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Near East and South Asia Review

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**Near East and
South Asia Review**

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Articles**Prospects for and Consequences of Further
Israeli Retaliation to PLO Terrorism**

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Israel's airstrike on PLO headquarters in Tunis was a signal to Arab governments that they must crack down on PLO activities in their countries, but such reprisals are not Israel's preferred policy because of the potential repercussions on relations with the United States. Arab leaders would uniformly condemn another Israeli strike but would not retaliate.

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Tunisia: The Issues of Adversity

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The recent crises in Tunisia's relations with Libya and the United States will leave a lasting imprint on the country's domestic and foreign policies, and Tunis will probably look to Algeria and Egypt to recoup what it views to be political and military losses with the United States.

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Moroccan-Libyan Union:

9

Costs and Benefits

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The year-old Moroccan-Libyan union is a product of pragmatic considerations on the part of two Arab leaders who continue to have divergent long-term interests in North Africa, and, with both partners having achieved what they perceive as useful benefits from the union, neither is likely to end it.

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Morocco:

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The Fundamentalist Challenge to Hassan

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King Hassan and his advisers are increasingly concerned about the potential growth of Islamic fundamentalism in Morocco, but police intimidation of agitators, greater emphasis on Islam, and disunity among Muslim radicals appear likely to prevent a serious fundamentalist challenge to Hassan's position over the medium term.

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Egypt's Options in Sudan

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Recent clashes between rival political and ethnic groups in Sudan and an abortive military coup last month have heightened President Mubarak's concern for a stable Sudan, but Egypt is most likely to look for opportunities to counter Libyan influence and wait for the perceived natural affinity between Egypt and Sudan to reassert itself.

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Lebanon:

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The Druze Search for Security25X1
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The Druze have significantly expanded their territory since the Israeli withdrawal from Lebanon, and, with increased Soviet aid, Druze leader Walid Jumblatt is preparing to defend the emerging Druze canton and exert military pressure on Lebanese President Amine Gemayel as part of an effort to play a key, possibly swing role in Lebanese politics.

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Countertrade in the Middle East and South Asia:

23

A Growing Phenomenon25X1
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Countertrade—trade that links one transaction to a reciprocal transaction—by Middle Eastern and South Asian countries has grown from virtually nothing in 1983 to over 8 percent of all trade in the region in 1984, but the cost associated with countertrade are often considerably higher than those of cash sales, and profits are reduced accordingly.

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Pakistan: Back From the Brink?

27

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Increased foreign exchange bank deposits and the success of special bond issues as well as an improved trade balance have bought Islamabad some time, but the tenuous political situation will probably limit any effort at substantial economic reform.

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The Press in Pakistan

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Since the legislative elections in February, the government's attitude toward the press has gradually become less hostile, but, if the press too blatantly serves the opposition or attacks President Zia or his concept of an Islamic state, Zia would again resort to press controls.

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**South Asia: Improved Prospects
for Regional Cooperation**

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At the first summit meeting of the South Asian Association for Regional Cooperation (SAARC), scheduled for 7-8 December in Dhaka, atmospheric issues will probably be more important than matters of substance, and, if Indian support for SAARC remains steady, South Asian leaders might be tempted to go beyond the noncontroversial areas allotted to it. [Redacted]

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**Rajiv Gandhi and Nepal:
Following in His Mother's Footsteps**

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Despite Rajiv Gandhi's announcement of a "good neighbor" regional policy based on cooperation, the Indian approach toward Nepal has not shifted far from the heavyhanded attitude demonstrated under Indira Gandhi in the late 1970s and early 1980s, partly because Indian attitudes toward Nepal are driven by the state of Indo-Chinese relations [Redacted]

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Bhutan: Forging New Ties

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[Redacted]

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The Himalayan Kingdom of Bhutan is gradually assuming a modern political role in South Asia, but, despite Bhutan's growing independence of Indian tutelage, good relations with India will remain the focus of Bhutan's foreign policy. [Redacted]

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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

Prospects for and Consequences of Further Israeli Retaliation to PLO Terrorism [redacted]

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PLO Chairman Arafat will face increasing pressure from within his Fatah organization to retaliate for the Israeli raid on PLO headquarters in Tunis and the US interception of the *Achille Lauro* hijackers. Fatah hardliners, who have long advocated a more militant posture, are likely to redouble pressure on Arafat to step up operations. We judge that Arafat will yield to this pressure—in the interest of preserving Fatah unity—and that the PLO will engage in more frequent and spectacular attacks on Israeli interests worldwide over the next several months. [redacted]

Israel's airstrike on PLO headquarters in Tunis was a signal to Arab governments—particularly Jordan—that they must crack down on PLO activities in their countries to avoid similar Israeli action there. The attack also was meant to deflect criticism from Likud hardliners that the Labor Party leadership of the national unity government is “soft” on terrorism. In our judgment, Israel would take punitive action against the PLO in Jordan if there were a large-scale terrorist attack or smaller attacks over an extended period that Tel Aviv believed were launched from Jordan. A single raid or two would place the government under considerable pressure from Likud and the right to retaliate, but Prime Minister Peres probably would resist a military response in the hope of persuading Jordan to exercise greater control over the PLO. [redacted]

Reaction in Israel to the Tunis Raid

The attack on the PLO in Tunis is, in the Israelis' view, a corollary to their “iron fist” policy in the occupied territories and does not signal a major change in their counterterrorism policies. Israel has traditionally claimed the right to attack PLO facilities wherever they are located, as it did in Lebanon before the invasion of June 1982 and in Jordan from 1968 to 1970. Such attacks are intended to disrupt the PLO's

infrastructure and threaten the security of PLO personnel in hopes of disrupting operations being planned or already under way. [redacted]

