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DIRECTORATE OF INTELLIGENCE

20 January 1984

MOROCCO

[redacted] the moderate pro-Western regime of King Hassan--who is 54 years old--has been faced with growing domestic challenges. While the regime appears secure for now, deteriorating economic conditions coupled with rising expectations among the burgeoning, youthful population are sources of popular discontent. [redacted]

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Stiff austerity measures implemented in August 1983 have trimmed inflation and reduced balance-of-payments and budget deficits. Financial problems remain a troubling concern as the economy continues to be buffeted by drought and a weak export market for phosphates.

- Rabat retains access to its \$315 million IMF standby loan but will have difficulty meeting the program's performance targets.
- Efforts to reschedule \$1.5 billion in foreign debt obligations payable in 1984 are nearly complete. Additional rescheduling in 1985 and 1986 likely.
- US assistance to Morocco in FY 1984 will total \$292 million--\$209 million in agricultural credits, \$36 million in PL-480 aid, and \$57 million in military assistance--up slightly from the overall level in FY 1983.
- Aid from Saudi Arabia probably won't exceed the \$220 million provided in 1983.
- Foreign exchange reserves cover only a week of imports. [redacted]

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Economic and financial problems probably will remain acute through 1986 limiting government investment and development.

- The market for Morocco's phosphates--the nation's largest source of export revenues--is likely to strengthen as the world economy rebounds, but it will be several years before Morocco reaps the benefits from its heavy investment in the domestic phosphate industry. Morocco controls about three-quarters of proved world phosphate reserves. [redacted]

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[Redacted]

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Necessary austerity measures, however, have slowed economic growth, added to the ranks of unemployed, and created the potential for the most serious disorder since independence.

--There is significant restiveness among key groups particularly students, labor, and some religious fundamentalists [Redacted]

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-- In January, student strikes and isolated incidents of violence occurred in several Moroccan cities. There is the potential for nationwide civil disorder as the impact of austerity measures are realized. [Redacted]

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The government has taken some steps to defuse public concern over the deteriorating economic situation.

-- In December, the King made a small cabinet shuffle bringing the Socialist opposition party into government for the first time, probably in hopes of muting criticism of the regime's management of the economy. Hassan also appointed Mohamed Karim Lamrani, a nonpartisan businessman and a previous Prime Minister, to head the cabinet.

-- The government has undertaken a consistent public relations campaign to explain the need for austerity. This strategy may be ineffective if new price increases are implemented in the near term. [Redacted]

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King Hassan has fairly effective security and military establishments to deal with any unrest. [Redacted]

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[Redacted] The King also is adept at playing off opponents against each other. [Redacted]

Foreign Relations

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King Hassan and Algerian President Bendjedid met in February 1983 to discuss normalization of bilateral relations that were cut in 1976 over the Western Sahara dispute. Both leaders recognize that regional stability serves their long term economic and political interests and that those interests are threatened by the Sahara dispute and the machinations of Libya.

-- The deeply held, incompatible views on the Western Sahara issue, however, are not likely to change easily or quickly and until solved, will continue to be a major constraint on improvement in bilateral relations. [Redacted]

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Hassan and Libyan leader Qadhafi met last July in Morocco and relations between the two countries have improved significantly at the expense of cooler relations with Algeria.

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King Hassan continues to play a significant role in Arab politics and currently serves as chairman of both the Arab League and the Organization of Islamic Conference, which held its summit at Casablanca in January. [REDACTED]

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### Western Sahara

Despite a more regular dialogue between Morocco and Algeria over the eight-year-old Saharan dispute, a settlement in the near term seems unlikely. Although acquisition of the Sahara remains a popular cause among Moroccans, the seemingly "unwinnable" war could eventually cause domestic trouble for the King.

