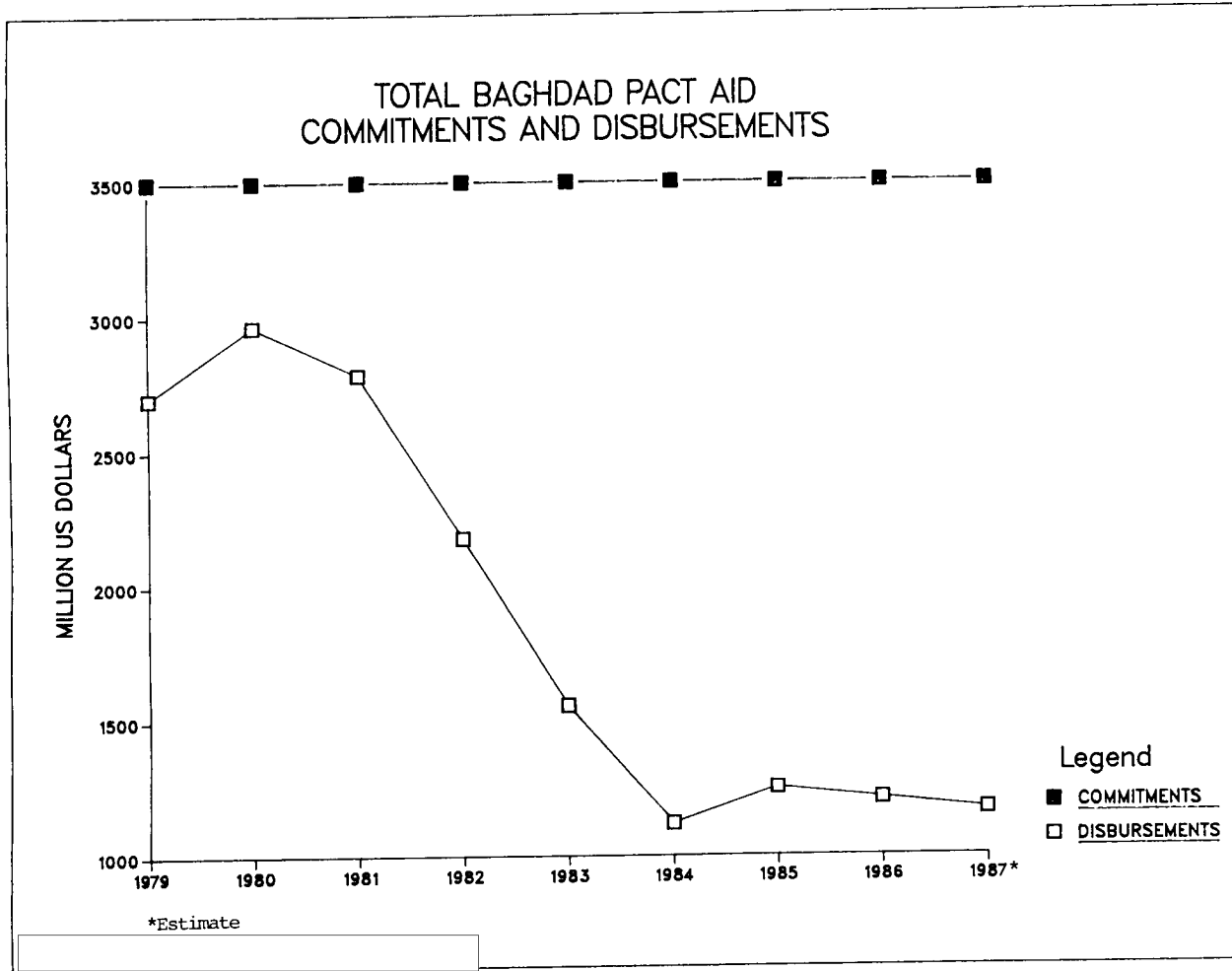
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proponent of Arab unity, may have discounted the role of money during his talk with the US Ambassador as a way of portraying Syria's apparent support for moderate Arab objectives as genuine and not motivated by financial incentives.

[redacted] at least one press account, they agreed to provide Syria with as much as \$2 billion over the next several years in exchange for Syrian agreement to pursue reconciliation with Iraq and help seek a negotiated end to the war.

[redacted] the \$2 billion will be paid in monthly installments of \$75-100 million—in addition to 1988 Baghdad Pact aid payments.

[redacted] Syrian willingness during the meeting to reverse its position on UN Security Council Resolution 598, which could lead to sanctions against Iran for failing

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to agree to a cease-fire, suggests that President Assad received assurances from Gulf leaders about financial assistance. [redacted] the dire state of the Syrian economy, despite increased domestic oil output in the past year, was the principal factor influencing Assad's more moderate attitude on several issues. Damascus depends heavily on the Gulf Arabs to finance basic civilian imports and help bolster the Syrian pound, and Assad almost certainly calculated that a tactical shift on the Iran-Iraq war provided the surest way to maintain aid flows.

[redacted]

#### Jordan and the PLO

Jordan and the PLO had fewer bargaining chips to use at the summit meeting to gain financial assistance. Nevertheless, King Hussein's success in convening the extraordinary summit meeting and in gaining Syrian cooperation on League resolutions critical of Iran almost certainly will be rewarded by Gulf Arab leaders. Hussein probably is confident that the current Gulf Arab subventions to Amman—about \$450 million annually—will continue after the Baghdad Pact expires. Assistance at current levels will not do much to ease Jordan's economic pinch, and Jordan probably will be forced to appeal to Western donors and increase its reliance on high-cost commercial lending. [redacted]

The PLO, on the other hand, appeared to be a major loser at the summit meeting. According to US Embassy reporting, PLO leader Arafat was cut out of important behind-the-scenes discussions on Baghdad Pact aid issues, and the Palestinian issue was given low priority during the four-day gathering. Unlike the Jordanian monarch, Arafat probably left the Amman meeting deeply concerned about future Gulf Arab subventions to the PLO. [redacted]

The PLO has relied heavily on Baghdad Pact aid payments. Gulf Arab financial assistance accounted for 63 percent of the Palestine National Fund 1985-86 budget revenue. Even if bilateral aid payments approached current levels, they would not

meet annual expenditures, and the Palestine National Fund probably would have to draw upon its reserves. These reserves probably are sufficient to cover important needs in the near term, but Arafat's mainstream PLO may soon be forced to seek additional aid from other sources, such as Libya or the Soviet Union. A cut in Gulf Arab aid might hasten this shift. [redacted]

#### Prospects

Saudi Arabia, Kuwait, and the United Arab Emirates will probably be the only Gulf states willing or able to make significant aid payments to Syria, Jordan, and the PLO over the next several years. Gulf leaders probably have not decided on the size or timing of aid payments, and they will try to dole out aid bilaterally rather than make large, collective lump-sum payments. Sharp fluctuations in Gulf Arab oil revenues could dramatically affect aid levels. An escalation of the Iran-Iraq war that reduced Gulf Arab oil exports probably would cause aid levels to fall. Saudi Arabia probably will give financial assistance to the confrontation states preference over other foreign aid programs. Kuwait might provide oil rather than cash—as it has done in the past—which the recipients could use domestically or sell for foreign exchange. [redacted]

Gulf regimes, particularly Saudi Arabia, will probably continue financial assistance mainly to help keep all three recipients politically stable, to maintain a modicum of influence over the regional policies and actions of Arab confrontation states, and to prevent possible adverse reactions—including terrorism—by Syria or the PLO. Moreover, moderate Arab rulers see their financial assistance helping prevent greater Syrian or PLO dependence on the Soviet Union or more radical benefactors—such as Libya or Iran.

