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Near East and South Asia Review

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26 April 1985

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Near East and South Asia Review [Redacted]

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Pakistan: Army Equipment Needs [Redacted]

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Pakistan's plans to acquire artillery, air defense, and armor items for the Army rely on US willingness to provide technologically sophisticated weaponry on acceptable financial terms. But even with US assistance Pakistan will not be able to change its military balance with India. [Redacted]

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India: The Military and Nuclear Weapons [Redacted]

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An Indian decision to embark on a nuclear weapons program to counter development of a Pakistani nuclear weapons capability would probably receive broad support in the Indian military, although it is not actively lobbying for such a program. [Redacted]

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India's Position on Afghanistan: Prospects for Change [Redacted]

19

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The Indian Government opposes the Soviet occupation of Afghanistan, but Rajiv Gandhi will avoid confrontations on this issue for the near term and will subsequently review his position only after having strengthened his ties with the West and his domestic political position and if Moscow shows signs of moving beyond Afghanistan. [Redacted]

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Sri Lanka: The Insurgency and the Economy [Redacted]

23

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Sri Lanka's Tamil insurgency has had little overall impact on the nation's economy, and, even if the insurgency drags on and the cumulative effects of resource diversion and lost investment grow, the government probably will be willing to bear the economic burden in pursuit of its political goals. [Redacted]

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Sri Lanka: Growing Narcotics Problems [Redacted]

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The Sri Lankan Government, after years of indifference, is growing concerned about domestic drug usage and the increasing participation of Sri Lankans in the international drug trade. But, despite a new draconian drug law, government efforts are hampered by the Tamil insurgency in the north, the traditional narcotics gateway. [Redacted]

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Publications of Interest

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

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Articles

**Syria-Iran-Iraq:
Economic Reasons
To Reappraise the Relationship** 

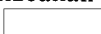
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The Syrian-Iranian relationship was forged on mutual hostility toward Iraq and its President Saddam Husayn—and, to a lesser extent, toward Israel. From the Iranian perspective, Iran gained an Arab ally, a source of arms, and an entry into Lebanon as well as the closure of one of Iraq's major oil export outlets. Syria gained political support, a substantial economic reward, and, so long as the Iran-Iraq war lasts, some relief from Iraqi attempts at subversion and from military pressure along Syria's eastern border. 

prices. Syria failed to pay nearly \$1 billion in oil debts accumulated that year, but Iran ultimately forgave the debt. Under the 1983-84 and 1984-85 contracts, Iran provided annually 1 million tons of oil free and 5 million tons at a \$2.50 per barrel discount. This direct aid cost Tehran about \$300 million per year. Syria again failed to pay during the 1983-84 contract period, and nearly \$1 billion in Syrian oil debts were converted into interest-free loans. 

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Some of these mutual interests may be declining, however, and the economic arguments for the relationship are losing validity. In addition, Syrian-Iranian differences over Iranian and Hizballah activity in Lebanon are likely to grow. 

Syria is now behind on its oil payments for last year's contract with no settlement in sight. During the last two contract years, Iran was also expected to provide small additional quantities of oil in exchange for bartered Syrian goods, but this appears to have fallen through because of a lack of Iranian interest in Syrian exports. 

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Politics and personal antagonism aside, if economic rationalism guided Syrian President Assad's decisions, he would seek an accommodation with Iraq sometime in the next 18 months. The Syrian economy continues to deteriorate, and the country's foreign exchange shortage is worse than ever. The Iranian-Syrian oil relationship is strained by Syria's inability to pay its bills, even though a new one-year oil import agreement is being hammered out. At the same time, Assad has a window of economic opportunity in the next six to 18 months that is likely to slam shut as Iraq's alternative oil export routes are developed through Saudi Arabia and Turkey. 

During the last half of 1984, the oil relationship appeared to be particularly troublesome. Iranian authorities often delayed the loading of Syrian-chartered tankers for long periods, and Syria was forced to close its refineries several times because of crude shortages and had to turn to the spot market to make up shortfalls. 

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The Shaky Oil Relationship

Syria has profited handsomely from the oil deals it worked out with Iran following the closure of the Iraq-Syria oil pipeline in April 1982. During 1982-83, Iran provided Syria with over 7 million tons of oil—1 million tons free, and most of the rest at discounted

Currently, the settlement of last year's debts hangs over the relationship. In addition, Syria is to start paying \$20 million a month beginning in May for the 1983-84 oil debts converted into loans. It is highly unlikely that Syria will come up with the cash for these payments. The country continues to experience balance-of-payments deficits, has a large defense bill, and is not getting as much Arab aid as in the past. 

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Syria's New Oil Supplies

The Syrian-Iranian economic relationship probably will deteriorate as Syria develops its new oilfields near Dayr az Zawr in the eastern part of the country.

[redacted] if presently anticipated—and optimistic—production levels are attained, those fields may be producing enough light crude in 1987 to displace most, if not all, oil imports from Iran. Although not yet fully delineated, the fields probably will have enough reserves for several years of production. President Assad presumably will be careful to confirm the full potential of these fields before he makes his move. Their potential should be evident within the next six to 12 months. [redacted]

While regional politics and Assad's personal antagonism for Saddam Husayn may predominate, Syria once again has an opportunity to shift alliances, repudiate debts, and come out a financial winner. If it looks like the Iran-Iraq war may end or if Syrian-Iranian differences over Lebanon grow rapidly, Assad may well seize the economic advantage of these circumstances. [redacted]

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Iraq's Alternative Oil Routes

As Iraq's alternative oil export routes are developed, the economic incentive to reach a new accord with Syria on reopening the Iraq-Syria pipeline will fade. The new Iraq-Saudi Arabia pipeline is scheduled to be completed about the beginning of next year and will provide roughly 500,000 barrels per day in export capacity. An expansion of the export pipeline through Turkey is planned to be completed by mid-1987.

There are also plans and discussions about an additional expansion of the Iraq-Saudi Arabia line and an Iraq-Aqaba pipeline. [redacted]

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As these alternative oil export routes are developed, Assad will lose the economic advantage he derives from having control over the Iraq-Syria pipeline. In addition, Iran may become weary of Syria's lack of payments for oil if the economic advantage of denying Iraq oil exports through the Syrian pipeline disappears. [redacted]

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Syria's Relationship With Its Donors

If President Assad seeks a rapprochement with Iraq and times his move carefully, he could turn to Saudi Arabia and the other Gulf Arab states, claiming that he has done what they asked and should be rewarded with additional financial aid. He probably would argue that this aid should at least compensate Syria for the financial loss it will suffer from its break with Iran. In addition, if Iraq is not generous in offering transit fees to reopen the Iraq-Syria line, Syria can ask for compensation from its Arab donors on this score. [redacted]

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**UAE-US:
Evolving Military Cooperation** [redacted]

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The United Arab Emirates' defense relations with the United States have grown significantly over the last two years. [redacted]

build a common regional air defense system. The medium-range [redacted] are more capable than the short-range Crotale and Rapier surface-to-air missile systems currently in the emirate of Abu Dhabi and will be compatible [redacted]

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The implementation of these agreements will improve the UAE's defensive military capabilities as well as [redacted] The UAE's increasing military ties with the United States, however, heighten the risk that Iran will launch terrorist attacks against US personnel or leased facilities within the federation. [redacted]

[redacted] The acquisition of the E-2C will provide UAE air defenses with increased radar coverage of the Gulf as well as improved command and control information for the Air Force's Mirage-III/5 fighter aircraft, which have little capability to acquire targets on their own. [redacted]

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US Military Sales

[redacted]

[redacted]

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US-UAE Logistic Agreements

[redacted] In late 1983 the UAE and the emirate of Dubai agreed to [redacted] and occasional port visits, according to Embassy reporting. The number of offshore refuelings off Dubai increased to an average of two a month during 1984. Dubai later agreed to a commercial arrangement for US warships to use its drydock repair facilities, and the first US warships utilized the drydock in March under tight local security. [redacted]

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The UAE has expressed interest in other US equipment, including F-16 and F-18 fighter aircraft, E-2C Hawkeye early warning aircraft, Stinger surface-to-air missiles, helicopters, and a wide range of ground force equipment, according to Embassy reporting. Of these, Washington has approved in principle the sale of the E-2C, but further negotiations are on hold pending a policy review of US arms sales in the Middle East. The emirates of Dubai and Sharjah—which maintain small independent military forces—have also expressed interest in purchasing US equipment, according to Embassy reporting. [redacted]