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The Tunis attack has shored up public support for the Labor leadership of the unity coalition and has silenced Likud charges that Prime Minister Peres and Defense Minister Rabin lack the stomach for the tough measures needed to ensure public security in the face of increasing terrorist attacks. Likud hardliners, led by Industry and Commerce Minister Sharon, had sought to exploit the recent wave of anti-Israeli violence to press Peres and Rabin for a military response to PLO-inspired terrorism. Sharon publicly called for airstrikes against PLO facilities in Jordan, and he and Minister Without Portfolio Arens pressed Peres in meetings of the inner Cabinet to approve such strikes. After the Tunis raid, the hardline Herut party—the dominant component of the Likud Bloc—publicly congratulated Peres and Rabin for the military action “which demonstrated Israel's resolve to hit terrorists wherever they may be.” [redacted]

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Nonetheless, Sharon and other Likud hardliners will resume their demands for airstrikes or other reprisals against the PLO if attacks continue against Israelis. Sharon and his colleagues are certain to press hard for strikes against PLO bases in Jordan if future terrorist attacks are linked to PLO planning in Amman. We believe the overwhelmingly favorable Israeli public reaction to the Tunis attack has dramatically strengthened the leadership credibility of Peres and Rabin. For the time being, we judge they will retain the upper hand in Cabinet discussions of terrorist issues and will forestall Likud pressure for retaliatory attacks against PLO targets in Jordan. Since the Tunis strike, Labor leaders have stressed that King Hussein has not allowed cross-border attacks or establishment of terrorist training camps. [redacted]

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Israel's Options if Terrorism Continues

In our view, reprisals such as the Israeli raid on Tunis are not Israel's preferred policy because of the potential repercussions on relations with the United States. We believe, however, that Israel would consider launching similar attacks if terrorism continues. [redacted]

We believe Israel would first try to preempt further terrorist attacks in Israel and the occupied territories by improving its intelligence-gathering capabilities and continuing its harsh security measures, including stepped-up detentions, arrests, house demolitions, curfews, and deportations of West Bank Palestinians. Israel may also decide to close temporarily the Jordan River bridges. They already have tightened restrictions on West Bank residents wishing to cross into Jordan. [redacted]

Israel's choice of PLO facilities in Tunis as a target in the recent attack instead of PLO sites in Jordan suggests that future Israeli reprisals will be governed by the following political and military criteria:

- If the action is to be in retaliation for recent or continuing terrorist attacks, the target probably would be selected on the basis of the Israeli assessment of responsibility for the attacks. According to a US Embassy source, Peres and Rabin decided not to attack the PLO bases of Syrian-supported Palestinian radicals in South Yemen as proposed by some officials but chose to hit Tunis because they had evidence that Fatah Force 17 directed the murder of three Israelis in Cyprus from its facilities in Tunis. [redacted]
- The decision to retaliate would be linked to the Israeli assessment of the constraints imposed by host Arab governments on PLO activities. Peres and Rabin have stressed that the "extraterritoriality" of PLO headquarters in Tunis was a major factor in their decision, arguing that the Tunisian Government—unlike Amman—allows the PLO to operate freely and launch terrorist operations from within its borders.

[redacted]

- Israel would try to minimize international criticism and damage to relations with the United States, but, in the event of a large-scale terrorist attack, security considerations probably would outweigh such factors. We believe Israel selected the PLO headquarters near Tunis as a target in part to avoid civilian casualties and to blunt the subsequent international outcry. A source of the US Embassy says Peres and Rabin were particularly concerned about the impact of the Tunis raid on the peace process and relations with Egypt, but they concluded that neither would suffer irreversible damage and that expected US criticism would be manageable. [redacted]

We believe the Labor-led unity coalition would prefer to attack PLO facilities in Algeria or North or South Yemen rather than risk harming relations with Washington and incurring blame for undermining the peace process by striking at PLO bases in Jordan. But Peres and Rabin, in our judgment, would support punitive action against the PLO in Jordan if there were a large-scale terrorist attack or smaller attacks over an extended period that reached what they saw as an unacceptable level and that they believed were launched from Jordan. In such circumstances, public pressure for retaliation—fanned by Likud—would leave Peres little flexibility on the choice of target. As a warning to Amman, we would expect dramatically increased public statements by Peres and Rabin denouncing King Hussein's role in allowing Palestinians to operate freely from Jordan and claiming that an intolerable threat to Israel's security exists. [redacted]

If Israel decided to attack the PLO in Jordan, it would be careful to select a target that would reduce the danger to civilians. For these reasons, an Israeli strike probably would be directed against the PLO military base near Zarqa rather than the heavily populated Jabal Hussein section of Amman, where the PLO maintains most of its administrative offices. Israel's aim would be to force King Hussein to expel the PLO from Jordan. Further Israeli reprisals would be possible if Hussein dithered or attacks against Israelis continued. [redacted]

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River agreement. Mubarak postponed scheduled talks on the Taba dispute after the raid on Tunis. [redacted] 25X1

US-Arab relations would suffer if another Israeli strike were to occur. Arab leaders would find it difficult to believe that Washington did not know about plans to attack and would resent the absence of a US warning. Arab leaders would monitor closely US reaction to the raid. They would be particularly angered if Washington were again to issue a statement suggesting the raid was justified. Such a statement could spark widespread anti-American violence with US diplomatic personnel in Arab countries the primary targets. [redacted] 25X1

Arab Reaction to Another Strike and Implications for the United States

Arab leaders would uniformly condemn another Israeli strike, regardless of Israel's evidence that PLO officials planned, trained, or launched terrorist incidents from the host country. Most Arab states would not retaliate against Israel because they lack the capability and would not want to risk a broader conflict. Radical rejectionist states, led by Libya, might step up their support for terrorist operations against Israel. [redacted]