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## Jordan: Struggling To Enter the Electronic Age [redacted]

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Jordan's armed forces are attempting to remedy their lack of modern electronic warfare (EW) capability, which is particularly striking when compared with the modern EW equipment and know-how of neighboring countries. Despite the immediate operational need for modern equipment, Jordanian military officials have made little progress in redressing the situation. Interservice rivalry between the Air Force and Army, Jordan's pervasive lack of funding for military procurement, and a general lack of technical expertise have combined to prevent Jordan's military from making significant gains toward resolving one of its most serious weaknesses. [redacted]

equipment, and the Air Force simultaneously discussed airborne EW requirements with British and French firms. Each individual service requirement far surpassed the total funding available because most of the British loan was budgeted for other programs. [redacted]

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### Starting at Zero

Recent intervention by King Hussein apparently has solved some planning problems and has prompted a more coordinated effort by the services to settle their disputes over equipment priorities. As a result, Jordanian military officials have decided upon an organization for electronic warfare and are negotiating with the British to acquire EW equipment. [redacted]

The Jordanian armed forces have only a rudimentary EW capability. Most Air Force planes have no EW capability. They lack radar warning receivers, electronic countermeasures pods, and chaff and flare dispensing systems. As a result, Jordanian aircraft conduct no offensive EW operations such as jamming or deception, nor can they prevent other states from disrupting Jordanian maneuvers. This disparity in EW capabilities worsens Jordan's considerable numerical disadvantage and increases Jordanian inability to compete in air combat with its neighbors. [redacted]

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### Background

Jordanian armed forces commander Field Marshal Bin Shaker directed the military in late 1985 to establish an electronic warfare directorate. [redacted]

[redacted] Personnel were selected to serve in the directorate, and plans were drawn up to procure necessary equipment. Jordan subsequently discussed offers with US, French, and British firms—offers that encompassed the spectrum of EW equipment from sophisticated airborne collectors to tactical jammers and fixed strategic collection sites. [redacted]

The Jordanian Army has neither an electronic jamming capability nor an effective system for protecting its tactical communications from enemy jamming. Most Jordanian Army communications are nonsecure and thus not resistant to enemy interference. The Jordanian Army has a basic signals intercept capability, but Jordanian ground units receive no systematic training in electronic warfare and no orientation on the EW threat posed by other states. [redacted]

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Funding limitations, however, quickly dashed Jordan's grandiose plans. The Jordanians intended to use a two-year-old British loan offer of 300 million pounds to purchase equipment—but the Army and Air Force each assumed that the whole amount was earmarked for them. The Army conducted negotiations with US contractors for ground EW

Jordan's lack of experience with electronic warfare on the modern battlefield has resulted in a general ignorance of requirements and capabilities of advanced equipment among even high-level Jordanian officers. [redacted] although high-level Jordanian military personnel recognize the need for a basic EW capability, they have a superficial understanding of electronic warfare.

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**Jordanian Vulnerability to Israeli Deception Tactics**

Israeli aircraft recently began interfering with Jordanian ground controllers, [redacted] [redacted] added incentive to modernize their EW capabilities [redacted] air planes regularly copy Jordanian Identification Friend or Foe communications along the border. When Jordanian aircraft—both military and civilian—are requested to identify themselves on a predetermined frequency, Israeli pilots respond using the same frequency and code, resulting in two aircraft instead of one appearing on the Jordanian controller's screen. The Israelis apparently respond to Jordanian communications both from within their own airspace and also by darting into Jordanian airspace over the Dead Sea, coming as close as 25 kilometers to the aircraft whose call sign they are mimicking. [redacted]

The Jordanians have no technical means to defend against the Israeli harrassment—a weakness the Israelis recognize and exploit. Moreover, these incidents remind the Jordanian leadership of the overwhelming superiority of the Israeli air force and underscore Israel's command of the skies—even over Jordanian territory. The Israeli interference also underscores flaws in Jordanian command and control that will not be corrected by purchasing more advanced EW equipment. Jordanian command and control and early warning facilities cannot consistently locate or identify low flying hostile aircraft. Unless this fundamental weakness is resolved, the acquisition of modern EW gear will do little to improve the survivability of the Jordanian Air Force in combat. [redacted]

Moreover, [redacted] enlisted personnel, and probably junior officers, have little or no idea what electronic warfare is or why Jordan needs it. [redacted]

**Competing With Israel and Syria**

Jordan's minimal electronic warfare capability contrasts starkly with its neighbors. Both Israel and

Syria—but particularly Israel—have long recognized the importance of electronic warfare on the battlefield and have developed comprehensive and capable inventories of electronic weaponry. Any near-term progress Jordan makes in the electronic arena will be overshadowed by consistent and continuing growth in Israeli and Syrian capabilities. [redacted]

**Israel.** Israel clearly is the region's master of electronic warfare. The expert use of electronics—both support measures and countermeasures—is a trademark of the Israel Defense Force and one of its greatest strengths. Unlike their Arab neighbors, Israelis at a young age are exposed to electronics in school, and computer familiarization is integral to military training for all recruits. By the time Israeli youth serve in field units, they are intimately familiar with high-technology systems and have little trouble operating and understanding sophisticated EW equipment and strategy. Moreover, electronic warfare has been a central aspect of Israeli doctrine for decades. Israeli commanders understand its uses and maximize its benefits. [redacted]

The Israeli military is equipped with the most modern US gear, supplemented by domestically produced systems specifically tailored to the military's needs. This domestic capability is unmatched in the Arab world and contributes substantially to Israel's unquestioned superiority in the use of electronic warfare. The Israelis believe self-defense mechanisms are vital to succeeding in combat and build a wide variety of chaff and flare dispensers considered equal to those manufactured in the United States. Electronic countermeasures systems—including chaff and flare dispensers, radar warning receivers, and jammers—are standard on Israeli fighter aircraft. Even Israeli transport and ground attack aircraft are equipped with systems far more effective than those on Jordan's aging frontline fighters. [redacted]

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ground forces, [redacted]

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**Syria.** Electronic warfare is playing an increasingly important role in Syrian military development—probably a result of experience in combat with the Israelis. The Lebanon war in 1982 provided a particularly painful lesson to the Syrians. During the fighting, Syria’s air defense command and control network collapsed because of Israeli jamming. Israeli electronic deception techniques also proved disastrous to Syrian surface-to-air missile batteries. Since then the Syrians have received large quantities of new and sophisticated EW equipment from the Soviets and West Europeans. [redacted]

The Syrians are no match in electronic warfare for the Israelis, but they are far superior to the Jordanians. Syrian jammers could devastate Jordanian ground controllers in a future conflict, and attacking Syrian fighters probably would overwhelm Jordan’s command and control network. Even during peacetime, Syrian intercept equipment can monitor Jordanian nonsecure communications along the border and at the same time easily mask Syrian actions. During combat the Jordanians would be unable to disrupt Syrian communications, while their own would be vulnerable to Syrian interception and disruption. [redacted]

**Requirements Identified**

After several years of discussion, the Jordanian military has pinpointed specific requirements for EW equipment. The Jordanians appear to be moving from highly sophisticated and expensive airborne platforms to procuring ground-based systems. Nevertheless, even these reduced requirements surpass available funding, making further cuts in procurement plans likely. [redacted]

**Army Plans.** After lengthy discussions with British experts, the Jordanian Army has determined the future organization of electronic warfare in the

**Air Force Plans.** The Air Force has abandoned its requests for specialized aircraft for interception and jamming—which are expensive, difficult to maintain, and would be vulnerable to enemy interdiction. The Air Force seems to be concentrating on upgrading its existing fighter force with self-defense systems such as chaff and flare dispensers and countermeasures pods for protection against surface-to-air and antiaircraft artillery systems. Similar electronic equipment is a top Jordanian priority in current negotiations for a modern fighter with the French, British, and Soviets. [redacted]