- There is growing uneasiness in Morocco regarding the impact of the war on the economy. Rabat's serious financial difficulties, caused in part by the war, may increase discontent with the regime.
- While Algeria, the Polisario Front's chief supporter, is more amenable to a political settlement, it still insists on direct Moroccan-Polisario negotiations. King Hassan refuses to give the guerrillas this kind of recognition and has generally been unwilling to take any substantial risks in the OAU-sponsored negotiations. Informal talks between Algiers and Rabat seem to be temporarily stalemated.
- Renewed Polisario military activity in recent months is likely to continue as the Front attempts to force Morocco into direct negotiations. [REDACTED]

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### Relations with the US

Moroccan-US relations are good, but expanding bilateral ties, initially well received in Morocco, are beginning to be questioned by some Moroccans who believe that the country's material expectations are not being met.

- In pursuit of Moroccan interests, King Hassan often adopts foreign policies that parallel or coincide with US interests.

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- The King, during his visit to Washington in May 1982, approved a Moroccan-US access and transit agreement for US Rapid Deployment Forces.
- The US is a major source of military equipment for the Moroccan armed forces, but Morocco's inability to meet FMS repayment obligations will be a recurrent problem.
- King Hassan, Chairman of the Arab League and its Fez peace committee, welcomed President Reagan's Middle East initiative and has urged other Arabs to accept it as a starting point for negotiations. [redacted]

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### Outlook

Continued implementation of austerity measures is likely to keep tensions high.

- Rabat may have to choose between carrying out austerity measures required by the IMF to ensure more financing and risking serious disturbances similar to large-scale food-price riots that occurred in 1981. [redacted]

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Parliamentary elections are scheduled to be held early this year if the domestic situation permits. They are likely to bring charges of government interference as did communal elections last June. [redacted]

We do not expect a near-term solution to the Western Sahara conflict. Morocco's failure to hold an OAU mandated referendum in Western Sahara at the end of last year may cause problems for Rabat at the OAU summit scheduled for May.

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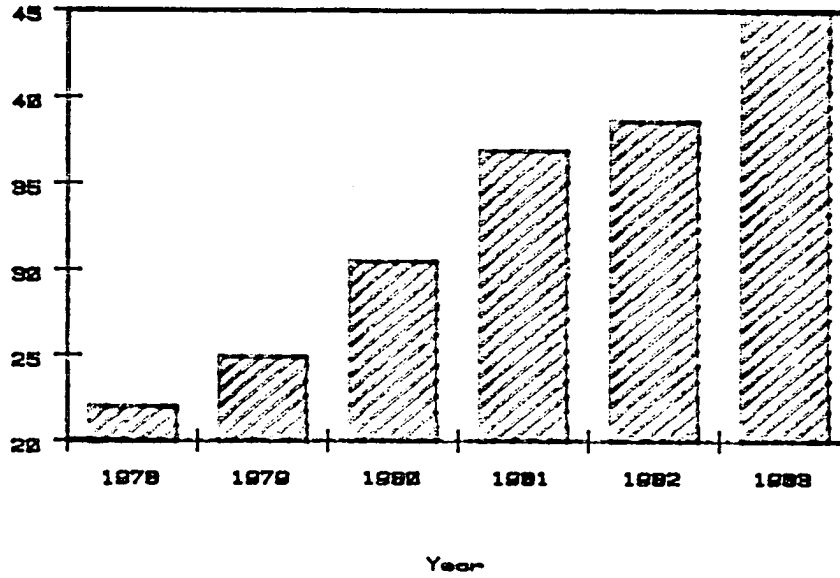
- Morocco's moderate African supporters, who thus far have gone along with Rabat's insistence that the Polisario not be seated as an OAU member are restive over Morocco's position.
- If the Polisario is seated at this year's OAU summit, only a few members would be likely to follow Rabat in its probable walkout. [redacted]