King Hussein and other Arab moderates who consider the United States a close friend would be most disillusioned if Washington failed to defend the Arab position. They would lash out at the United States for its uneven treatment of its Arab and Israeli allies. In the end, however, we believe they would not break relations with the United States for lack of an alternative source of economic and security assistance. [redacted] 25X1

Arab leaders, particularly King Hussein, would probably see no alternative to enforcing tougher measures to restrict PLO activity in hopes of reducing the threat of Israeli retaliation. We believe Arab leaders would be reluctant to risk public Arab censure by immediately expelling the PLO from their country; they would take action if they believed that a continued PLO presence was a threat to the stability of their regime. [redacted]

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King Hussein faces a most difficult dilemma if Israel strikes at PLO bases in Jordan. He risks political censure by Arab governments on behalf of the PLO if he tries to expel it. But he invites further Israeli reprisals—including against PLO headquarters in downtown Amman—if Israel believes he is not taking appropriate action to prevent terrorist attacks from being planned, directed, or launched from Jordanian territory. [redacted]

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Arab leaders would view the strike as proof that Israel has no interest in a diplomatic solution to the Palestinian problem. Moderate Arab leaders, like King Hussein and Egyptian President Mubarak, would abandon their efforts to move toward peace negotiations and cut off, at least temporarily, bilateral contacts with the Israeli Government. Hussein, for example, might refuse to proceed with the water-sharing provisions of the recently negotiated Yarmuk

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**Tunisia:
The Issues of Adversity**

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Tunisia traditionally has been a spectator of major developments in Middle Eastern politics, but a succession of foreign policy crises has thrust the country into the international spotlight. Libyan leader Qadhafi's expulsion of more than 30,000 Tunisian workers since August and the threat of war that attended this move were followed on 1 October by the surprise Israeli airstrike on PLO facilities near Tunis. The near rupture of relations with the United States shortly after a diplomatic break with Libya, the country's principal enemy, has created havoc in popular Tunisian attitudes toward the government's foreign policy.

with them and at least present a facade of nonpartisan policy formulation. Libya's expulsion of Tunisian workers had encouraged diverse opposition groups such as the moderate Social Democratic Movement and the Islamic Tendency Movement, the principal secular and religious opponents of the regime, to rally behind the government. Only the major Tunisian trade confederation has been reluctant to give its full backing, since it suspects that Mzali might use the crisis and the prospect of new budget outlays for the dispossessed workers as an excuse to reject union demands for wage increases.

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In our judgment, the crises with Tripoli and Washington will leave a lasting imprint on the country's domestic and foreign policies. Deep concerns among Tunisian leaders and the public about the nation's security in the face of the Libyan threat and the Israeli airstrike have been compounded by new doubts about the willingness of the Western countries such as France and the United States to protect Tunisia. The end result almost certainly will be a reappraisal of the country's foreign policy, particularly its strong orientation toward the United States and the West.

Mzali's failure to enter into a dialogue with opposition elements left the government in a poor position to deal with the opposition when the Israeli raid occurred. Even though the government reacted harshly to initial US statements about the raid, opposition parties quickly united to appeal to Bourguiba and Mzali to take tougher action and break relations with Washington. We believe that the government's threat to take "dramatic" measures in the event of a US veto of the Tunisian UN resolution condemning Israel reflected intense domestic pressure, rather than a sincere desire to take such a step. In retrospect, a US veto probably would have placed the government in an untenable position, and it might not have been able to prevent violence against US interests.

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A Beleaguered Government

From a domestic standpoint, these developments pose yet another challenge to President Bourguiba and the political system he has created. They also have required Tunisian policymakers to divert their attention from maneuvering for Bourguiba's political mantle.

The two crises also raise fresh doubts at home about the government's dependence on US military strength to blunt regional adversaries. Before the raid, the regime had been courting the United States and Algeria as never before to secure much-needed military assistance against the Libyan threat. The Israeli raid, however, has undercut popular support for close security ties to the United States. Embassy reports indicate that Tunisian leaders have been deeply embarrassed by the Israeli raid. Not only has the raid exposed the country's vulnerability at a time

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In terms of public opinion, government leaders appear to have missed an opportunity to neutralize the opposition. According to the Embassy, Prime Minister Mzali preferred to work exclusively through the ruling Socialist Destourian Party (PSD) in mobilizing public opinion behind the government's tough stand toward Qadhafi. He did not attempt to use the crisis to co-opt or disarm political opponents by consulting

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when the military is on heightened alert, but it has also undercut the credibility of government assertions that the United States will protect Tunisia in the event of Libyan attack. President Bourguiba, who for many years has risked censure from other Arab leaders for his moderate stance on Middle East peace issues, appears to have taken the US response to the Israeli raid as a personal affront. Libyan leader Qadhafi also has been quick to use the raid to justify his vituperative remarks about the Bourguiba regime and its dependence on US protection. [redacted]

Angst in the Military

Although much of the general public has reacted viscerally to the Israeli raid and blames the United States, the response of the officer corps has been more complex. Senior officers appear to have taken a more sober-minded stance toward the Israeli raid and its political consequences, at least in comparison to some civilian officials. In comments to the [redacted]

[redacted]

These officers also appear more reluctant than civilian leaders to criticize the United States for its inability or unwillingness to stop the raid. This measured response may stem from the fact that the military, in comparison with other segments of Tunisian society, would have the most to lose in the event of a rapid deterioration in relations with Washington because of their dependence on US security support. [redacted]