The United States also proposed a broader military cooperation agreement with the UAE in early 1984 as the Iran-Iraq war escalated. The proposal, which sought access to UAE military facilities, was not accepted, but it laid the groundwork for further talks, according to Embassy reporting. In mid-1984 the emirate of Ras al-Khaimah— [redacted]

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[redacted] will significantly improve its air defenses as well as further the stated goal of the Gulf Cooperation Council to

[redacted] and the pre-positioning of

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nonlethal military supplies. Following extensive discussions among the United States, Ras al-Khaimah, and the UAE federal government, [redacted]

[redacted] After the visit of CENTCOM Commander General Kingston in March, Ras al-Khaimah also agreed in principle to allow CENTCOM to lease commercial storage facilities, according to Embassy reporting. [redacted]

Political Considerations

The UAE is interested in the deterrent value of military cooperation with the United States, in our view. A US defense connection, even without explicit security guarantees, implies great power backing for the federation. In addition, the smaller and poorer emirates believe that substantial economic benefits would flow from increased US military use of local facilities. This would help reduce their dependence on financial support from Abu Dhabi and Dubai, according to Embassy reporting. [redacted]

[redacted]

[redacted] UAE leaders also fear sharper domestic criticism of US policy toward Lebanon and Israel. We believe, therefore, that further increases in military cooperation with the United States are unlikely, at least until local leaders can judge Iranian and domestic reaction to the agreement with Ras al-Khaimah. [redacted]

US negotiations with the UAE also have been slowed and complicated by the diffuse political structure of the federation. Agreements with the United States have to be negotiated not only with the UAE federal government, but also with the individual emirates, which retain considerable political independence. Still, six of the seven emirates support Ras al-Khaimah's movement toward the pre-positioning agreement, with only Dubai objecting, according to Embassy reporting. Dubai, which has substantial commercial ties with Iran and a large Iranian population, has been critical of UAE support for Iraq and of formal military cooperation with the United States, despite its commercial agreement to provide logistic support to the US Navy. [redacted]

Implications for the United States

The ability to refuel in UAE ports and to use the drydock in Dubai for minor naval repairs facilitates US naval operations in the Persian Gulf. US warships can now remain on station longer in the southern Gulf near the Strait of Hormuz. [redacted]

The pre-positioning of CENTCOM supplies in the UAE will enhance US capabilities to conduct military operations in the Gulf during a crisis. The storage of even nonlethal equipment—such as pipeline, water drilling rigs, and tents—will help support a US military presence and reduces the amount of material that would have to be moved into the region in the event of a crisis. [redacted]

CENTCOM-leased facilities in the UAE, however, would be a tempting target for an Iranian terrorist attack. The UAE is Iran's largest trading partner in the Gulf, and the Iranian business community includes approximately 50,000 people. Iranian diplomats or businessmen, especially in Dubai, could be readily used to support a terrorist operation, in our view. Moreover, internal security in the UAE is hampered by a lack of effective cooperation between the emirates. US facilities and personnel would be more vulnerable to an Iranian attack than those in Bahrain and Oman, which have more effective internal security services, in our analysis. A successful Iranian terrorist attack on US personnel or facilities in the UAE could discourage other Gulf states from increasing or initiating closer military cooperation with the United States. [redacted]

Tehran probably does not want to damage its good commercial and diplomatic ties with the UAE, and the signing of a pre-positioning agreement with the United States is not likely to provoke an Iranian terrorist attack, in our view. Other events, however, such as US retaliation against Iran for terrorism elsewhere, could lead Iran to mount an anti-US operation within the UAE. Tehran probably would calculate that a single attack on US personnel or facilities in the UAE would not jeopardize its relations with the federation, and we believe that the UAE response to such an incident—especially if of ambiguous origins—would be largely limited to diplomatic protests and posturing. [redacted]

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If Iran's position in the war deteriorates sharply, Tehran eventually might decide to retaliate against the Gulf states for their continued support of Iraq. Although Iran would be more likely to strike first against Kuwait or Bahrain, the UAE's expanding cooperation with the United States increases the chances that Tehran might launch a military or terrorist strike against the UAE, in our view.

[Redacted]

[Redacted]

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Algeria: Political Dynamics [redacted]

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President Bendjedid has brought about a gradual shift in the direction of Algeria's domestic and foreign policies that we believe will survive his passing from the scene. The radical, pro-Soviet politicians and ideologues who dominated Algerian politics during the first 20 years of independence have been replaced and their strident anti-US rhetoric and policies modified in favor of a more genuine nonalignment. Under Bendjedid's leadership, the country has moved increasingly toward the West, principally to obtain technology and arms, but also to redress the past tilt toward the Soviet Union. Bendjedid has made clear in his actions and public statements that his policies are geared more toward fulfilling contemporary Algerian expectations and solving Algeria's immediate economic and social problems than trying to apply socialist precepts that have been found wanting. [redacted]

obliged to give rhetorical and material support to the Polisario Front and the PLO. [redacted]

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Despite these gestures, Bendjedid is not a revolutionary, nor does he cling to the past. Public pronouncements reveal he is strongly committed to preparing Algeria's postrevolutionary generation—whose members are already in their early twenties—for the responsibilities of governing and continued development of the country [redacted]

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[redacted] Several years ago, Bendjedid announced that serving with him during the revolution was not enough for a person to receive a government or party position. Believing that Algeria's success lies partly in the hands of the experts rather than exclusively with the military, Bendjedid has substantially increased the number of technocrats—many of whom "missed" the revolution—in the government. [redacted]

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The Man at the Top

President Bendjedid publicly espouses an amorphous, nondoctrinaire socialism; in his private life he is a successful capitalist. His stated priority is to provide a better material life for his countrymen. In foreign policy he does not play the aggressive leadership role that his predecessor did in Third World forums, and he has often stated openly that Algeria does not believe in exporting its revolution. As described by a knowledgeable Algerian official, Bendjedid differs from his predecessor in that he wants to be president of Algeria, not president of Africa or the Third World. [redacted]

The Leadership

The Algerian ruling elite is an interlocking network of men with close personal ties and common values derived from their revolutionary experience. The men in the ruling elite are young, ranging in age from 40 to 62, and even the youngest experienced the revolution as an adult. Bendjedid's key advisers—military officers, some prominent figures from the past, and an ascendant group of educated technocrats—are staunch nationalists and often claim they are "Algeria firsters." In contrast to the dogmatic, pro-Soviet cast of previous regimes, the current leadership is pragmatic, and most are Western in their outlook, tastes, and style. [redacted]

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As he charts a new course for Algeria, Bendjedid is aware that he is not entirely free to discard the radical policies or rhetoric of the past. Algeria's eight-year struggle against the French for independence (1954-62) and its revolutionary ideology are still the basis of his legitimacy. Although Bendjedid has reduced the importance of Algeria's role as patron of liberation movements, he allows revolutionary leaders—who elicit little sympathy among Algerians—to pass through Algiers. For reasons of principle, he still feels

Institutionally, decisionmaking in Algeria is highly centralized, but, in practice, Bendjedid seldom exercises the full prerogatives of his office without consultation. We believe he seeks first and foremost

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the approval of the military. Not only is the military Bendjedid's principal power base, but it also is the only source of power that could effectively challenge a presidential initiative. Military officers hold eight of the 30 Cabinet portfolios and 26 percent of the party's membership. The views of the senior military officers undoubtedly weigh heaviest on military, security, and foreign policy questions. We believe that Bendjedid's pragmatic philosophy reflects the attitude of the dominant element in the military. [redacted]

The role in decisionmaking of Algeria's sole political party, the National Liberation Front (FLN), is more ambiguous. The organs of the FLN—the Political Bureau, the Central Committee, and the quinquennial party congress—provide a semblance of "popular" input into formulating government policy. Although largely a rubberstamp body, the Political Bureau under Bendjedid is a more dynamic participant in the decisionmaking process. The 13-member group now meets weekly, and its membership includes a broader spectrum of interests in Algerian policy. The larger bodies—the Central Committee and party congress—give the regime some information on the attitudes and concerns of the citizens outside the inner circle, but, on important matters, the FLN remains an instrument of the ruling elite's political will. [redacted]

Bendjedid's ability to move Algeria along a more moderate path should not obscure the fact that there are influential leftist ideologues and political radicals in the FLN and they remain a potential opposition. Pro-Soviet sentiments almost certainly exist at the lower levels of the FLN, the bureaucracy, and the military. [redacted]

[redacted]