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The Air Force is negotiating with French and British firms to upgrade the electronics suites on its aging US F-5E and French F-1 fighters to include radar warning receivers, active electronic radar jammers, and other EW support and countermeasures systems. The Jordanians also hope to equip their AH-1 cobra gunships with US-produced radar jammers, but many of the systems the Jordanians desire are not releasable to them. [redacted]

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**Deliveries Still Down the Road**

Chronic funding shortages will force the Army and Air Force to refine and reduce their ambitious plans. [redacted]

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The Jordanians face an uphill battle in modernizing their EW capabilities. Modern gear is complex, requires careful and regular maintenance to work properly, and must be integrated into the existing military structure to be effective. Jordan's poor track record in maintaining its relatively uncomplicated conventional arsenal and its lack of understanding of electronic warfare indicate that the Jordanian military will depend heavily on foreign sources to support new EW equipment. To keep the price of purchases to a minimum, the Jordanians have concentrated solely on procuring equipment, not on training personnel or on acquiring associated maintenance contracts. [redacted]

**Outlook**

Given Jordan's backwardness in dealing with electronic warfare, the military's purchase of complicated equipment without a comprehensive

[redacted] maintenance and training package will not improve Jordanian military capabilities [redacted]

[redacted] the Jordanians are eager to get into the electronic warfare game and may accept the least expensive proposal that maximizes theoretical capabilities without providing vital follow-on support. In this case the Jordanians will be unable to apply the technology to its best advantage. New, overly sophisticated equipment will detract from, rather than improve, Jordan's operational capabilities.

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**Sudan's Anya Nya II Militia:  
Shifting Allegiance to the  
Sudanese People's  
Liberation Army?** [redacted]

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The Sudanese Government augments its armed forces with tribal militias to combat the southern insurgents—the Sudanese People's Liberation Army (SPLA). The Anya Nya II, which operates primarily in Upper Nile Province, is probably the militia most heavily depended upon by the armed forces, particularly during the rainy season from April to November. Large-unit military operations generally are restricted by summer rains, and the armed forces consequently depend on the Anya Nya II to maintain the offensive by operating in the bush against the SPLA, [redacted]

**The Militia**

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[redacted] Anya Nya II is considering shifting its allegiance from the government to the SPLA. The Sudanese military believes there has been serious deterioration in the commitment of some Anya Nya II leaders to remain loyal to the armed forces, [redacted]

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These units are used by the Sudanese military to reinforce its operations against the SPLA. Army headquarters, for example, periodically encourages the Anya Nya II to send units into Ethiopia to attack SPLA camps. [redacted]

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The defection of the Anya Nya II to the insurgents, in our estimation, would significantly erode the armed forces' limited capability to fight the SPLA and would increase the insurgency's ability to operate in Upper Nile Province. As a consequence, security in the province would further deteriorate, with military casualties mounting from both SPLA and Anya Nya II attacks. Defection by the Anya Nya II would be a significant psychological setback to the government, which probably views its policy of arming tribal militias as an effective means of combating the southern insurgents. [redacted]

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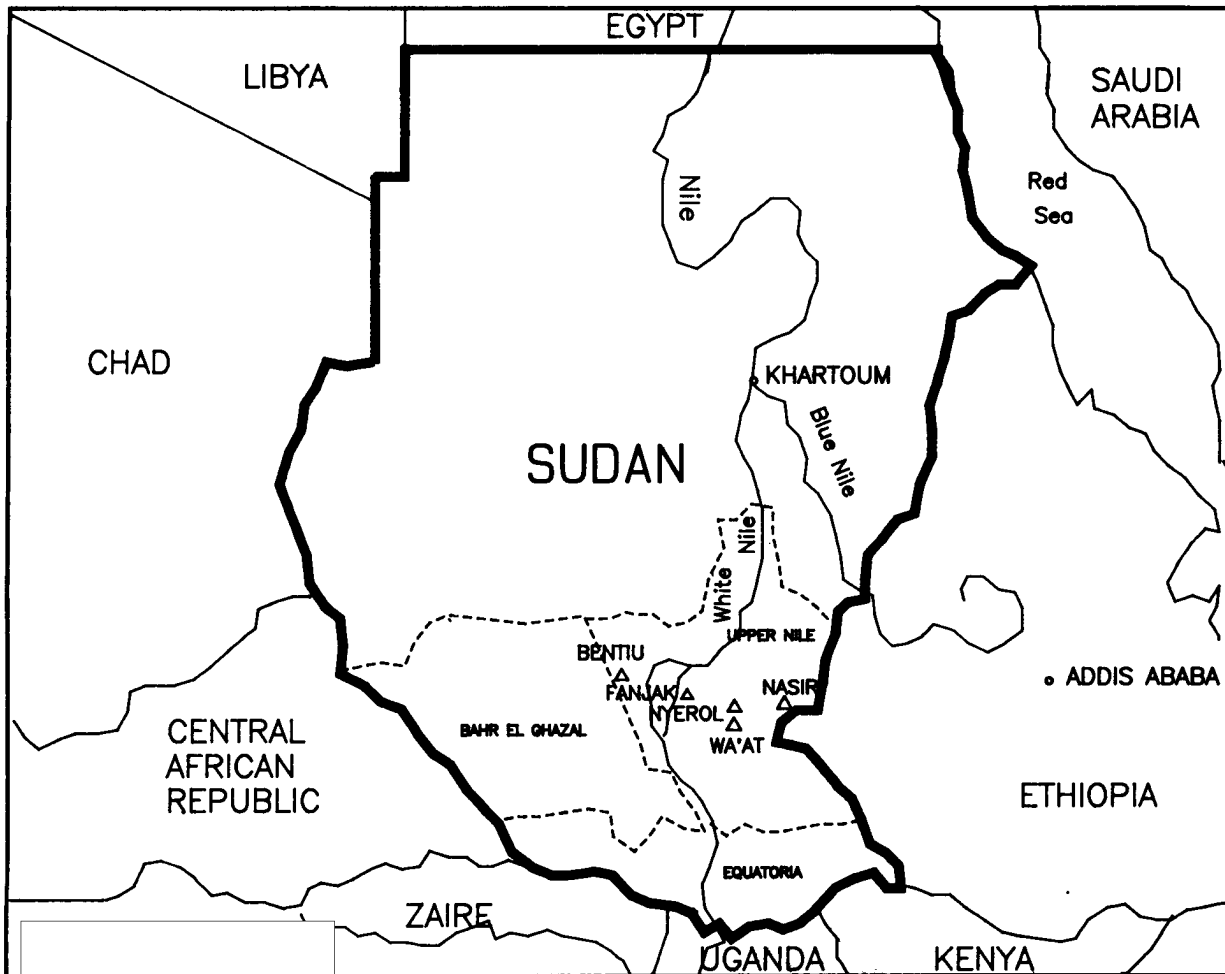
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## Major Anya Nya II Battle Groups



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[redacted] Khartoum can deny involvement in the attacks, and Anya Nya II officials can assert that the militia entered Ethiopia only to protect fellow Nuer tribesmen living in the area. [redacted]

leadership conflicts, poor training, and equipment shortages. The Anya Nya II is also poorly organized politically, [redacted] Anya Nya II has a political office in Khartoum—set up at the behest of the Military Intelligence Directorate, which

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Nevertheless, the Anya Nya II suffers from numerous shortcomings. [redacted] the Anya Nya II is a loosely connected grouping of poorly armed and undisciplined fighters. The movement is plagued by

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recognized the need for the militia to strive for political recognition. [redacted]