Nevertheless, there is evidence that other segments of the officer corps—probably in the middle and lower ranks—are disillusioned with the United States. [redacted]

[redacted] many officers are convinced the United States assisted Israel in the raid and could have warned Tunis in advance of the operation. [redacted]

Even before the raid, military authorities had been wrestling with the same issues of national security policy that had seized the political leadership. [redacted]

[redacted] troops doubted the military's ability to meet a Libyan attack and believed that the government was needlessly irritating Qadhafi. [redacted]

[redacted] the crisis with Libya, instead of fostering morale,

had produced demoralization in the ranks. This condition was aggravated by the failure of the Air Force to intercept Libyan aircraft violating Tunisian airspace early in the crisis. [redacted]

[redacted] some middle and senior officers have serious differences over Algerian military assistance. [redacted]

these disagreements encouraged Army Chief of Staff Baraket—an officer sympathetic to Algeria—to demur on the Algerian offer to integrate Tunisian and Algerian armed forces. Although Tunisian officers almost certainly want to obtain Algerian military hardware, many suspect that Algeria may exploit Tunisia's weakness with regard to Libya to influence Tunisian officers politically and possibly establish espionage networks. These attitudes, shared by many in the public, stem in part from what Tunisians view as Algerian abuse of Tunisian hospitality during the 1950s, when Algerian guerrillas used Tunisian territory as a sanctuary during their struggle for independence from France. [redacted]

Nervousness among military and civilian leaders also may stem from a perception of the country's vulnerability to foreign subversion. Press and Embassy reports before the Tunisian-Libyan crisis reported the arrest by Tunisian security of a Libyan spy ring. In addition, police discovered a similar network working to establish a Ba'athist movement on behalf of Iraq, and individuals engaged in espionage for Syria. None of these reports has been confirmed, but, they suggest, according to the Embassy, that Middle Eastern countries sense an end to the Bourguiba era and an opportunity to expand their influence during the anticipated uncertainty following Bourguiba's death. [redacted]

Silver Linings

If Tunisia has garnered anything beneficial from its foreign policy predicaments, it has been the receipt of military and diplomatic support. Tunisian victimization by two "pariah" states in the Middle East—Libya and Israel—has generated some much-

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needed military assistance from moderate Arab and Western sources. Tunisia has received from Algeria what the [redacted] estimates to be about 20 heavy equipment transporters—vehicles used to haul tanks. [redacted]

[redacted]—and presumably the crews to man them. Both Algiers and Mzali increasingly have publicized and emphasized Algeria's intent to provide Tunisia full military support in the event of a clash with Libya. [redacted]

Other countries have come forward with support.

[redacted] and has promised to give Tunis funds to purchase about a half dozen French helicopters. Baghdad also claims it will employ some of the Tunisian workers expelled by Libya. Diplomatic reports indicate that both Egypt and France have provided—and may still be providing—Tunisia with intelligence on Libyan activities. [redacted]

In addition, Prime Minister Mzali, who has had difficulty consolidating his position during five years in the premiership and has yet to gain widespread respect, appears to have strengthened his position at least among the political elite. We believe the increased demands upon the government during the recent crises and President Bourguiba's likely inability to handle them for a sustained period have given the Prime Minister an opening to exert more authority. [redacted]

A minor government shuffle in September provides a case in point. The most notable shift was the appointment by Bourguiba of Mansour Skhiri, governor of Monastir, as a Minister and Director of the President's Cabinet. US Embassy and [redacted] describes the new minister and all but one of the other Tunisians promoted to senior positions as friends of Mzali. The Prime Minister also has increased his visibility both at home and abroad following the Libyan expulsion of Tunisian workers. [redacted]

Implications: Closing Ranks With the Arabs, But Not the French

Tunisia probably will look first to regional neighbors, other than Libya, to recoup what it views to be political and military losses with the United States. We anticipate an even closer relationship with Algeria for security and intelligence support, despite Tunisian misgivings, to further diversify the country's sources of military aid. Algiers probably would be willing to meet some of Tunisia's requests, since it views Libyan machinations in the region as a serious threat to its own interests. Tunisia, however, is unlikely to seek—or Algeria provide—the sort of long-term economic and military training and support programs undertaken by the United States. Algiers lacks the technical expertise to support an economic assistance program. In addition, Algeria, with its arsenal of Soviet weapons, could not supply the spare parts and ammunition for the Western arms in Tunisia's weapons inventory. [redacted]

Tunisia may try to develop ties to Egypt—a country kept at arm's length until recently. Although Tunis has shared the generally aloof attitude of other Arab League members toward Cairo, the Mzali government appears to be groping for a modus vivendi with the Mubarak regime to blunt the Libyan threat—the same impulse behind the budding Algerian-Egyptian relationship. [redacted]

[redacted]

Cairo's displeasure over what it views as Tunisia's complicity with the United States in the interception of the Egyptian airliner carrying PLO hijackers almost certainly will set back Tunisian-Egyptian ties. Tunis, however, will try to ease Cairo's concerns to continue the rapprochement. [redacted]

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France's strong statements in support of Tunisia after the Israeli raid could provide the basis for closer bilateral cooperation. Paris, however, has been reluctant to side with Tunis in its crisis with Libya, much to the displeasure of Tunisian leaders. Tunisians are not likely to believe French assurances so long as Paris adheres to its neutral stance in the Libyan-Tunisian tussle. Only the provision of French weapons such as tanks, aircraft, and other sophisticated arms would assuage Tunisia at this juncture. We doubt Paris will deliver sophisticated weapons unless and until French leaders are convinced Libya is about to attack Tunisia. [redacted]

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Falling Out With the United States