The Regime, the Public, and the Opposition

Most Algerians probably would give Bendjedid high marks for his performance and his efforts to rebuild national pride. Bendjedid's anticorruption campaigns—also a means to eliminate his rivals—have been well received by the public that all too often views the regime's primary goal as self-aggrandizement. Bendjedid's efforts to steer Algeria

back into the Arab mainstream have enhanced his image at home as an Arab statesman. Similarly, there has been widespread support for Algeria's improved reputation resulting from Bendjedid's role in negotiating the release of US hostages from Iran, acceptance of Palestinians after the PLO exodus from Beirut in 1982, and his efforts to mediate the Iran-Iraq war. [redacted]

Despite Bendjedid's political strength, several issues could crack the current government policy consensus or increase popular criticism of the government. Of particular concern is disaffection among students, workers, and Islamic fundamentalists. So far, the regime has had considerable success in controlling dissent by a mixture of accommodation and suppression and by placing a clear limit to government tolerance of criticism. A loyal and efficient security service monitors dissidents and does not fail to resort to force in those instances when militants threaten public order. [redacted]

Fundamentalism. The spread of Islamic fundamentalism in Algeria is being monitored very closely by the government. The regime has not forgotten a series of violent, fundamentalist-inspired demonstrations in Algiers in 1982. Fundamentalist appeal is focused on the urban working class, students, and rural poor. The regime maintains tight control over the national religious establishment to minimize the chances that its Islamic credentials—a cornerstone of its right to govern—are not seriously challenged. Moreover, the government's crackdown after the 1982 disturbances has kept the fundamentalist groups in Algeria small, fluid, and poorly organized, and they do not pose a significant threat to the regime. [redacted]

Economic Problems. Algeria faces social and economic problems similar to those of most developing Third World nations—rising unemployment, a burgeoning population (50 percent are under 18), and an inadequate supply of consumer goods. Strikes among students and workers occur periodically, and gangs of idle youth roam the streets of major cities, increasing the possibility for unrest. Police and security forces have responded quickly and effectively

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to disturbances. More troubling is the impact on Algiers's ambitious investment program of dwindling crude oil revenues and difficulty in marketing natural gas resources—Algeria's primary source of foreign exchange. The Bendjedid regime is in the early stages of decentralizing the large bureaucracy and expanding the private sector of the economy as well as maintaining housing programs and other social services. The government's performance in these areas will probably determine popular attitudes toward Bendjedid's economic management, and any serious misstep is likely to revive the old arguments over socialism [redacted]

Ethnic and Regional Tensions. The Kabyle region in the mountains northeast of Algiers is predominantly Berber and has historically been a center for opposition to the central government—coups against the government were led from this region in 1962 and 1967. Occasional demonstrations among the Berbers arise mostly out of what is perceived as the government's neglect and second-class treatment and not from desires for autonomy. Especially controversial has been the government's Arabization plan—the replacement of French with Arabic as the national language—which the Berbers see as undermining their culture and language. The regime generally tolerates public criticism from the Berbers and has accommodated some demands by increasing the number of Berbers in the government and by allowing Berber to be taught at the university. The Berbers' desire, however, to get a bigger piece of the Algerian pie will remain a flashpoint in Algerian society for some time. [redacted]

Western Sahara. Bendjedid's support for a compromise solution to the Western Sahara dispute could become a contentious issue among Algerian decisionmakers. Although the Western Sahara issue is not central for most Algerians, Bendjedid cannot ignore those factions in Algerian political life that advocate support for the Polisario. Certain groups in the Algerian military and the more ideological wing of the FLN would oppose any attempt by Bendjedid to cut ties with the Polisario. To ensure consensus in the government, Bendjedid realizes that any negotiated settlement must contain at least the appearance of protecting Saharan rights. [redacted]

Outlook

Barring a serious policy failure—for example, an economic crisis or serious Polisario defeat—we believe Bendjedid and his programs will retain strong popular support. Bendjedid's men are in key posts in the government, the FLN, and the military. Although some groups in Algerian society are disappointed that neither the revolution nor Bendjedid's economic policies have lived up to expectations, most believe they can effect changes through the system. Moreover, Bendjedid's sensitivity to military concerns diminishes the possibility for serious friction between him and the decisive element in the Algerian power structure. Finally, lack of leadership, funds, and manpower will limit the opposition's ability to pose a serious challenge to Bendjedid. If Bendjedid died suddenly, we believe that moderate military officers would again probably cast the decisive vote in the succession and select someone willing to support Bendjedid's policies. [redacted]

[redacted]

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Pakistan: Regionalism in Sind ¹

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Pakistan faces pervasive and lasting disaffection in Sind Province. Unless there is outside intervention, however, we do not believe Sindhi social and political groups have the strength or resources to break away from Pakistan. Low-level unrest, including sporadic guerrilla-style attacks on police stations and government officials, may well continue in Sind for the foreseeable future. The Zia government's measured response has contained the worst of the violence, and his appointment of a Sindhi as Prime Minister will have a calming effect, provided Islamabad indicates its willingness to recognize Sindhi political interests.

way for Sindhis at all levels of the bureaucracy, and he supported quotas to ensure the admission of Sindhis into universities and professional schools. He used the nationalization of banks to channel investment funds to interior Sind, distributed government franchises and import permits to Sindhi supporters, and ensured that state corporations established plants in interior Sind cities. Bhutto's policies substantially heightened expectations among groups at all levels of Sindhi society.

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A Legacy of Frustration

We believe the unrest in Sind results from the recurring frustration of Sindhi political aspirations, most recently after the fall of the Bhutto government in 1977. Sindhis charge that, under the Zia regime, Punjabis have become a pervasive social and economic force in Sind, shouldering aside *muhajirs* (postpartition refugees from India) and preempting economic opportunities that should have gone to Sindhis. Sindhi-*muhajir* tensions have given way to Sindhi-Punjabi tensions, with *muhajirs* adopting a more ambivalent position. Some younger generation *muhajirs* apparently sided with radical Sindhi groups during the 1983 disturbances, but most *muhajirs*—the majority community in Karachi—remain deeply committed to a united Pakistan.

the frustration of high economic and social aspirations and the restoration of outside political control, this time with a much stronger Punjabi cast, produced the widespread violence in Sind. Sindhis blamed a Punjabi general commanding a Punjabi army and a Punjabi majority dominating the Supreme Court for Bhutto's execution. From the beginning, the disturbances took on a bitterly anti-Punjab, anti-Islamabad tenor.

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The Bhutto period (1971-77) was a golden age for Sind. Prime Minister Zulfikar Ali Bhutto—himself a Sindhi—reversed policies that had discriminated against Sindhis. Under Bhutto a substantial land-grant program created virtually a new class of Sindhi peasant-owners on unallocated land in the irrigation projects. Bhutto used civil service reform to open the

The major thrust of Sindhi grievances is that outsiders are colonizing Sind. Under Zia, old patterns of outsider privilege resumed in land and resource distribution; a largely Punjabi provincial police often enforced these patterns, according to knowledgeable Pakistani and foreign experts. Punjabi firms strengthened their grip on government contracting and soon dominated private transportation—passenger and freight—in the Sind interior, as one expert traveling in interior Sind found in early 1982. Punjabi managers of new state enterprises, such as the giant steel mill on the outskirts of Karachi, prefer to hire Punjabis.

The *muhajir* community as a whole was not significantly involved in the disturbances despite

¹ This article is the introduction to a contract study that explores in depth the political, social, and economic dynamics in Sind.

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The Components of Unrest

The disturbances that began in late August 1983 and lasted eight weeks were the most violent social eruptions in recent Sind history. Key social and political elements in the disturbances were:

- The Sindhi middle class—students, intellectuals, and professionals—*increasingly disaffected and convinced Sind's problems could not be solved within the Pakistan framework, gave philosophical and political direction to the movement.*
 - Lower level political organizers in the Sind Awami Tehrik and Pakistan People's Party *provided organization that sustained the movement long after the arrest of more prominent leaders.*
 - Sindhi small holders and rural tenants, *long frustrated by unkept promises of land and access to water and other resources, spread the violence to the countryside and along the main transportation routes.*
 - Sindhi rural-to-town migrants, *bitter at the loss of customary cultivating rights to mechanization and outsider owners and at the lack of jobs for Sindhis, produced some of the most violent confrontations.*
 - The rural religious establishment of pirs and makhdums, *the spiritual leaders of the peasantry, played key roles in leading and sanctioning the movement.*
 - Low-level Sindhi government workers and policemen *failed to support government initiatives and furnished movement leaders with intelligence.*
 - The Sindhi landlord class, the traditional political leaders of Sind, *were taken by surprise by the force and depth of the movement, but they rallied to the cause, largely to keep the movement from passing entirely into the hands of more radical forces.*
-

reported Sindhi demands that they take an anti-Islamabad stand.

some *muhajir* youth, who were born in Sind and have lived there all their lives, joined their Sindhi compatriots against the government. Older *muhajirs* retain a deep loyalty to a united Pakistan and were extremely concerned about reports that India was exploiting the unrest. *Muhajir* political leaders were ambivalent, not openly supporting either the government or the movement.