The perception that Khartoum is not doing its fair share, either by conducting operations or by sufficiently supplying the militia, probably has led Anya Nya II leaders to reconsider their alliance with the government. Anya Nya II leader Chol, for example, believes his forces are exploited by the government and bear the brunt of the fighting against the SPLA, [redacted]

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**Anya Nya II Government Relations**

The Sudanese armed forces' Military Intelligence Directorate is responsible for the government's relations with the Anya Nya II, but its control over the militia is limited. Senior directorate officers discuss strategy, tactics, and logistic requirements with militia officials based in Khartoum, [redacted]

Although Khartoum is attempting to redress these grievances, recent deliveries to the Anya Nya II have not included lethal equipment, probably because the Military Intelligence Directorate is aware of the militia's contacts with the SPLA. [redacted]

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[redacted] Although there is frequent armed forces contact with the militia's political leadership in Khartoum, the government's control over the movement's military arm is tenuous at best, [redacted]

[redacted] There is irregular contact between the armed forces and militia's military leadership, which generally stays in the bush. [redacted]

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**Negotiations With the SPLA**

Negotiations between the Anya Nya II and the SPLA have taken place intermittently at least since August 1986, [redacted] The two movements have a mutual interest in resisting northern domination, but longstanding tribal differences divide them. The SPLA wishes at the least to neutralize the Anya Nya II. The militia's support in Upper Nile is extensive and has hindered SPLA recruitment efforts there, [redacted]

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[redacted] the SPLA's negotiating objective is to obtain a truce, whereby the Anya Nya II, in return for being left alone in Upper Nile, would not fight the SPLA on Khartoum's behalf. [redacted]

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An Ethiopian-backed attempt by former governor of Upper Nile Province Daniel Koat Matthews—the most recent effort to reconcile the SPLA and Anya Nya II—has been under way since early 1987 and has

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*The Anya Nya II's Early Years*



Anya Nya II Forces [redacted]



Sahafa Anya Nya II and government representatives sign cease-fire agreement [redacted] Sahafa

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Several southern rebel groups during the late 1970s and early 1980s adopted variants of the name Anya Nya—used by southern rebels during the 1955-72 civil war—but the Anya Nya II's origins date to summer 1983. Shortly after Col. John Garang, who was to become leader of the SPLA, and his followers defected from the Sudanese Army in May 1983, he was joined in Ethiopia by another former Anya Nya officer Samuel Gai Tut and his armed supporters. Throughout the summer of 1983 Garang and Gai Tut quarreled over terms—primarily rebel goals and leadership—for merging their forces. Garang argued for a national struggle to topple the central government. Gai Tut, however, had a more narrow

political horizon—he referred to his force as the Southern Sudan People's Liberation Army—and called for southern secession. [redacted]

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Gai Tut tried to gain support from rebel officers and troops by highlighting tribal tensions among the rebels, particularly resentment of domination by the region's largest tribe—the Dinka. In his appeal to non-Dinkas, Gai Tut, a Nuer tribesman, sought to capitalize on this anti-Dinka sentiment by playing up the fact that Garang is a Dinka. Despite Gai Tut's efforts, numerous non-Dinkas, including a Nuer tribesman who serves as the SPLA's chief of operations, remained loyal to Garang. [redacted]

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led to exploratory talks. [redacted] Matthews brokered a de facto cease-fire in March 1987 between the Anya Nya II and SPLA:

- [redacted] in September 1987, Commander of Upper Nile region Major General Shuk said Anya Nya II forces during the past six months had engaged in little or

no activity against the SPLA in the province. Shuk noted that Anya Nya II and SPLA forces occasionally meet to discuss safe passage through the area and that militia commanders refuse to commit themselves to operations against the SPLA.

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*In late September 1983 the struggle between the two factions came to a head, forcing Gai Tut and his followers to leave Garang's camp. There are conflicting reports whether there was an armed clash between the two groups or Gai Tut simply stalked off in a fit of pique. Gai Tut returned to Garang's camp in November, following the SPLA's first major victory against government forces and his failure to attract additional supporters. During the next several months, however, Gai Tut continued to undermine Garang's leadership. In early March 1984 the increasing tension between the two men led to a shootout between their supporters during which Gai Tut was killed. Gai Tut's remaining forces withdrew from Garang's Ethiopian base to Sudan under the leadership of Gai Tut's former lieutenant, William Abdallah Chol.*

*Fearing further clashes with Garang, Chol's forces, now called the Sudanese Liberation Army, began negotiations with Khartoum in April 1984. In October the two parties reached an agreement for a cease-fire and the transfer of government weapons to Chol to counter SPLA incursions into Upper Nile. Sometime later Chol renamed his organization Anya Nya II. In August 1985, Chol was killed in a clash between Anya Nya II and SPLA units. Chol was succeeded by fellow Nuer tribesman Gordon Koang Chol (no known relation to William Abdallah), the current Anya Nya II leader. Chol had led a force of Nuer tribesmen in opposition to the central government since at least early 1983 before he joined Gai Tut's forces.*

- [redacted] there has been a slowdown in Anya Nya II operations, although the western Nuer Anya Nya II group remains active against the SPLA.

Anya Nya II members travel freely to visit relatives in SPLA-controlled territory and in SPLA camps inside Ethiopia, [redacted] The Anya Nya II

and SPLA are exploring the possibility of merging the two movements, [redacted]

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**Outlook**

We believe the Anya Nya II-SPLA cease-fire has significantly hampered the government's counterinsurgency. The most effective SPLA operations during the current rainy season have been in Upper Nile, and the sharp decline in Anya Nya II operations against the rebels almost certainly has contributed to the SPLA's success in the province.

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Although the cease-fire suggests that the Anya Nya II is shifting its allegiance to the SPLA, the militia thus far has not staged operations, either independently or in coordination with SPLA forces, against the Sudanese armed forces. [redacted]

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[redacted] the Anya Nya II faces the dilemma of whether to succumb to the temptations offered by Matthews and the SPLA or to abide by the agreement made with the armed forces. [redacted]

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In the interim, Chol may hope to use the overtures to the SPLA to extract greater assistance from Khartoum. At the same time, Chol may hope that the lack of a firm commitment to join forces with the SPLA will increase the insurgents' incentive to supply arms, ammunition, and supplies to the militia as an inducement to defect. By playing Khartoum, the SPLA, and Addis Ababa against one another, Chol may be attempting to maximize his materiel support while minimizing combat losses. [redacted]

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We believe tribal rivalry will prevent an Anya Nya II-SPLA merger. Coordination as separate organizations against Khartoum is more likely. The Anya Nya II will face serious difficulties if it decides to join the SPLA, [redacted] The tribal rivalry between the Dinka, who make up the bulk of the SPLA membership, and the Nuer, who dominate the Anya Nya II, is one in which the Dinka

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have the upper hand, and the militia will refuse to submit to Dinka dominance. [redacted] Although Chol is ready to reconcile with the SPLA, Anya Nya II forces will keep their separate identity and will be appended to, rather than integrated into, the SPLA, according to the US Embassy in Addis Ababa. [redacted]

A decision to collaborate with the SPLA against Khartoum may cause splits in the militia. [redacted] [redacted] many Anya Nya II leaders appear to fully support the government. A large number of Chol's senior aides oppose collaboration with the SPLA, and a large percentage of Anya Nya II personnel seek revenge against the SPLA and the Ethiopians for the deaths of prominent militia leaders, [redacted] [redacted]

The Sudanese General Staff is likely to foster a split within the Anya Nya II if it shifts its allegiance. [redacted]

[redacted] The directorate probably will attempt to weaken those commanders favoring collaboration with the SPLA—using propaganda to induce subordinates to revolt—and to strengthen those commanders opposing the SPLA by increasing assistance. [redacted]

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## Mauritania: Aftermath of the Coup Attempt

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President Maaouiya Ould Sid Ahmed Taya narrowly thwarted a violent coup attempt by black military officers of the Toucouleur tribe on 22 October. His grip on power remains precarious. Taya's ability to continue in office will depend on how he deals with the underlying racial problems that helped to produce the coup attempt. Above all, he must preserve a careful balance in his dealings with the Toucouleurs—acting firmly enough to reestablish his leadership but not lashing out so strongly that he stirs up widespread sympathy for the dissidents.