Tunis is not likely to want to continue the close relationship with Washington that existed before the Israeli raid. Even though Tunisian leaders were relieved by Washington's abstention on the UN resolution condemning the raid, Bourguiba and Mzali will be obliged by internal political considerations to seek a lower US profile in Tunis. [redacted]

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The principal limitations on Tunisia's willingness or ability to drastically reduce relations with the United States are Bourguiba's lingering fondness for the United States and the country's dire need for US military hardware. US security assistance is becoming increasingly important in the country's efforts to modernize its military forces, and it would be hard pressed to find another politically compatible country willing to fulfill its security needs. Even so, Tunis could decide to reduce US aid programs, refuse port calls by US naval vessels, and reduce political contacts. Such a course might suit Mzali, since he appears to be less sympathetic toward the United States than Bourguiba and others in the government. Only a Libyan attack on Tunisia would compel the government to again embrace the United States. These circumstances, however, would not re-create the aura of cooperation that existed before. [redacted]

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Moroccan-Libyan Union: Costs and Benefits [redacted]

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The year-old Moroccan-Libyan union is a product of pragmatic considerations on the part of two Arab leaders who continue to have divergent long-term interests in North Africa. Both partners have achieved what they perceive as useful benefits from the union. King Hassan has received substantial economic benefits, effectively offset growing Algerian influence in the Maghreb, and curtailed Libyan support for the Polisario. Colonel Qadhafi has used the union to promote his plans for Arab unity and end US and Algerian efforts to isolate him. We see nothing to suggest that Hassan will bow to external pressure to end the union. [redacted]

strong Algerian response to the previous extension were further compelling reasons. [redacted]

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Foreshadowing the Oujda Union

The rapprochement between Morocco and Libya began in late June 1983 when, with Saudi encouragement, King Hassan agreed to see Colonel Qadhafi. Qadhafi, frustrated by the failure of his efforts to obtain the chairmanship of the Organization of African Unity and Libya's isolation in the Arab world, had asked Riyadh to approach Hassan. During the visit, Qadhafi promised to withdraw his military support for the Polisario Front, and Hassan agreed in turn to withdraw support for Libyan dissidents and not to act against Libyan interests in Chad. Qadhafi further sweetened relations with Hassan by bestowing substantial economic favors on Morocco. During the following year, Libya gave Morocco a \$100 million grant and \$192 million in undefined credits, and it accepted several thousand Moroccan workers. [redacted]

The timing of the accord suggests that the King also viewed the union as a quick way to relieve growing domestic pressure over Morocco's deteriorating economic and social conditions. Widespread riots in January 1984 brought home to Hassan the severity of the domestic situation. He faced a potentially disruptive parliamentary election in mid-September 1984, a shortfall in anticipated aid from Western benefactors—especially the United States—and considerable disgruntlement over planned cuts in education subsidies. Hassan also was aware of Libyan contacts with Moroccan opposition leaders and may have believed that a closer relationship with Qadhafi would persuade him to suspend such contacts, at least for a while. The King almost certainly believed that promises of additional Libyan economic aid and new jobs would take some of the pressure off the domestic front. [redacted]

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Hassan and Qadhafi signed the Arab-African Federation, as the union is formally known, on 13 August 1984 at Oujda, Morocco. [redacted]

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Is the Glass Half Full or Half Empty?

At the outset, King Hassan encouraged the popular belief that under the union Libya would provide about \$1 billion to Morocco. We believe this figure was put forward by Hassan for domestic impact and greatly exaggerates the level of support Qadhafi is willing to supply. Nevertheless, the King probably hopes to receive substantial assistance. [redacted]

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Hassan has publicly acknowledged that he began to consider the idea of a union in mid-July 1984. Hassan claims that the Western Sahara conflict was the major factor in the decision. The King had information that Qadhafi planned to renew, or already had resumed, military aid to the Polisario, and he undoubtedly hoped that entering the union would keep Libya out of the Sahara question as well as limit Algeria's military options by placing a Moroccan ally on its eastern border. Morocco's plans to extend its berm closer to the Algerian border and a

Since the union, Libyan financial assistance has totaled about \$150 million:

- As part of this assistance, Tripoli advanced \$50 million to Rabat in September 1984 to finance some of Morocco's international bank loans that had come due and to pay for Hassan's daughter's wedding.

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- Tripoli extended a \$100 million concessional loan to Rabat in May 1985 to support the purchase of 500,000 tons of Libyan crude oil—10 percent of Morocco's annual needs. [redacted]

In addition, Saudi Arabia is providing 2 million tons of crude oil this year, which covers Morocco's oil needs for six months and saves Rabat nearly \$400 million in foreign exchange. The grant is nearly double what the Saudis gave Hassan in 1984 and, in our view, is a sign of Riyadh's approval of the rapprochement. [redacted]

Libya is providing a market for Morocco's agricultural and manufactured exports at a time when Rabat's traditional markets in Western Europe are drying up—partly because of the entry of Spain and Portugal into the European Community. Moroccan exports to Libya totaled \$34 million in 1984, equal to Rabat's exports to the United States. Since the union accord, bilateral trade is up 200 percent, but it represents only 5 percent of Morocco's total trade. Morocco hopes to raise annual exports to Libya to \$100 million by 1986, but this may be optimistic in view of recent reports of Libya's failure to pay its bills. [redacted]

A particularly attractive part of the union agreement for Hassan was Qadhafi's offer to permit a substantially larger number of Moroccan workers in Libya. Rabat has a severe unemployment problem—30 percent of the urban labor force—and faces even greater difficulties as Moroccan workers return home because of declining job opportunities in Western Europe. Worker remittances are Morocco's most important single source of foreign exchange—\$870 million in 1984. [redacted]