Current Political Alignments

We believe the disturbances and their aftermath have produced a partial realignment of political forces in Sind. All the political parties in Sind have undergone change.

The *Pakistan People's Party* (PPP) remains the sentimental favorite for most Sindhis. Bhutto's daughter and political heir, Benazir Bhutto, has enormous personal support among the Sindhi rank and file of the party and among party workers, , and the party has improved its local organization over the past five years.

Still, the PPP faces severe problems. Its traditional landlord leadership is caught between its dependence on the bureaucracy and a skeptical party organization that is more leftist and anti-Islamabad than it is pro-Sindhi. According to interviews with Sindhi leaders, the landlords of Sind deeply fear that the Sindhi middle class will unite with leftist pro-Sind nationalists to press for a reorganization of the province's system of landownership. At least one faction of PPP landlords (Mumtaz Bhutto and Hafeez Pirzada) has adopted a Sindhi nationalist position, thus widening old factional alignments in the party leadership.

The *Jiye Sind Movement* (JSM) represents the Sindhi middle and professional class and is the most uncompromising Sindhi nationalist group, but it has not strengthened its traditionally weak organization.

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The *Jiye Sind Students' Front* (JSSF) sustains much of the movement's activist thrust. According to interviews with Sindhi leaders, the JSSF is better organized than its parent movement and has considerable experience in confrontational student politics. [redacted] the JSSF had an armed underground wing that has on occasion clashed with the police and the military in Sind and may have the capacity to mount occasional attacks on government personnel and installations.

The Sind disturbances clearly demonstrated a significant degree of organizational development and peasant support for the extremist *Sind Awami Tehrik* (SAT), but an ideological conflict threatens its unity and effectiveness. The Marxist left in Pakistan has never decided how to treat regional nationalism, and SAT leaders have been concerned that a successful Sind independence movement would bring landlord and middle-class elements to power. Although *muhajir* and Punjabi leftists have convinced them that the Sind peasantry can achieve its goals only by uniting with leftists throughout the country, the rank and file of the SAT is more committed to a Sindhi solution and probably would seek middle-class allies against the landlords should a separate Sind emerge.

The main *muhajir* parties in Sind are in flux. The Karachi wing of the *Jama'at-i-Islami* has always been less enamored of the Zia regime than the more powerful Punjabi wing. The party did not do well in the elections last February, and the Karachi group may come under increasing pressure to go its own way. The Jama'at will remain suspicious of Sindhi nationalist groups, although some Karachi *muhajirs* may support greater provincial autonomy should Punjabi domination become overbearing.

The *Jamiat-ul-Ulema-i-Pakistan*, which has strength among *muhajir* communities in interior Sind towns, stands to lose the most from any significant pro-Sind shift in *muhajir* opinion. [redacted] *muhajir* youth who have joined groups like the JSSF have come from Hyderabad, Khairpur, and Sukkur. Unlike Karachi, where Urdu speakers predominate, *muhajirs* in interior Sind have been more exposed to the force of Sindhi opinion. Like the Sindhis, their younger generation has found it difficult to compete in education and the professions.

Like the Sindhis, they are more prone to resent growing Punjabi influence. One area expert traveling in Sind in 1983 found the *muhajir* sons of bazaar merchants in Sukkur determined to identify themselves as real Sindhis.

Balancing Factors

Based on interviews with political activists and area specialists, we believe the 1983 disturbances spawned a committed underground separatist movement in Sind. Although we believe a majority of Sindhi speakers probably sympathize with such an underground, most powerful groups will use separatist demands to enhance their leverage with Islamabad. We doubt they would actively support separatism unless their demand for regional political power is rejected. Once Sindhi leaders regain a measure of local political control, we believe sentiment for an independent Sind will decline.

Although anti-Pakistan sentiment remains high in interior Sind, we believe the province's increasing dependence on a growing national economy will keep Sind a part of Pakistan. Interior Sind's agriculture—the chief source of its wealth—is increasingly dependent on national markets, on urban-based agro-industries, and, most critically, on river water managed by dams and barrages upstream in Punjab and the North-West Frontier Province. Sindhi speakers are on the verge of becoming a minority in their own province, and we doubt that the most committed regionalists—a weak Sind middle class and a small independent peasant class—have the resources to sustain a separatist struggle.

Outlook

The choice of Mohammad Khan Jenejo, a landlord politician allied with the Pir of Pagaro, as Prime Minister of Zia's new civilian government may be an effort to reassure Sindhis and like-minded provincial groups that their interests will be respected under the new administration. Pagaro's support for the Zia regime during the Sind disturbances did little to endear him or his Muslim League to many Sindhis, despite his status as Sind's most revered pir. Nevertheless, an elected National Assembly in Islamabad and a Sind Assembly in Karachi provide

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an outlet for Sindhi grievances and a chance for patronage politics to channel land, water, capital, and resources to Sindhi interests.

The real issues in Sind are basic: control of land and water; access to education, capital, and economic opportunities; and participation in government and administration. Low-level unrest in Sind, with occasional violent outbreaks, will continue as long as Sindhis feel excluded from political and economic opportunities in their province. For the immediate future, much depends on the amount of power the Army and President Zia devolve to the National and provincial assemblies and how much direction the bureaucracy can be made to take from the civilian cabinets.

Although we doubt that Sindhi nationalist groups have any prospect of gaining an independent Sind short of massive external intervention, any political arrangement that maintains Punjabi dominance in Sind risks future disturbances and low-level guerrilla warfare. Sindhi groups like the Sind People's Party, Jiye Sind Movement, and Sind Awami Tehrik, along with substantial *muhajir* elements, could put aside their differences to unite against Punjabi control. When the chips are down, we believe the national government has the resources to maintain the unity of Pakistan by force, but the cost to the country's integrity, national security, and economy would be massive.



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**Pakistan:
Army Equipment Needs** [redacted]

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Pakistan plans to emphasize meeting Army needs in future defense procurement. Pakistan is particularly interested in acquiring artillery, air defense, and armor items.

[redacted]

The Type 59 is based on a 1950s Soviet model and will have only a minor impact on the Indo-Pakistani military balance. There is little likelihood of further extensive purchases from China because of financial constraints, in our view.

[redacted]

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Pakistan is also interested in purchasing several expensive West European weapon systems, notably the Swedish Bofors air defense missile. But exacting credit terms make it unlikely that significant purchases will be made in Europe.

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The Army's Turn

Since it began a major US-backed military modernization program in 1981, Pakistan has given higher priority to its Air Force and Navy than to its Army. Islamabad has spent about \$1.1 billion on 40 F-16s.

[redacted]

[redacted] In contrast, Pakistan has spent only about \$400 million on new army equipment since 1981, even though the Army is the largest of the three services.

[redacted]

Pakistan cannot meet Army needs for advanced equipment through domestic production. Islamabad manufactures only the Chinese Type RPG-7 antitank rocket, small arms, and ammunition.

[redacted]

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The Army's Priorities

We believe the Army will give first priority to improving its artillery. About 1,000 of its 1,200 major artillery pieces consist of US equipment of World War II or Korean War vintage or Chinese equipment from the 1950s. These pieces have poor gun tubes and lack modern counterbattery radar equipment and advanced munitions.

[redacted]

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The Importance of the United States

We believe Pakistan must rely primarily on the United States for its army equipment needs. Other potential sources—China, Western Europe, or Pakistan's domestic industries—are either unwilling or unable to provide sophisticated equipment at acceptable prices.

[redacted]

[redacted] Pakistan will probably buy 200 more Type 59 tanks

[redacted]

Pakistan is particularly interested in the US Copperhead artillery shell.

[redacted]

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[redacted] The Copperhead is an advanced but costly new antitank system that has not yet been deployed by US forces.

[redacted]

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Pakistan is also interested in additional purchases of US self-propelled howitzers and radars.