### The Coup Attempt

In late October the Taya regime arrested at least 50 senior black officers of the Toucouleur tribe—including the former Interior Minister, the deputy director of the President's military cabinet, the head of the President's security force, and the duty officer of the Mauritanian general staff—and charged them with plotting to assassinate President Taya and key government officials. According to the US Embassy, the plotters were well organized, enjoyed widespread support in the Army, and were ready to move simultaneously in Nouakchott and other cities. Under interrogation the plotters admitted that they intended to establish a Mauritanian republic that would be dominated by blacks.

### Causes of the Unrest

The coup attempt is an ominous development for the Taya regime. It suggests that more than just isolated intellectuals within Mauritania's large black population resent what they perceive as the white Maurs' monopoly of power. The coup attempt suggests that significant and increasing numbers of blacks may be ready to turn to violence to redress their grievances.

This black unrest feeds on Mauritania's serious racial divisions. According to the US Embassy, the Maurs—the traditional elite in Mauritania—account for 30 to 45 percent of the population of this almost entirely Islamic country and have a tight grip on both the



*Lt. Col. Anne Amadou Babaly, former Interior Minister and alleged coup plotter*

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government and the economy. Mauritania's three principal black tribes are fundamentally different from the Maurs in psychology, culture, and background. The blacks make up the majority of the military's enlisted personnel, the lower grades of the civil service, and the unskilled labor force. Caught between these two groups are the Haratin, a largely Arabized black sector of society that includes an estimated 25 to 40 percent of the population and occupies servile positions.

Since Mauritania received its independence from France in 1960, the black tribes have grown increasingly dissatisfied with their subordinate

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position, and in recent years their discontent has begun to spread to the Haratin. The Maurs, for their part, worry that the blacks will try to supplant them and change the character of the country from Arab to African. The anxiety of the Maurs is increased by their awareness that the black and Haratin populations are growing faster than their own.

Last fall Taya began a crackdown against dissidents of the Toucouleur tribe, the most politically active black group, and alienated a large number of them. In addition, the President began to implement a land reform that is enabling white Maurs to acquire land in areas the blacks believe is traditionally theirs. These and other unpopular moves generated widespread racial discontent with the regime.

The plotters probably believed the government was vulnerable because it had recently dismissed three senior officers for their involvement in a major financial scandal and the time was right for a coup. In addition, the plotters probably were inspired by the successful coup in Burkina Faso a week earlier.

#### **Foreign Meddling**

There is little evidence of outside interference. The Mauritians initially feared that the Soviets were involved in the coup attempt. [redacted]

Taya is concerned that Senegal was aware of, if not actually involved in, the coup attempt. A senior Mauritanian official told the US Embassy that the government recently discovered a cache of 100 automatic weapons and large numbers of grenades at the homes of Toucouleurs in Nouakchott. These weapons were obtained in Senegal and were the same kind used by the Senegalese armed forces. According to the US Embassy, in early November the President of Senegal sent a message to Taya saying that he had no desire to become involved in Mauritania's ethnic problems but that the matter had become an electoral issue for him, since much of his electorate along the Mauritanian-Senegalese border is Toucouleur and has

close bonds to its kinsmen in Mauritania. Although no direct ties linking the Senegalese to the plotters have been established, the foiled coup attempt will be a major irritant in Mauritanian-Senegalese relations.

#### **Outlook and Implications for the United States**

In our view, the greatest potential challenge to the government remains the black military officers. We believe black aspirations for change will increase, and they will make it increasingly difficult for Taya to govern. Even if he succeeds in stifling black opposition for a while, the sources of black discontent are sufficiently genuine and the momentum behind black protest is sufficiently strong that another outbreak of unrest is only a matter of time. Military grumbling of this sort has already surfaced and could culminate in another of the palace coups that have characterized Mauritania's postindependence history.

Taya nonetheless retains significant elements of support, despite growing military disgruntlement. Most important, key government members such as Interior Minister Abdellahi and Chief of the Secret Police Vall are still loyal. Moreover, Taya has proved that he is a shrewd fighter and a survivor. Since he came to power in 1984, he has successfully eliminated a series of rivals and potential challengers. He, however, must quickly strike a balance with his country's racial problems if he is to survive—managing to co-opt the blacks into the government while not appearing weak and ineffectual either to them or to his fellow Maur officers.

In our view, if Taya falls, his successor would be less friendly to the United States. The Arabic and Islamic backlash to the growing black unrest means that a successor Maur general might do more to enforce Islamic law, emphasize Arabic rather than French as the official language, and abandon or slow the movement toward democracy. A black regime, on the other hand, might be likely to look to Sub-Saharan countries like Senegal for its example and emulate some of their strong nationalism.

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**Nepal: Relations With  
India and China**

[redacted]

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Nepal has long struggled to balance its relations between its two powerful neighbors, India and China. Although Nepal's closest ties are to India, there are several disputed issues between them. Most recently Nepal has been concerned about India's intentions toward its smaller neighbors now that New Delhi has intervened militarily in Sri Lanka. Kathmandu worries that the Sri Lankan episode is just the beginning of India's efforts to assert its authority in the region militarily. As a result, Kathmandu has pursued closer ties to Beijing. Nepal sees China as less threatening and believes that it can expand relations without Beijing dictating policy. Kathmandu's turn to Beijing, however, does not signal an end to cordial Indo-Nepalese relations. Nepal will continue to seek a resolution to its differences with India in hopes that it can maintain their beneficial economic and political ties. [redacted]

**Living With India**

Nepal's most significant geographic, cultural, and economic ties are to India. Under the Treaty of Peace and Friendship of July 1950, the cornerstone of Indo-Nepalese relations, the two have outlined the support each would give the other in times of trouble as well as the rights and privileges its citizens would have in the other's country. Under the terms of the treaty, Indians and Nepalis are free to reside and work in both countries without restriction. India has long employed Nepalese Gorkhas for light infantry fighting in the Indian Army. US diplomatic reporting indicates the remittances sent home by these recruits are an important source of income for Nepal's economy. The treaty also allows Nepal to import from India arms, ammunition, and military equipment. [redacted]

In 1950 India and Nepal signed a Treaty of Trade and Commerce, which set forth the conditions under which the two conduct business. The most important aspect of this agreement is the provision that allows Kathmandu to import and export commodities through Indian ports without paying tariffs. India is

Nepal's largest trading partner and accounts for almost half its trade, according to US Embassy reporting. India also provides substantial assistance for Nepalese development projects, including road and factory construction, hydroelectric power plants, and irrigation schemes. The two countries recently expanded their economic relationship with the establishment of the Indo-Nepalese Joint Commission to promote cooperation in trade, transit, industry, and power. [redacted]

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**Irritants in the Relationship**

Despite the extensive ties between India and Nepal, relations are strained by differences over several policy issues. Nepal has long bristled over India's efforts to interfere in internal Nepalese affairs. Kathmandu particularly resents New Delhi's financial support to Nepalese politicians to promote Indian interests in the government. [redacted]

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[redacted] New Delhi offers support to the Nepalese Congress Party, the leading opposition group. Kathmandu believes that India supports Nepalese extremist groups—opposed to the King. [redacted]