As part of his campaign to sell the union, King Hassan promoted the belief that Tripoli initially would take up to 80,000 Moroccan workers. We believe the increase to date has been about 8,000. Moroccan officials state that an average of about 1,000 workers enter Libya each month, but Embassy sources claim that the number actually finding employment probably has averaged 500 per month. Most of those who do find jobs are skilled or professional workers rather than from Morocco's large body of unskilled and unemployed laborers. [redacted]

Morocco may benefit marginally from Libya's recent expulsion of large numbers of workers from other countries. Tripoli agreed to raise the number of authorized Moroccan worker entries to 450 workers per week beginning 1 September 1985 and to employ 1,000 Moroccan teachers. Even with these gestures, however, Libya clearly has not become a significant safety valve for Morocco's unemployed. [redacted]

What Is in it for Qadhafi?

The union is an effort to fulfill some of Qadhafi's goals. For example, Morocco is no longer being used as a training ground for Libyan dissidents, and Hassan personally decided to turn over some dissidents to Qadhafi. Qadhafi also hopes the union will be viewed in the region as an example of Libyan cooperation with moderate Arabs and will preempt US and Algerian efforts to isolate him in the Middle East. For Qadhafi, the union symbolizes his ideological commitment to Arab unity, and he holds it out as an example of how Arab states with different political systems work together. In addition, Qadhafi has used his cut in support to the Polisario and the economic benefits to Morocco as examples to persuade other states facing Libyan-supported local insurgencies and financial pressures—such as Sudan and Somalia—to strike a deal with him. Such exhortations are accompanied by frequent reminders from Qadhafi of US unwillingness to back up its verbal condemnation of the union with concrete actions against Hassan. [redacted]

Qadhafi has derived real political benefits from the union. Hassan has remained quiet on Libya's continued subversion in Sudan and has refused requests from Chadian President Habre to provide him with troops and other logistic support. Indeed, Hassan is playing a key role in attempting to arrange a meeting between Qadhafi and Habre. The King also has taken a more restrained position on other Middle Eastern issues, including a noticeable lack of support for both the Jordanian-PLO peace initiative and Jordan's resumption of diplomatic relations with Egypt. Closer to home, Hassan's behavior during the current tension between Libya and Tunisia is in marked contrast to his response following a Libyan

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commando raid on Qafsa in 1980. At that time, Hassan sent helicopters as a gesture of support for Tunisia; during the present crisis, he has only sent two envoys in a halfhearted mediation effort. [redacted]

The union has also been advantageous for Qadhafi domestically. Libyans burdened with austerity at home can now travel to Morocco and purchase goods in short supply or unavailable in Tripoli. Moreover, Morocco's willingness to barter agricultural goods for oil has helped Libya alleviate shortages of fruits and vegetables. Finally, Moroccan technicians allegedly have provided occasional, but much-needed, maintenance on Qadhafi's US-manufactured civilian aircraft. [redacted]

The Costs of the Union

As with any marriage of convenience, Qadhafi and Hassan have not hesitated to do things that irritate the other partner. Tripoli's recent "strategic alliance" with Tehran, for example, prompted a strong response from King Hassan, who viewed that development as a threat to his and other Arab monarchies. Moreover, the early departure of the Libyan delegation from the recent Arab League summit meeting held in Morocco—as well as Tripoli's condemnation of the Bright Star-85 military exercises involving the United States, Morocco, and other moderate Arab states—embarrassed the King and highlighted the gulf between Hassan and Qadhafi on key security and diplomatic issues in the Middle East. [redacted]

Hassan also realizes that the union has damaged his relationship with Washington and has jeopardized acquisition of much-needed credits and weapons. Moreover, Moroccan Government officials are concerned that the union has accelerated the warming of ties between Algeria and the United States. Rabat probably believes that the Algerians will try to persuade the United States to support its position on the Western Sahara dispute and to press Hassan to negotiate a settlement. [redacted]

The union also poses some domestic problems for Hassan. In particular, it has resulted in a sizable influx of Libyans, which increases the potential for Qadhafi to make trouble for Hassan, especially if the union fails. Moroccan security officials are concerned about the problems in monitoring Libyan activities in Casablanca and other urban centers. They are particularly worried about the lack of immigration controls over Libyans entering Morocco and about Libyan real estate purchases, which could be used as potential safehouses for agents. [redacted]

[redacted]

For Qadhafi, the costs of union have been minimal, but he has his own frustrations with it. He is particularly disappointed and angered that Hassan has refused to come to Tripoli for a state visit. Libyan officials also are frustrated by Morocco's reluctance to cooperate on defense, as called for in the treaty, and by its refusal so far to provide embargoed US parts for Libya's inventory of US-manufactured aircraft. [redacted]

In the longer term, the implications of the Moroccan-Libyan union may be ominous for Qadhafi. The union has served to polarize North Africa and to move Algeria toward a collision course with Qadhafi. During the past year, Algeria and Egypt have established a closer relationship, based mainly on their opposition to Qadhafi. Tunisia, likewise, has expanded its defense relationship with Algeria and improved its ties to Egypt. Although this polarization is not solely due to the Moroccan-Libyan union, we regard the union as a catalyst for heightened regional tension and more active efforts by Qadhafi's neighbors to stymie him. [redacted]

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**Morocco:
The Fundamentalist Challenge
to Hassan [redacted]**

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King Hassan and his advisers are increasingly concerned about the potential growth of Islamic fundamentalism in Morocco. The active role played by fundamentalist extremists in antiregime riots in January 1984 shook them from their complacent attitude that "it can't happen here." Hassan was forced to recognize that he, like the Shah of Iran, was vulnerable because of the inability of the country's political, economic, and social system to satisfy the high expectations of its burgeoning population. The King has adopted a number of countermeasures such as having his security services identify and intimidate radical antagonists and placing greater emphasis on Islam. Those steps, along with the disunity of the Muslim radicals, appear likely to prevent a serious fundamentalist challenge to Hassan's position over the medium term. Over the longer term, the King will need to undertake further economic and social reforms to counter the fundamentalist challenge and to bolster his regime.