[redacted]

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[redacted] Army officials are pleased with their purchase of about 100 US self-propelled M109A2 and M110A2 howitzers—the most

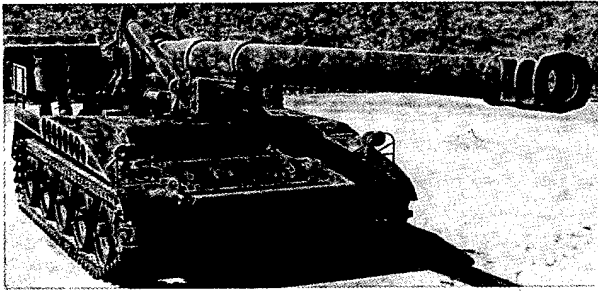
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M110A2 self-propelled howitzer [redacted] *Jane's Armour and Artillery 1983-84*



M48A5 tank [redacted] *Jane's Armour and Artillery 1983-84*

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advanced in the world—and 25 advanced AN/TPQ-36 and AN/TPQ-37 radars that enable artillery batteries to track and locate weapons firing simultaneously from different positions even before their shells have landed. [redacted]

The Army's second priority, in our view, is improved air defense. [redacted]

[redacted]—and about 50 obsolete Chinese 57-mm radar-guided air defense guns based on a 1950s Soviet system. Pakistan also has hundreds of Chinese 37-mm air defense and heavy machineguns that must be operated manually and are even less effective. [redacted]

Pakistan wants to buy the US Stinger Post, the man-portable air defense missile, instead of the Stinger basic, [redacted] The Stinger basic is more capable than the Redeye because it has a greater range and is somewhat more maneuverable, but the Stinger Post has an advanced optical system that allows it to block out sunlight and flares that degrade its performance. [redacted]

We believe the Army's third priority is the modernization of its aging tank force. Pakistan has about 750 operational Chinese-built Type 59 tanks, about 200 US-built M48A5 tanks, and about 150 US-built M-47 tanks. Pakistan wants to buy more M48A5 tanks and is interested in US assistance in constructing a rebuilding facility for them. [redacted]

Pakistan wants US or European firms to upgrade its tanks. Most of Pakistan's US tanks have been upgraded, but the guns of its Chinese tanks must be converted from 100 mm to 105 mm to penetrate the armor of the T-72, India's newest battle tank.

Pakistan also wants to add a computerized fire-control system, laser rangefinders, gun stabilizers, night vision devices, fire suppression equipment, and improved reactive armor. It wants to convert gas engines to diesel to keep pace with India's modernization program, [redacted]

Outlook

We believe the Indian Army will continue to increase its advantage in arms and men even if the United States assists the Pakistani Army to modernize its forces. The Indian Army plans to create three to five new Army divisions including a second mechanized division during the next five years. The Indian Army also plans to upgrade its 2,000 Vijayanta tanks and will begin producing the T-72 in 1985. [redacted]

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India: The Military and Nuclear Weapons [redacted]

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An Indian decision to embark on a nuclear weapons program to counter development of a Pakistani nuclear weapons capability would probably receive broad support in the Indian military. We do not believe, however, that the military is actively lobbying for a nuclear weapons program or is likely to do so in the near future. The traditionally nonpolitical Indian military leaders publicly argue that the decision to go nuclear is a political one, but they undoubtedly believe their advice or concurrence would be sought.

[redacted]

A decision to acquire nuclear weapons would probably set in motion a program to develop both tactical and strategic delivery systems.

Service Views

[redacted] that active Indian military officers are notably reluctant to discuss nuclear matters. We believe that, while it is the general practice in the Indian military not to openly discuss views that could have political repercussions, they talk about nuclear weapons and warfare in private. [redacted]

[redacted] most Indian

officers support worldwide disarmament, but they also believe that Pakistan is developing a nuclear weapon and that India should, therefore, have a nuclear deterrent. [redacted] our best, albeit dated, evidence on the views of senior Indian officers on nuclear weapons comes from the published proceedings of seminars on nuclear weapons sponsored by two service-affiliated organizations in 1981. [redacted]

These seminars were a highly unusual public response to contemporary political events—renewal of US arms aid to Pakistan and the controversy surrounding

the BBC television production of “The Islamic Bomb,” an expose of Pakistan’s nuclear program. The first seminar, according to Lt. Gen. K. Sundarji, the coordinator of the College of Combat seminar, was aimed at airing military views during the debate over nuclear policy and national security issues. Sundarji added that the publicity about Pakistan’s nuclear efforts gave added urgency to a military perspective. The second conference, sponsored by the United Services Institute of India, was undertaken with particular reference to the possibility of Pakistani development of a nuclear weapons capability. Active and retired military personnel and civilian defense strategists participated in the seminars. Only selected papers were published, and the notes of the open debate were never made public. [redacted]

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The sense of both seminars was that, if Pakistan acquired a minimum nuclear weapons capability, India would have no choice but to follow suit. Seminar participants also suggested that a credible weapons program should match China’s second-strike capability before the end of the decade. China, as the major Asian power, the victor in the 1962 Indo-Chinese war, and an ally of Pakistan, was—and is—seen to be the primary threat to India’s regional dominance. True to the nonpolitical tradition of the Indian military, the participants took pains to emphasize that launching a nuclear weapons program was a political decision to be made by civilian leaders.

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Reservations

Military reservations about adopting nuclear arms seem to revolve around the difficulties involved in making major changes in current tactical and strategic plans, [redacted]

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[redacted] Aside from the general horror of the effects of nuclear warfare, the use of nuclear weapons is a novel concept to Indian military officers that apparently makes them uneasy

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because of the lack of a fully developed Indian nuclear doctrine. [redacted]

The impact on conventional forces and weapons is a basic concern of military officers, [redacted]

[redacted] The officers fear that the budget for conventional weapons would be cut to pay for nuclear weapons and new delivery systems. Operating in a nuclear theater would demand greater mobility and specialized protective gear, leading to expensive mechanization and probably an overall reduction in forces. The individual services are worried about which service would assume control of the weapons. The high level of interservice coordination and cooperation that would be necessary is also seen as a potential problem. [redacted]

Preparedness

Despite the acceptance by most Indian military officers of the need to acquire a nuclear deterrent, [redacted]

[redacted] Indian Army officers are acquainted with the technical terminology of nuclear warfare, but they have received only limited instruction—viewing 1950s training movies and reading outdated British manuals. [redacted]

Military Role in Decisionmaking

Any decision to embark on a nuclear weapons program will have to involve top military officers. Although the military did not participate in the decision to test a nuclear device in 1974, [redacted]

Given changes in the past few years among India's most senior military officers, we cannot rule out the possibility that the Chiefs of Staff may have greater impact on nuclear policy than in the past. For instance, Lt. Gen. K. Sundarji was appointed Vice Chief of Army Staff in March 1985 and is the senior contender for the position of Army Chief of Staff in January 1986. [redacted]

We believe that military protestations about the political nature of the decision are simply public manifestations of the apolitical tradition the military

tries to maintain. In any event, some observers of the Indian military fear that the apolitical tradition is fading. According to the Indian press, appointments over the last few years appear to have been motivated by nonmilitary considerations as ranking officers were passed over in favor of more politically acceptable appointees. [redacted]

Outlook

In our judgment, if India decides to acquire nuclear weapons, it will embark on a full-fledged program to develop both tactical and strategic delivery systems with a view toward the potential threats from both Pakistan and China. In the wake of such a decision, we would expect:

- Active lobbying by the services for nuclear weapons tailored to particular service needs.
- Development of new command and control systems.
- Increases in and reallocation of the military budget. [redacted]

We would also expect to see for the first time direct military involvement in the nuclear program. Closer relations would be needed between the Scientific Adviser and Secretary for Defense Research and Development in the Ministry of Defense (both posts currently held by V. S. Arunachalam) and the nuclear research and development program centered at the Bhabha Atomic Research Center in Bombay. Some integration of military engineers and scientists with civilian researchers could also be expected. [redacted]

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**India's Position on Afghanistan:
Prospects for Change**

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The Indian Government opposes the Soviet occupation of Afghanistan, but its private efforts to influence the USSR's decisions have been unsuccessful and have irritated Moscow. Given this experience and India's continuing reliance on Soviet arms supplies, Rajiv Gandhi probably will avoid public confrontations on this issue in the near term. With strengthened ties with the West, a strong political position at home, or signs that Moscow has ambitions beyond Afghanistan, Rajiv could review his position.

- India, however, would not get into "the game of mediation." New Delhi has indicated on other occasions that it might be willing to play "a more active role" if the Soviets did not object.