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[redacted] New Delhi allows these groups to operate out of northern India, and Kathmandu suspects that Indian intelligence is aiding some of the groups. They were responsible for a series of bombings during the spring of 1985 and before the national election in May 1986. [redacted]

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Nepal is concerned about India's strong influence in the Terai—the lowlands along Nepal's southern border with India. Many Indians have taken advantage of the liberal immigration provisions of the 1950 Friendship Treaty to move to the agriculturally productive Terai from economically depressed regions in northern India. This has created fierce competition between native Nepalese and Indian immigrants for

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land and jobs. [redacted] Nepal is trying to limit Indian access to jobs by requiring citizenship certificates for employment. [redacted]

New Delhi's attempts to influence Kathmandu's foreign policy have caused minor irritation among Nepal's leaders. One of the more contentious issues is India's refusal to support Nepal's "zone of peace" proposal. Since 1974, King Birendra has solicited support for his proposal to declare Nepal a zone of peace. The proposal stipulates, among other things, that Nepal would be free to establish friendly relations with outside countries, would not join a military alliance, and would not allow foreign military bases on its territory. Ninety countries endorse Nepal's zone of peace proposal, including the United States and China. India argues that Nepal's proposal is unnecessary, because New Delhi's proposal for an Indian Ocean zone of peace protects Nepal. [redacted]

Nepal also is upset over India's efforts to restrict Nepalese-Chinese relations. The Indians have long tried to curb Chinese activity in the Nepalese-Indian border area of the Terai because they suspect Beijing

may use its access for espionage. India believes China's presence would threaten its military bases along the Nepalese border, according to diplomatic reporting. Because of these concerns, New Delhi persuaded Kathmandu in 1985 to renege on an agreement with Beijing to build an important section of an east-west highway in the Terai. Nepal accepted an Indian offer on less favorable financial terms instead, according to the US Embassy. [redacted]

Most recently Nepal has expressed concern about India's interference in Sri Lanka. The Nepalese Government believes India's actions undermine Sri Lankan sovereignty and constitute a clear threat to India's smaller neighbors, according to the US Embassy. Nepal fears India's intervention will encourage New Delhi to assert its authority elsewhere in the region, including Nepal. Nepalese officials have expressed particular concern to US Embassy officials about the Indian minority in the Terai and likened them to the Sri Lankan Tamils, fearing they could provide an excuse for Indian intervention [redacted]

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**The China Card**

As a result of Nepal's concerns about India, Kathmandu has sought to improve relations with China. Diplomatic reporting suggests Nepal sees China as a less threatening neighbor that does not seek to influence Nepal's policies. [redacted]

[redacted] King Birendra's recent visit to China was intended primarily as a signal to India that Nepal had a strong friend in China, and, as Nepal's concerns over Indian intentions in the region grow, so would its ties to China. The trip was particularly beneficial to Nepal because the Chinese agreed to expand its economic development assistance.<sup>1</sup>

[redacted] the Chinese will assist in the construction of a road linking Tibet and western Nepal, and provide Nepal with approximately \$13.5 million worth of grant assistance for the construction of a convention center.

[redacted]

Military assistance and cooperation have become important aspects of the Nepalese-Chinese relationship. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

<sup>1</sup> Nepalese-Chinese trade amounts to \$14.95 million. Beijing has funded nearly 30 projects, including textile, paper, and brick and tile manufacturing, irrigation, and road construction. [redacted]

**Outlook**

Kathmandu probably hopes to maintain the best of both relationships—economic and political ties to New Delhi and political support from Beijing. Nepal is expecting China to serve as a counterweight to India as New Delhi moves to assert its authority in the region. Kathmandu nevertheless will be careful not to alienate New Delhi as it tries to take advantage of Chinese offers of economic and military assistance. Nepal recognizes that there are limits, such as weapons purchases from Beijing, beyond which it cannot go without an Indian backlash. Kathmandu will try to maintain a dialogue with New Delhi on their differences in hopes of achieving a resolution on the less contentious ones. [redacted]

[redacted] Nepalese Foreign Minister Upadhyaya plans to visit India in early December to discuss some of these areas of contention. [redacted]

India will watch closely the developing Nepalese-Chinese relationship. It will be most concerned about expanding military ties between China and Nepal and will probably remind Kathmandu of its responsibilities under the 1950 Friendship Treaty to protect India from foreign aggressors. India will try to entice Nepal away from China with offers of assistance. [redacted]

[redacted]

India recently agreed to restart the stalled Karnali hydroelectric project, to educate and train Nepali engineers, and to consider another power project on the Sun Kosi River. [redacted]

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## Bangladesh Textile Industry Threatened by Its Own Success

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Rapid expansion of Bangladesh's garment exports over the past five years has resulted in the imposition of quotas by the United States—Dhaka's major market. Garment manufacturing started to grow rapidly in 1980 because Bangladesh possessed a cheap and abundant labor supply and provided a quota-free location for East Asian investors subject to US quotas in their home countries. With the imposition of quotas, Bangladesh's garment industry has come under increased government interference, and several important items will be restricted to a modest 6-percent annual growth rate.

Europe in the early 1980s, but by FY 1987 roughly 80 percent were exported to the United States. According to US Embassy reporting, 60 percent of all garments exported by Bangladesh into the United States in 1984 fell into four categories—shirts, coats, skirts, and sweaters.

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### New Quotas

In FY 1985 quotas on certain types of garments were imposed by the United States, forcing Bangladesh to introduce limits on the clothing exports of individual firms. The inability of the government to monitor exports of garments effectively and the lack of an efficient quota allocation system led to disruption in the garment industry. Export growth slowed to 14 percent in FY 1986. According to press reports, almost one-third of Bangladesh's garment plants were shut down, and half of the jobs were lost.

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### Growing Textile Industry

The Bangladesh garment industry has grown exponentially since 1980—averaging a growth rate of roughly 100 percent annually over the past six years. Garment exports climbed from \$3 million in fiscal year 1980 to about \$177 million in FY 1986.<sup>1</sup> By FY 1985, the peak for the industry, there were nearly 700 plants in operation employing nearly 200,000 workers.

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Delays in setting up a workable allocation procedure prevented Dhaka from fully using its quota. According to press reports, only 40 percent of the quotas are allocated on the basis of prior performance, with the remainder reserved for new entrants to the industry. To add to the problem, some garment manufacturers have no intention of producing garments and devise phony letters of credit to win quota allocations. Upon receiving a letter of credit from a foreign buyer, a local manufacturer may acquire government authorization to import materials. Because imported textiles command hefty premiums, several garment makers have been content to import such materials, sell them domestically, and renege on their foreign customers.

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The impetus for the garment industry's growth, ironically, came from the US import quota system, according to press reports. As US restrictions on garment imports from other Asian countries tightened, Bangladesh—a quota-free territory at the time—became an increasingly attractive place for the processing and assembly of readymade garments. Bangladesh was used as a transshipment point. Minimal processing and packaging were performed, and garments were then stamped as "Made in Bangladesh." Bangladesh facilitated growth of the industry by allowing duty-free imports of textiles destined for reexport and supplying a cheap—less than \$50 a month—labor force.