The Fundamentalist Challenge

According to the US Embassy in Rabat, there are two main groups attracted to fundamentalism. The first—"fundamentalists of conviction"—is composed of generally well-off intellectuals. They are genuinely dissatisfied with what they see as social and economic injustices, and they believe the ruling clique runs the country on the basis of corruption and favoritism. This group generally agrees that the path of reform lies in strict adherence to the Koran, though some do not share the widespread fundamentalist belief that the West must be rejected because of its association with Israel. The US Embassy estimates that several thousand people may fall in this category.

The second group—"fundamentalists from frustration"—is made up of unemployed or underemployed urban residents who believe they are denied access to wealth or position in Moroccan society. A group of Moroccan scholars has recently argued that rapid population growth has aggravated this problem. Frustrated individuals of this sort frequently do not have an intellectual appreciation of fundamentalism, but the US Embassy estimates that

there are probably tens of thousands who nonetheless hope that fundamentalism will improve their bleak prospects.

To date, class and education differences have kept the two groups from uniting, and the intellectuals are divided themselves about the desirability of forming a unified organization. When Abdeslam Yassine—a leading fundamentalist intellectual—called on the King in 1984 to allow the formation of a fundamentalist political party, his colleagues sharply criticized him and argued that such a party would divide and confuse the fundamentalist cause and raise the question, "What is fundamentalism doing for the country?"

Foreign Support

The government worries that fundamentalists in other Islamic countries—particularly Iran—are recruiting Moroccan workers in Western Europe as agents for subverting Morocco. Palace officials complain of inflammatory material—pamphlets, cassettes—produced in Western Europe and smuggled into the country. In support of this belief was the appearance of pro-Khomeini graffiti during demonstrations earlier this year in Casablanca. [redacted]

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[redacted] In addition, Moroccan officials almost certainly are concerned—despite Qadhafi's private reassurances since the formation of the Libyan-Moroccan union—that Iran's growing political and military relationship with Libya will result in joint efforts to cultivate Moroccan radicals. [redacted] [redacted] outside agitators have only limited contact with indigenous groups. The widespread Moroccan suspicion of outsiders is likely to continue to retard foreign efforts to use Islam to destabilize Morocco.

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Combating the Fundamentalists

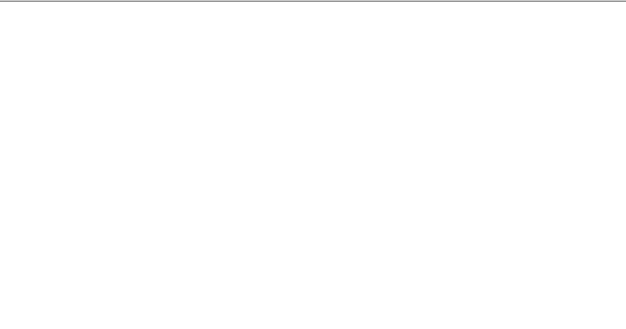
The regime has a number of other defenses against the spread of fundamentalism. One of the government's principal assets is that Morocco already is a society of believers. All Moroccans may not pray five times a day, but observance of the sacred month of Ramadan is almost universal. At the same time, Moroccans, unlike the Iranians, are rarely fanatical about their faith and do not provide a ready seedbed for fundamentalist extremism. For example, the ease with which the population welcomed Pope John Paul's visit last August is evidence of a relaxed, tolerant brand of Islam.

Morocco's complex, diffuse religious structure also aids Hassan. Religious practice tends to be decentralized, with thousands of local saints (marabouts) providing variants to tenets stipulated in the Koran. The King draws the line at outright heresy, but his definition of what is tolerated is broad and encompasses spiritualism and other religious practices on the margin of Islamic orthodoxy. Moreover, the only religious principle on which most Moroccans agree is that King Hassan possesses "baraka," an aura of holiness that is considered a manifestation of divine grace transmitted through the Prophet's descendants. Fundamentalists criticize the manner in which the King rules, but only the most extreme challenge his position as "Commander of the Faithful." Indeed, fundamentalist sympathizers have told the US Embassy that they would be satisfied if the King would rule according to the strict teachings of the Koran.

After fundamentalist participation in antiregime riots in January 1984, Hassan adopted a two-pronged approach in dealing with the religious opposition. He ordered his security services to identify and intimidate agitators and used the courts to crack down on Muslim radicals. In the summer of 1984, 71 fundamentalists were tried and received light sentences to avoid arousing sympathy for the cause. The King has since decided that he needs to be tougher. In a trial this past summer, all 26 defendants were found guilty, and 14 were sentenced to death, though none have been executed. Another trial of 39 fundamentalists is under way.

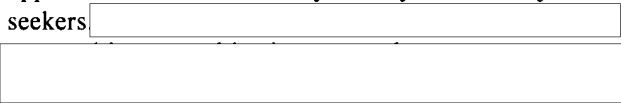
Hassan has also brought the Ministry of Islamic Affairs increasingly into the Interior Ministry's orbit over the past 18 months. In February 1984 the King ordered the Interior Ministry to take over the authorization of mosque construction and the selection of prayer leaders. In April 1984 Hassan announced that he was putting police in the mosques to monitor what was said. The Interior Ministry has also put some 60 religious scholars through staff school in Kenitra and will soon send graduates—trained in police techniques as well as religious doctrines—to the provinces.