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Other Factors

India's position on Afghanistan reflects an effort to bolster its nonaligned credentials by steering a course between Moscow and its opponents. The Indians view their abstention on the annual UN resolution on the occupation of Afghanistan as a neutral act. They probably hope that supporting the nonaligned consensus—which condemns the occupation of Afghanistan by unnamed foreign troops—will deflect criticism of nonaligned moderates for failing to condemn the Soviet occupation outright. Rajiv Gandhi has echoed his mother's wish for an end to both the Soviet military presence in Afghanistan and US aid to the Afghan resistance.

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Dealing With Moscow

New Delhi's public stance on Afghanistan conceals considerable frustration over the Soviet intervention. The Indians resented Moscow's failure in 1979 to advise them of the impending invasion. Beginning in 1981, Indira Gandhi expressed with increasing openness her unhappiness over the Soviet occupation. She publicly voiced some of her concerns while in Moscow in 1982, to the consternation of her hosts.

The Indians argue that their recognition of the Babrak Karmal regime in Afghanistan does not confer legitimacy on Babrak's Soviet backers and even claim that recognition will ensure the country's independence and nonalignment if Soviet troops pull out. They believe a prolonged occupation will "Sovietize" Afghanistan and dim prospects for its eventual return to independence. Foreign aid for Afghan insurgents, in New Delhi's view, makes Soviet troop withdrawal less likely.

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Indian Foreign Secretary Bhandari's recent comments to US Under Secretary of State Schneider in New Delhi reiterated the basic Indian view. Bhandari said:

- The Soviet military presence in Afghanistan is likely to become permanent unless a diplomatic solution is found soon.

Some Indian officials privately acknowledge embarrassment over New Delhi's policy on Afghanistan. US diplomats in New Delhi reported that the abashed official who was charged with explaining his government's vote in the United

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Nations to block a human rights investigation backed by the United States admitted that Soviet pressure has played a part in India's stance for the past two years. When asked why India sided with Libya, Syria, and Mozambique, he countered that from time to time US positions on human rights also reflected conflicting political interests [redacted]

Regional Repercussions

New Delhi believes the regional repercussions of the Soviet invasion pose a more direct threat to India than the invasion itself. In the Indian view, the invasion has:

- Increased superpower competition in a region where New Delhi aspires to unchallenged military and political dominance.
- Sparked the renewal and growth of US-Pakistani military ties that are not only strengthening Pakistani military capabilities but also, in the Indian view, seem likely to provide the United States with basing rights in Pakistan.
- Allowed the security relationship between Washington and Islamabad to acquire a dynamic of its own apart from the common cause in Afghanistan, with the United States willing to tolerate Pakistani progress toward a nuclear weapons capability in return for a foothold in the region. [redacted]

Outlook

We believe Rajiv's recent statement to Parliament that he will maintain the time-tested foreign policy he inherited suggests he will continue in the near term to avoid positions likely to antagonize Moscow. His adherence to the foreign policy status quo could reflect a desire to focus his efforts on putting his domestic house in order, or it could imply that he has not yet formulated his position on such key issues as Afghanistan. Indian officials, however, expect that Rajiv will be more forthright in asking for a withdrawal of Soviet forces and encouraging the United Nations to seek a political solution. [redacted]

In our view, New Delhi probably believes that a significantly changed Indian stance on Afghanistan would yield no more tangible concessions from

Washington on US policy in the region than it would from Moscow. The Indians doubt that the United States intends to modify its security relationship with Pakistan, which New Delhi believes implicitly challenges India's regional hegemony. Earlier this month, Rajiv publicly cited the flow of US weapons both to Islamabad and to the Afghan insurgents as an obstacle to closer Indo-US ties, and Indian planners calculate that increased US aid to the insurgents will result in a deeper US commitment to Pakistan's defense. Some Indians believe that Washington disregards the danger that an unconditional Soviet withdrawal could open the way for a fundamentalist Islamic regime in Afghanistan. [redacted]

Rajiv, in our view, would resent any US attempt to alter India's foreign policy as the price for technology transfer or concessional aid. New Delhi is proud of what it sees as its independent and pragmatic pursuit of its national interests and, overall, sees its carefully calibrated policy on Afghanistan as serving these interests. Any appearance of yielding to US pressures would damage Rajiv's credibility at home and probably in the Nonaligned Movement. [redacted]

Several developments, in our view, could prompt New Delhi to reevaluate its policy on Afghanistan. Growing prosperity at home and a waning of Sikh troublemaking would allow Rajiv to focus on foreign policy issues and consider major policy shifts. [redacted]

A slowdown in Pakistan's military acquisitions, warmer ties with the West—including increasing flows of high technology from the United States and Europe—and progress toward arms diversification also would allow, even encourage, New Delhi to reappraise the costs and benefits of its reliance on Moscow. New Delhi, for example, might publicly condemn the Soviet invasion without simultaneously criticizing foreign aid to the insurgents. This would be a significant shift from its current stance. The Indians also could change their vote in the United Nations—a clear signal that New Delhi has reordered its foreign policy priorities. [redacted]

The Indians would still have to weigh the potential cost of changing their policy on Afghanistan—disruption of Soviet arms supplies that they consider

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essential to counter Pakistan's military might. New Delhi knows that, for the rest of the decade, its reliance on Moscow for spare parts—and for sophisticated arms offered on uniquely concessional terms—could enable the Soviets to raise the penalty for diverging from Moscow's preferences on a range of issues. [redacted]

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Despite these concerns, we believe that New Delhi's assessment of the threat posed by Afghanistan to Indian interests—and its stand on the issue—would change rapidly if the Soviets:

- Appeared ready to expand their presence beyond Afghanistan, reducing Pakistan's viability as a buffer between India and Soviet-occupied Afghanistan.
- Stepped up pressure on India to grant military facilities or other concessions that would compromise India's independence.
- Acquired such facilities in a neighboring country.
- Markedly improved relations with China, reducing—in India's estimate—the value Moscow places on New Delhi's friendship. [redacted]

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Could India Move Closer to Moscow?

India's commitment to nonalignment, its sensitivity about being perceived as a tacit Soviet ally, and its reservations about long-term Soviet intentions in the region all will continue to make New Delhi reluctant to consider closer regional cooperation with Moscow. Still, there are several US moves that could cause the Indian Government to consider more cooperation with the Soviets if it:

- Believed that Pakistan developed a nuclear weapon with the tacit consent of Washington.
- Had firm evidence that the United States acquired the use of military facilities in Pakistan or another neighboring state.
- Saw major transfers of advanced US arms to China.

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**Sri Lanka: The Insurgency
and the Economy** [redacted]

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We judge that Sri Lanka's Tamil insurgency has had little overall impact on the nation's economy. The insurgency has been largely confined to the Tamil-dominated north and east, and national economic growth, buttressed by high tea export earnings, has remained strong. Clearly, the economic costs have been insufficient to deter Colombo from its goal of trying to impose a military solution on the Tamils. Even if the insurgency drags on and the cumulative effects of resource diversion and lost investment grow, the government will probably be willing to bear the economic burden. Although the Tamil community has been harder hit than the Sinhalese, it, too, seems willing to accept increasing economic costs in pursuit of its political goals. [redacted]

Economy Remains Buoyant

Since 1977, when the Jayewardene administration ushered in an era of economic liberalization, the Sri Lankan economy has performed well. The new government policies and liberal foreign aid helped Sri Lanka double the 3-percent average annual GDP growth rate attained under the previous socialist-oriented Bandaranaike government. [redacted]

The country's foreign payments position, which deteriorated under the Jayewardene administration because of increased imports, is also improving. Higher export earnings and a decline in imports reduced Colombo's merchandise trade deficit in 1984 to nearly half that of 1983. This has led to a near 40-percent rise in gross foreign financial reserves, equivalent to about five months' imports. Increased foreign earnings have, at least temporarily, lowered the debt service burden from 21 percent of exports of goods and services in 1983 to an estimated 17 percent in 1984. [redacted]

The two major contributors to Sri Lanka's improved economic position have been tea and textile exports. Over the past two years, abnormally high world prices have enabled Sri Lanka to more than double foreign

sales of tea, its primary export. Textiles, which contributed only 7 percent of export earnings in 1979, had by 1984 nearly tripled their share to an estimated 20 percent—largely because of exports to the United States. We expect tea earnings to drop this year because of lower prices, but higher textile exports and reduced imports should moderate any rapid rise in the 1985 trade deficit. [redacted]