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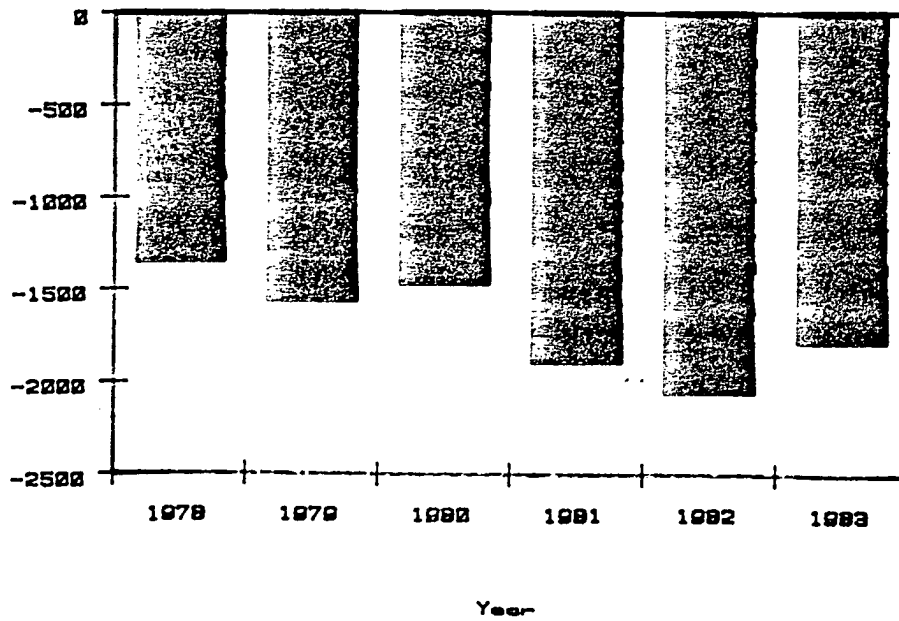
### Morocco: Debt Service Ratio

Percent



### Morocco: Current Account Balance

Million US \$



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## DIRECTORATE OF INTELLIGENCE

20 January 1984

EGYPT

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[REDACTED]

President Mubarak has continued to gain respect slowly, although he still lacks broad popularity. Most observers believe that Mubarak has grown in the job and seems more confident now than he did a year or two ago.

- Mubarak retains the support of his most important constituency: the Egyptian armed forces.
- Radical elements on both the left and the religious right have been contained by Egypt's security forces, although isolated acts of terrorism are still possible. [REDACTED]

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Economic problems continue to be Mubarak's greatest domestic challenge.

- Egypt has moved closer to a foreign debt crisis over the last several months, as indicated by its problems in making FMS payment to the US.
- Except for recent increases in electricity prices for industrial users, the government has been postponing economic reforms. An increase in bread prices at some government-owned bakeries in September--later described by Egyptian officials as a "trial run"--provoked disturbances in Alexandria and was quickly rescinded.
- Talks with the IMF concerning a standby agreement were suspended in November after Cairo decided to postpone any overall increase in the price of bread. [REDACTED]

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The recent legalization of the New Wafd Party (a revived version of the party that dominated Egyptian politics before the 1952 revolution) has injected new uncertainty into the Egyptian political scene.

- Although the extent of the New Wafd's support is still unclear, Mubarak is very concerned about the challenge it presents. He has been trying to strengthen his own National Democratic Party. [REDACTED]

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Foreign Relations

PLO Chairman Arafat's visit to Cairo in December was the most important event in Egyptian foreign relations during the past year.

-- Egyptian officials consider the Mubarak-Arafat meeting to have been a major breakthrough that significantly improves the prospects for a comprehensive Middle East peace settlement. 25X1

-- Cairo also hopes that the rapprochement with Arafat will speed up Egypt's reintegration into the Arab world. [ ]

Egyptian-Israeli relations are still frosty, despite a recent exchange of visits by senior foreign ministry officials.