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Limits on Bangladesh exports of shirts, sweaters, and coats to the United States will have the greatest impact on the industry, in our judgment, because Bangladesh will probably reach its ceilings in these

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The United States, Europe, and Canada are the major markets for Bangladesh garment exports. According to press reports, the bulk of garment exports went to

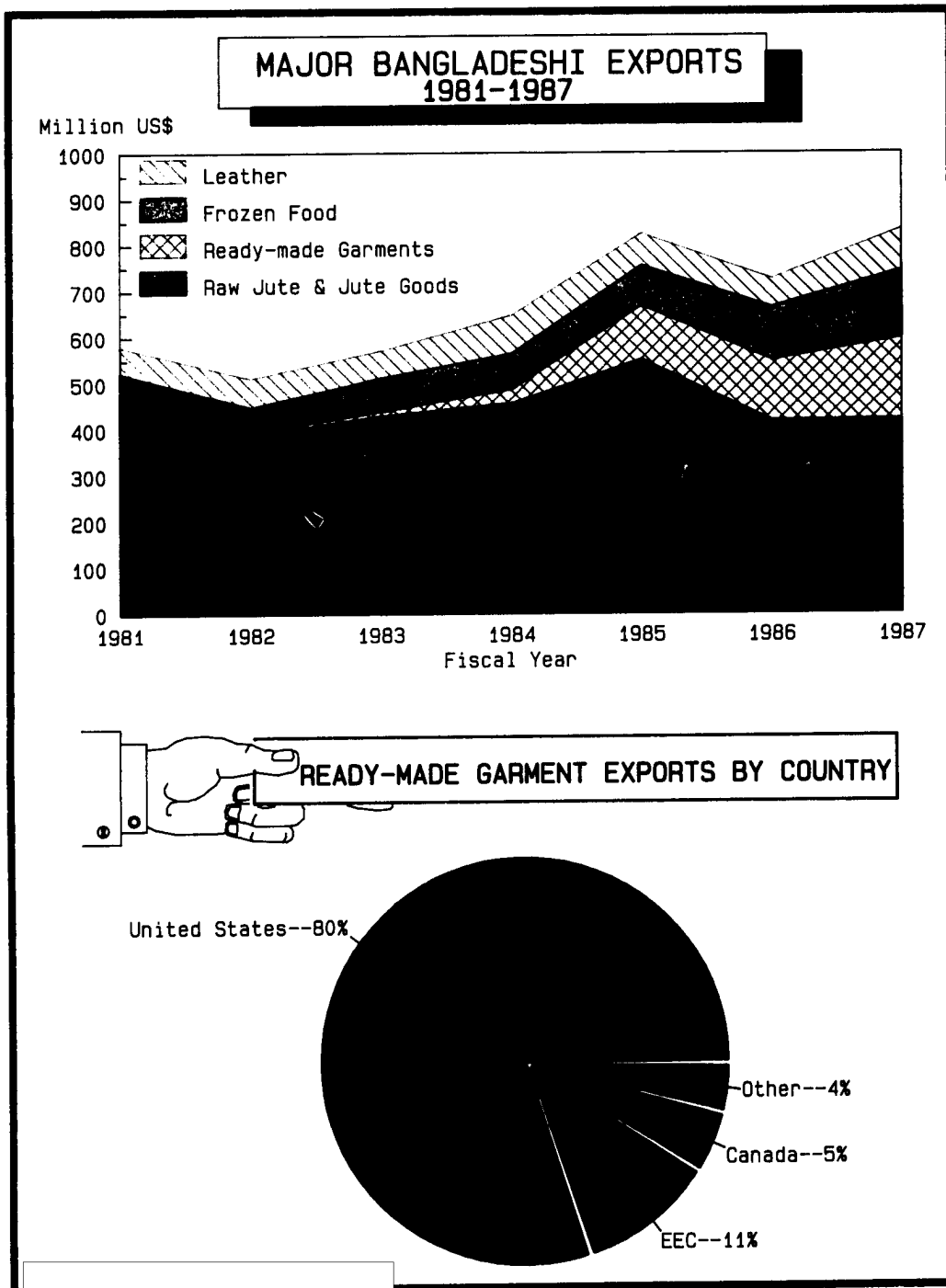
<sup>1</sup> The Bangladesh fiscal year is from 1 July to 30 June.

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categories before this fiscal year ends. Adding to the problem, Canada and Sweden also have decided to limit shirt imports. [redacted]

### **Coping With Problems**

The Bangladesh Government has taken several steps to recover from US restrictions. To avoid not fully utilizing US quotas, Dhaka will allocate them. In conjunction with the garment industry, the government will decide which mills will specialize in what category and then allocate quotas. According to US Embassy reporting, several manufacturers are unhappy with such a centralized selection because they are concerned that limits will be placed on their freedom to move into other categories as their production skills improve. [redacted]

Dhaka has been trying to reach an agreement with Washington to deal with the problem of third countries shipping goods to the United States labeled as being made in Bangladesh. According to press reports, many suppliers—South Korea, Sri Lanka, Taiwan, and India, for example—have been circumventing US import quotas by changing shipping documents on their products at sea to indicate Bangladesh as the source of the goods. [redacted]

Efforts to use a greater proportion of locally made fabric and accessories and diversify export markets have been disappointing. Dhaka has implemented a 25-percent value-added requirement, restricting the proportion of imported supplies to the garment industry. Moreover, the government has banned the import of garment packing materials and related supplies that can be produced domestically. Even so, foreign buyers and domestic garment manufacturers are skeptical of the quality of Bangladesh's textile production, according to the US Embassy. Although some factories have managed to use local cotton fabric, the sophistication of many Bangladesh garment firms precludes using the poor quality cloth produced by local mills. We believe this gap will widen as garment exporters try to capture more fashion-conscious buyers and to diversify beyond the basic shirt trade. [redacted]

Despite efforts to diversify, we believe Bangladesh will continue to depend on the United States to buy most of its garment exports and will try to merge

several quota-affected categories of garments to allow some flexibility in exports. European demand for Bangladesh readymade garments has not grown significantly, and Dhaka has not penetrated many new markets. The industry is cautiously watching the efforts of a firm that exports to the Soviet Union. According to Embassy reporting, the financial constraints of barter trade, Bangladesh's inexperience in dealing with the Soviet market, and difficulties in negotiating with Moscow's bureaucrats have discouraged others from pursuing this market. [redacted]

Shipping delays and skilled labor shortages plague the garment industry. The transportation network—primarily Chittagong port—that is required to move imports to factories and finished materials to export markets has been stretched beyond capacity. Moreover, the shortage of skilled workers—designers and technicians—makes it difficult to maintain international quality standards. To deal with this problem, the government will set up a Garment Technology Institute for training merchandise cutters, pattern makers, and artisans under the sponsorship of the Ministry of Industries. [redacted]

### **Outlook**

The garment industry owes its success to private enterprise, but US quotas are resulting in more government involvement to allocate and monitor garment shipments. Given the nature of the political structure in Bangladesh, we believe quota allocations will go to factory owners who are well connected and pay the highest bribes. Moreover, the number of garment-exporting firms will be reduced so that those remaining receive a larger share. [redacted]

Dhaka will be faced with increasing foreign payments problems and forced to look to other nonclothing products or commodities to meet its export targets. Bangladesh will probably follow the approach taken in other quota-affected countries and concentrate on improving the quality and expanding the range of clothes produced to earn additional foreign exchange. Diversification could be expensive, however, because garment-making machinery—averaging \$1,500 to \$2,000 per machine—is limited in the range of tasks it

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can perform. We believe firms will increase production on categories where quotas have not been fully use, such as jackets, gloves, and trousers. Moreover, the lifting of ceilings on cotton and synthetic playsuits should encourage movement into that category. [redacted]

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Quotas on a few important categories by the United States could be a blessing in disguise because we believe it could result in a more balanced development of the garment industry through diversification of products and markets and a shift into more sophisticated manufacturing. Mills are beginning to produce buttons, thread, and fabric to meet value-added requirements. If Bangladesh can improve its quality control and reliability problems, we believe garment exports could increase to roughly 30 percent of export earnings by FY 1995. [redacted]

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## Coming to Grips With the Nonofficial Economy in the Middle East and South Asia

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Focusing economic analysis in the Middle East and South Asia on the official economy—production and financial flows controlled, regulated, or, at a minimum, recorded by government authorities—creates a skewed image and can lead to faulty assumptions about the economic health of individual countries. We believe preoccupation with official economic data tends to obscure economic phenomena that are transforming the economic landscape of the region and in the process creating new political realities deserving of attention. Without including more careful consideration of “nonofficial”-based economic activities, such as the unrecorded remittance flow from the Persian Gulf states, our understanding of the interplay among political, economic, and social forces at work in the Middle East and South Asia can be dangerously flawed.