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Insurgency's Overall Economic Impact Limited

The insurgency's limited impact on the economy is reflected in key domestic indicators. The major plantation export crops—tea and rubber—registered production increases in 1984 of 18 and 7 percent, respectively. Even output in the inefficient public sector grew last year. Prices are expected to rise more slowly this year than last because of tightened credit controls and the reliance on less inflationary nonbank borrowing to finance the public deficit. [redacted]

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Although defense spending is expected to rise nearly 50 percent this year over 1984 levels, it will still account for no more than about 6 percent of government expenditures and only 2 percent of GDP. Development expenditures are likely to be maintained except for the violence-ridden north; a 15-percent real increase in capital and maintenance spending is scheduled for 1985. The budget deficit is expected to increase in 1985, but as a percent of GDP it remains lower than the average of the past five years. [redacted]

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Sri Lanka depends on foreign aid—mainly from the United States, Western countries, and multilateral development banks—to underwrite its ambitious development programs. With such assistance expected to fall over the next few years because of declining project spending and donor budget constraints, we believe Colombo will have to cut either development outlays or defense spending. [redacted]

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Tourism and Foreign Investment Suffer

The insurgency has taken its toll on Sri Lanka's once booming tourist industry. Since 1982, when tourist earnings peaked at nearly \$132 million, arrivals have dropped 22 percent and revenues, 24 percent. The largest one-year decline occurred in 1983. Last year overall earnings fell again, but arrivals from the lucrative West European market increased. The US Embassy projects earnings this year will return to 1983 levels. [redacted]

Over the past two years, the insurgency has contributed to declines in foreign investment and joint-venture approvals of 25 and 45 percent, respectively. [redacted] foreign and domestic businessmen are reluctant to launch new ventures because of a concern for political stability and a lack of government assurances of protection. Foreign and domestic investment in Sri Lanka had already been declining before the insurgency, however, largely because of fewer lucrative investment opportunities, an overvalued exchange rate, poor communications facilities, and perceived government backsliding on liberalization. [redacted]

Mixed Impact on Tamils

Most of the economic disruption has occurred in Sri Lanka's Tamil-dominated northern and eastern provinces, where the insurgency is most active. Press and Embassy reports note that increased naval surveillance, Army attacks on fishing villages, and the refugee exodus to India—mostly of Tamil fishermen—reduced Sri Lanka's fish catch by one-third last year. This year, crop production and marketing in the north and east have also been disrupted, a factor that contributed to Colombo's decision to import 150,000 metric tons of rice to bolster national stocks. [redacted]

US Embassy sources suggest that Jaffna district—where about 42 percent of Sri Lanka's Tamil population reside—is the most seriously affected area. [redacted] the insurgency has led to a near collapse of the civil administration and the disruption of banking, transportation, and manufacturing in the district. [redacted]

An Embassy source familiar with the region notes, however, that the insurgency has caused only periodic shortages of food and fuel. For the most part, the Army has been able to keep road and rail lines open to facilitate the movement of essential commodities. Insurgent activity has made transport more costly and risky and has forced farmers to dump their supplies in local markets at depressed prices. [redacted]

Sri Lanka's Tamil professionals and businessmen, who once played a major role in the nation's economy, now face severely limited opportunities. We believe that some wealthy Tamils have liquidated their assets and left for safehavens in India, Malaysia, or the West. [redacted]

By comparison, Indian Tamil tea estate workers in the central highlands have prospered, largely because they have eschewed the insurgency. Under the shrewd leadership of S. Thondaman, the head of the Ceylon Workers Congress and a Cabinet minister, the tea workers have been able to use their important economic position and their willingness to remain neutral to gain higher wages, a suspension of the government's plan to repatriate them to India, and renewed assurances of full citizenship. [redacted]

Outlook

If, as we expect, the insurgency remains confined to the Tamil-dominated north and east, the economic costs of the conflict are likely to grow only slowly. Colombo will probably further increase military spending this year, but this will still account for only a small proportion of government spending. Foreign investment and tourism are likely to remain depressed as long as the insurgency continues. [redacted]

If the insurgency spreads to the Sinhalese south or among the tea estate workers in the central highlands, its economic impact will increase significantly. Most of Sri Lanka's manufacturing and tourist industry is located in the south, and sabotage of foreign-owned businesses or attacks on hotels could erode Sinhalese confidence in the regime and jeopardize the country's efforts to continue economic liberalization and

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diversification. Tea accounts for up to 40 percent of export earnings, and, if Tamil estate workers decide to strike in support of separatist demands, Colombo would find it difficult to stall political negotiations [redacted]

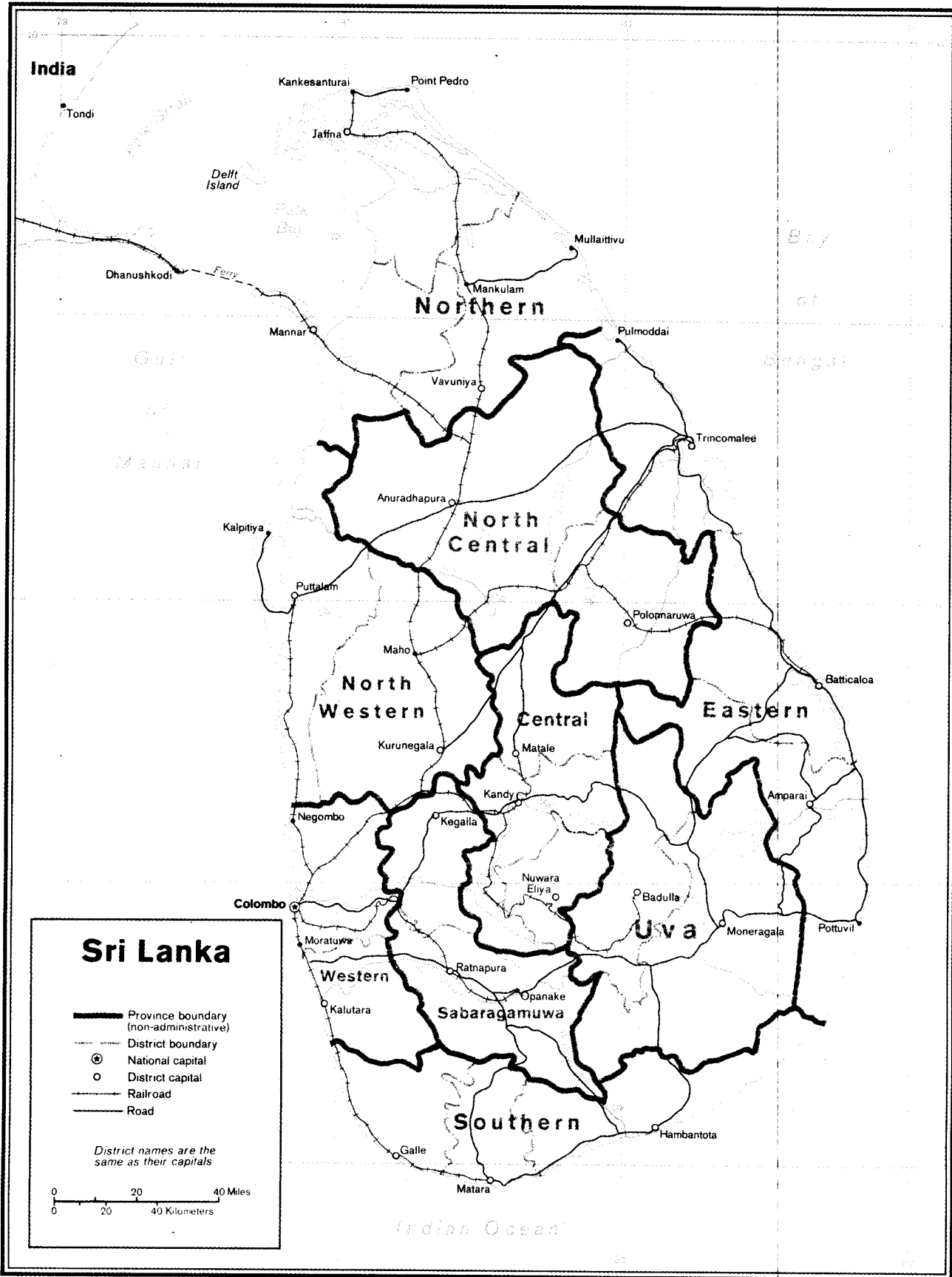
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We expect, however, that the Tamil community and the government will be more responsive to political rather than to economic pressures. Although the Tamils have been hit hardest by the economic impact of the insurgency, they appear prepared to sustain hardship rather than give up their political goals. Similarly, popular support for the counterinsurgency among the Sinhalese suggests that increased economic costs alone will not cause a shift in Colombo's strategy. [redacted]

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**Sri Lanka:
Growing Narcotics Problems** [redacted]

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The Sri Lankan Government, after years of indifference, is growing concerned about domestic drug usage and the increasing participation of Sri Lankans in the international drug trade. The major reasons for this new sense of alarm are:

- Sri Lanka has developed a new international image as a transit point for drug trafficking.
- Large numbers of Sri Lankans are being apprehended abroad as drug couriers.
- Domestic drug abuse is escalating rapidly.
- The government suspects Tamil insurgents of using the drug trade to finance their struggle.