-- The Egyptian ambassador has been absent from Tel Aviv since September 1982. [ ] 25X1

President Nimeiri's Islamicization campaign and the unrest in southern Sudan have been major Egyptian concerns, given Sudan's strategic importance to Egypt.

-- Mubarak has had some success in persuading Nimeiri to slow down Islamicization and to make other conciliatory gestures toward the southern dissidents. [ ] 25X1

Current issues in US-Egyptian relations

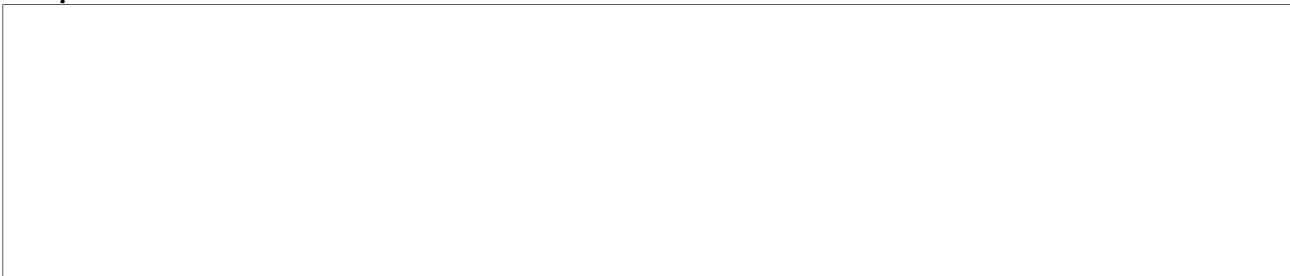
Cairo's difficulty in repaying its military debt will be a prime topic in US-Egyptian discussions during the next several months.

-- Mubarak has told US officials that Egypt will suspend FMS interest payments beginning in July.

-- Cairo is resisting any multilateral rescheduling of its debt to Western donor countries. As a "special partner" of the US, it instead seeks a bilateral arrangement with a moratorium on FMS payments.

-- The administration's proposal to furnish all future military assistance to Egypt in the form of grants rather than loans is, in Cairo's view, a step in the right direction. Egypt considers the proposed amount of \$1.175 billion for FY 85, however, to be inadequate and inconsistent with the principle of equal treatment for Egypt and Israel. [ ] 25X1

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- US-Egyptian discussions on military cooperation have continued smoothly, although there remain many issues to resolve regarding US use of Ras Banas. [redacted]

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Looking Ahead

Cairo's principal foreign policy objective in the coming months will be to maintain the momentum created by Arafat's visit.

- Egypt will concentrate on encouraging Arafat and King Hussein to agree on a formula for negotiating with Israel.
- Cairo still favors the US peace initiative of September 1982 as the most promising basis for a settlement. Egyptian officials indicate, however, that they will turn to other formulas, such as a revised version of the 1982 French-Egyptian Security Council resolution, if US peace efforts bog down. [redacted]

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Domestically, the parliamentary elections (scheduled for 27 May) will preoccupy Mubarak.

- As the campaign heats up, there are likely to be further disputes between the government and the opposition over whether the elections are being conducted fairly.
- One or more of the older opposition parties may make good on their threat to boycott the election, but we expect the New Wafd to compete and to win representation in the Peoples Assembly.
- A strong showing by the Wafdists would not necessarily alter Cairo's relationship with the US. It could, however, be a major step toward genuine multiparty democracy in Egypt. [redacted]

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Once the parliamentary elections are over, Mubarak will have to face some of the hard economic choices, concerning subsidies and consumer prices, that he has been postponing.

- Mubarak's dilemma is that the need for economic reforms to reduce budget deficits and to limit imports conflicts with popular expectations of improved living standards.



-- The long-delayed increase in bread prices and some progress on energy price reform might take place after May. This involves a substantial risk of riots similar to those that recently occurred in Tunisia and Morocco, despite what are certain to be extensive security precautions by the government.

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