### Defining the Nonofficial Economy

Nonofficial economic activity embraces a wide range of “off-the-book” economic transactions. It includes subsistence agriculture and handicraft industries within the traditional economic sectors of most Middle Eastern and South Asian countries. It also encompasses a large and diverse share of the private sector, from taxi drivers and auto repair facilities to clandestine factories in some countries. Also in the nonofficial category are the illegal or unauthorized entry and sale of imports, endemic throughout the region, and large unrecorded flows of capital, both leaving (capital flight) and entering (unofficial remittances) a country.

One aspect of the hidden economy worthy of more attention is activity spawned by unofficial remittances. Labor migration from low per capital income countries to higher paying jobs in the Persian Gulf and Western Europe has characterized regional

<sup>1</sup> This article introduces a topic that the Office of Near Eastern and South Asian Analysis—with the assistance of an external contractor—intends to explore more thoroughly over the next year. The conclusions drawn are tentative and designed to stimulate further thought on the subject.

economics since at least the mid-1970s. Worker remittances in the form of repatriated earnings, or goods purchased abroad, nurture a broad spectrum of unrecorded private investment and consumption. In some countries, such as Egypt and Sudan, where government policies have contributed to wide disparities between official and free market exchange rates as well as stifling controls on the business community, remittance-based economies have flourished.

Egyptian workers in the Persian Gulf states and elsewhere have remitted an estimated \$2-3 billion annually over the past several years through official banking channels but,

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may have brought back cash and commodities at twice this rate through nonofficial channels. Most of these funds and goods are funneled into the private sector where they serve as a major engine of economic growth. We believe the buoyant growth in Egypt’s large private sector through the past two years of recession can be largely attributed to this unofficial financing network operating largely outside the direct influence or control of the government.

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Another example of a remittance-based nonofficial economy is the “Hundi” system in Pakistan, which probably continues to outperform the official banking system in transferring funds from the Gulf. Moreover, this credit and exchange system reportedly operates much more efficiently and rapidly than the established banking system. It may play an important role in the laundering and transfer of money made in the illicit narcotics trade.

In Jordan, workers’ earnings from the Gulf have spawned an unofficial economy of different dimensions. Here, where the government is more active in fostering a strong private-sector economy,

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unrecorded remittances may play a role in channeling resources to the West Bank. These funds along with official remittances from West Bank workers in the Gulf as well as from those in Israel help underwrite the West Bank economy and contributed to the impressive 9-percent growth in the gross West Bank product during the last year.

Despite significant variations in the composition of the nonofficial economy from country to country, there are common attributes. The most obvious are inherent in the unregulated nature of these economic activities. Investors and entrepreneurs in the nonofficial arena are largely unfettered by the bureaucratic constraints imposed on state-controlled economic transactions. Consequently, they are free either to seek the highest rates of return on their invested capital or to pursue their business operations in the most profit-maximizing manner. On the darker side, unregulated enterprises entail, in many cases, factories with unsanitary and dangerous working conditions paying minimum wages and financial institutions engaged in questionable and risky investment practices.

Private-sector nonofficial economic activity appears to encompass some of the most efficient and profitably run enterprises in the Middle East. In Egypt, for example, Islamic investment companies, shadowy but seemingly integral parts of the unofficial economy, until recently outstripped the conventional banking sector in attracting remittances by providing more favorable exchange rates, as well as more efficient service to private-sector borrowers and higher yields to investors.

#### **Assessing the Nonofficial Economy's Contribution**

One of the most important considerations in assessing the role of nonofficial economic activity at the country level lies in factoring the sector's contribution into the overall national product. Tabulations of how much the nonofficial economy adds to output in the agricultural, manufacturing, and construction sectors of a country's economy are difficult, given the unreported nature of most of this activity. Even rough estimates, however, may be sufficient to draw important conclusions. The US Embassy in Tunis, after careful study, recently estimated that informal

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#### **Nonofficial Activity in Tunisia**

*On the basis of a multiyear study of the informal sector" prepared for the Tunisian Government but never released, conversations with Tunisian and [redacted] its own observations, the US Embassy in Tunis has concluded that:*

- *The informal sector provides half of all nonagricultural employment.*
- *Certain subsectors of the economy, namely textiles and construction, are dominated by the informal economy.*
- *Some 51,000 jobs were created in the informal sector between 1975 and 1980, as compared with nearly 50,000 in the public sector and 47,000 in the regulated private sector.*
- *Employment statistics in Tunisia may be underestimated by 25 percent.*

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economic activity added at least 20 percent to Tunisia's gross domestic product during 1986. The Embassy concluded that, in the face of an estimated 15-percent decline in official real disposable income in Tunisia since 1984, it was the unofficial economy that prevented living standards from falling to a point that would have precipitated civil unrest.

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#### **Political Impact**

The role nonofficial economic activity plays in protecting the population of a country from otherwise deeper cuts in living standards is a gray area but one probably deserving closer analysis. At a minimum, it would help understand better how various income and political groups are affected by their participation, or lack thereof, in the nonofficial economy.

Of equal significance from a regional perspective would be analysis that probes the extent to which opposition political movements can use the nonofficial economy to serve their own political aims. In Egypt, where the nonofficial economy appears to have a

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markedly Islamic bent, investment firms controlled by Muslim Brotherhood members help underwrite Islamic welfare associations that provide for the urban lower classes. If the Mubarak government's ability to maintain the subsidy system diminishes, as seems likely, will this larger role for the Islamic welfare associations increase the prestige of Muslim fundamentalists and further their political agenda?

**Reexamining Basic Assumptions**

We believe future analyses must examine whether, and to what extent, a country's economic and political options are being narrowed, or even redefined, as a result of nonofficial economic operations. For example, is it practical to construct economic reform programs that do not take into account the role of the nonofficial economy? Also, what impact will government efforts to curb nonofficial economic activity have on aggregate growth? In the case of Egypt, recent exchange rate reforms included a government effort to shut down private, or informal, foreign exchange dealers. Six months later, it is becoming apparent that the government-controlled banking sector is inadequate to the task of supplying the private sector with the capital it needs to remain the linchpin of Egypt's economy. Without reintegrating the money changers into the reform process, it may be self-defeating from an economic perspective for Cairo to move ahead with currency reform.

In a more political case, the growth in trade and finance between the West Bank and Jordan, fueled in part by worker remittances, will help shape the

outlines of any Arab-Israeli peace settlement. Closer ties are creating economic links that tend to support further consideration of a Jordanian- West Bank political association.

**Conclusions**

Whatever the political and economic linkages, at this point our knowledge of the role of the nonofficial economy is too fragmented and anecdotal to go beyond conjecture.

We believe it is important to approach this topic in a more systematic and sustained manner.

[Redacted]

[Redacted] In the process

we are likely to find generalizations about the nonofficial economy breaking down. Given the variations in size and makeup of the underground economy at the country level, this would not be surprising. At the same time it may prove possible to construct a more durable analytical framework from which to view the nonofficial economy and provide a more accurate portrayal of economic trends in the Middle East and South Asia.

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