Although Colombo enacted a draconian drug law in 1984 to curb the flow of narcotics to and from Sri Lanka, it is hampered by inadequate numbers and quality of narcotics law enforcement personnel, unreliable intelligence data, and nonexistent enforcement activity in the north, where Tamil insurgents control the countryside. [redacted]

Background

Opium has been coming to Sri Lanka from India since the 17th century, almost entirely along a trade route that terminates in the Jaffna peninsula, where smugglers traditionally operated freely. In the 1970s, Sri Lanka was used occasionally as a transit point for opium and heroin shipments from the Golden Triangle (Burma, Thailand, and Laos). Occasionally, authorities seized heroin from Singapore-registered vessels coming into Colombo, as well as drugs from raids on private yachts calling at Galle and Trincomalee. Trafficking was not a major problem, however, and police enforcement was rare. [redacted]

By the 1980s when the international narcotics trade had shifted its focus from the Golden Triangle to the Golden Crescent of Pakistan, Afghanistan, and Iran, Colombo was gradually becoming a favored stopover for narcotics smugglers. Sri Lanka had become a regular link in the region's drug distribution chain from both the Golden Triangle and the Golden Crescent by 1983. [redacted]

The volume of opium imported illegally from India was estimated by Sri Lankan authorities to be 6 to 7 tons in 1984, [redacted] Some opium goes for legally prescribed folk medicine, more goes to the aging local addict population, but there is no reliable estimate on the amount of opium that is transshipped. Only one opium-to-heroin conversion laboratory has been found in Sri Lanka (in 1981), but narcotics authorities suspect other laboratories are located in the north. [redacted]

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Drug addiction received a boost in the 1970s as Western tourists attracted by the easy availability of cannabis, hashish, opium, and heroin traveled to Sri Lanka. Drug usage spread from the tourists to the hosts, and there are an estimated 2,000 heroin addicts and at least 100,000 cannabis users now in Sri Lanka. The narcotics trade continues to escalate, and heroin seizures at airports and seacoast resorts have increased from 300 grams in 1981 to 100 kilograms in the first half of 1984. [redacted]

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Sri Lankan Drug Couriers

[redacted] new drug-trafficking networks have been set up by Sri Lankans. Although they have not yet found firm evidence that the rings originate in Sri Lanka, authorities are alarmed at the rising number of Sri Lankan citizens being arrested throughout Western Europe and in several Communist countries. The chief of the French Narcotics Police told a high-ranking US State Department official last March that Sri Lankans had the most important trafficking network in France. The French official believes there are links between the traffickers and the Tamil liberation movement, but he did not provide any details to support his claim. [redacted]

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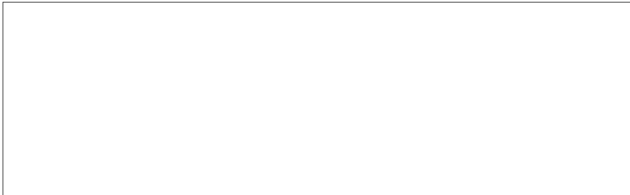
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Italian authorities filed charges in March against 94 Sri Lankan Tamils suspected of setting up a drug-smuggling ring in Rome. Most were unemployed, and several had had their tongues cut out before their arrest. Arrests were also reported in Naples, Syracuse, Milan, and Catania. The Naples group, most of them gardeners and hotel workers, were reported by the press to be linked with local organized crime figures. [redacted]



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Government Responses

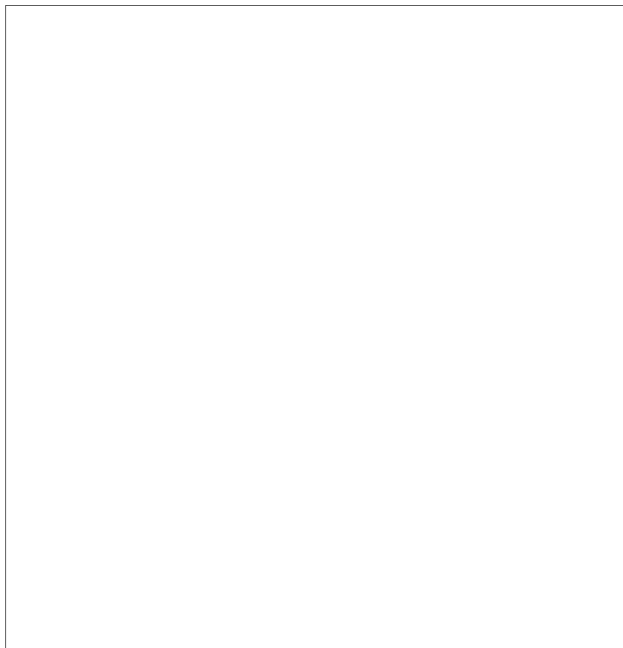
In 1983 the Sri Lankan Government began to take a harder look at the narcotics problem after years of rhetoric and lax enforcement of antiquated drug laws. President Jayewardene pushed through a stiff new antinarcotics law. The law, which was passed by Parliament in March 1984, has several important provisions:

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- Death or life imprisonment for trafficking or possession of more than 2 grams of heroin or cocaine.
- Offenses related to narcotics are nonbailable.
- Creation of a National Dangerous Drugs Control Board with wide powers to formulate and review national policy on drugs. The Board is designed to give Cabinet-level attention to the activities of the existing National Narcotics Bureau, a police organization that has been severely hampered by lack of manpower, training, and equipment. [redacted]

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Reporting in late 1984 from the US Embassy in Colombo indicates that Europe, rather than the United States, is the final destination [redacted]

The government's concern over possible links between drug traffickers and the Tamil insurgents was reflected in a recent move establishing direct radio communications with Interpol. The Interpol connection will give Sri Lankan police access to information on criminal cases in 100 member countries, and this suggests authorities are seeking more substantial evidence that Tamil separatists are financing their terrorist activities through the international narcotics network. [redacted]

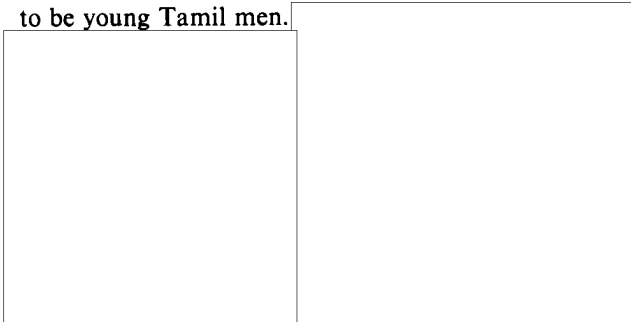
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The Insurgent Connection

The Sri Lankan Government increasingly believes that heroin smuggling is used to finance the Tamil insurgency. Most Sri Lankan drug traffickers appear to be young Tamil men. [redacted]



A Worsening Outlook

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Prospects for a drop in drug usage and trafficking in the near term are not bright:

- A year after its passage, no major cases have been tried under the narcotics law, which has been hailed by the government as "the toughest in the world."

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- Opium traffic continues unabated, since the majority of opium imports come through the northern peninsula, where the Army and police are hard pressed by insurgents and have little time or resources to combat the drug trade.
- Crop eradication of the only known locally produced drug, cannabis, is insignificant, and there are no government crop substitution plans for this profitable product.

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The increasing military pressures that President Jayewardene is bringing against the Tamil insurgents in the north and east combined with the pressure these groups are beginning to feel from New Delhi to restrict their activities in south India will add to the attraction of drug trafficking as a source of support for the Tamils. Moreover, the continuing communal conflict in Sri Lanka is adding to the number of young Tamils who flee the country and join the growing pool of unattached expatriates from which international drug rings recruit couriers.

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