In addition, the King continues to try to minimize Islamic dissatisfaction by tending to his own religious credentials. He has tripled the budget for officially sanctioned Islamic activity in recent years. The palace continues to send representatives—generally members of the royal family—to all major religious festivals. Hassan also often infuses political events with spiritual messages. On his trip to Western Sahara in March 1985, for example, he stopped to pray at the point he entered the territory. In his public statements he has taken to saying that he is "but the servant of God and his people called to do their will."



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The lack of a unified political organization will probably prevent fundamentalists from posing a major challenge to the King over the medium term. Nonetheless, opposition leaders will be able to use fundamentalism to attract supporters unless the economy unexpectedly rebounds and creates new opportunities for the country's many frustrated job-seekers.



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Egypt's Options in Sudan

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Recent clashes between rival political and ethnic groups in Khartoum and an abortive military coup last month have heightened President Mubarak's concern for a stable Sudan. Egypt, however, is most likely to look for opportunities to counter Libyan influence and wait for the perceived natural affinity between Egypt and Sudan to reassert itself. If a hostile regime seizes control in Khartoum, Cairo probably would apply political and economic leverage to modify Sudanese behavior. Military action is plausible—but not likely—unless intolerable circumstances, such as a Libyan-backed coup or invasion of Sudan, threaten access to Nile River water.

Changing Relationship With Sudan

For years Egypt took its dominant influence in Sudan for granted. Since the coup in April 1985 that ousted Sudan's President Nimeiri, however, relations between Cairo and Khartoum have been strained. Egypt continues to provide asylum for former President Nimeiri and has refused Sudanese requests for his extradition. The extradition issue has caused several anti-Egyptian demonstrations in Khartoum.

Cairo has been alarmed by increasing Sudanese receptivity to overtures from Iran and Libya. Egyptian concern rose considerably in July when the Sudanese Defense Minister signed an agreement with Libya for military assistance and cooperation.

Prospects for a return to the relationship Egypt enjoyed with Nimeiri are dim:

- Because of its deteriorating internal security situation and the southern insurgency, Khartoum will continue to look for military aid from any source, including the Soviet Union and Iran.
- Sudan's desperate economic condition also has removed Khartoum's qualms about the sources of badly needed nonmilitary assistance.
- Because of its own economic problems, Egypt is at a disadvantage in competing with Libyan largess.

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Egypt's Strategy

Egypt has pursued a policy of restraint toward Sudan, scrupulously avoiding any appearance of meddling in Sudan's internal affairs. Contacts between the two countries, however, are being maintained. Early this summer President Mubarak made a one-day trip to Khartoum to meet the Transitional Military Council's Chairman, Suwar El Dahab, as a gesture of support and concern. Other Egyptian delegations, representing labor, the press, and political parties, have visited Sudan to initiate contacts with increasingly powerful Sudanese civilian groups.

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Cairo is beginning to grow uneasy about the wisdom of its laissez-faire policy in Sudan. According to the US Embassy, several senior Egyptian officials differ strongly with President Mubarak's passive approach. They advocate more aggressive competition with Libya for influence among the Sudanese trade unions, sympathetic political groups, and the military.

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The events of late September—an attempted military coup and a series of strikes and clashes stemming from tensions over Sudan's southern insurgency and widening political and ethnic rifts—may prompt Mubarak to play a more active role. Cairo has already taken some opportunities to act more assertively:

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- Egypt announced plans to provide weapons for the Sudanese armed forces on the occasion of Sudanese Defense Minister Mohamed's visit to Cairo in early October.

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- Responding to Cairo's invitation, the Sudanese Prime Minister visited Cairo a week later for further discussions of military assistance and to prepare for Transitional Military Council Chairman Suwar El Dahab's trip to Cairo at the end of the month.

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The Egyptians, nevertheless, have little confidence in the current regime. Egypt fears Sudan's ruling Council is too weak to deal with mounting civilian and military discontent. They believe the turmoil in Sudan's internal security services increases the likelihood that Libya can penetrate the armed forces, political parties, and unions. [redacted]

According to the US Embassy, Egypt sees Sudan's current military leaders as preferable to any likely alternatives. Cairo probably hopes a pro-Egyptian strongman—someone like Nimeiri—will eventually emerge from the divided Sudanese leadership or perhaps arise from the corps of middle-level military officers. Egypt wants a strong personality at the helm in Khartoum who will act effectively to check Libyan influence. The sharp divisions growing among the Sudanese, however, provide no guarantee that a pro-Egyptian figure will emerge. [redacted]

Cairo's Options

Egypt's policy options in Sudan are limited and depend on events largely beyond Cairo's control. There are at least three scenarios that will determine Egypt's options:

- Sudan continues to muddle through.
- A pro-Libyan regime seizes power in Khartoum.
- Threats or provocations lead to a military response. [redacted]

If Khartoum muddles through . . . If the current Sudanese regime remains in power and continues to muddle through, the near-term options open to Egypt are:

- Continue the passive "wait-and-see" policy.
- Aggressively seek opportunities to counter Libyan influence.
- Look for a new Nimeiri. [redacted]

These options are not mutually exclusive, and it is most likely Cairo will pursue a policy that draws from the full range of possibilities. Current policy reflects both passive and active features, and Egypt already may be working behind the scenes to identify, cultivate, and support a promising candidate who would lead Sudan back to its former close relationship with Egypt. [redacted]

If a pro-Libyan coup . . . If the Sudanese regime is ousted in a pro-Libyan coup, Egypt could develop another range of options:

- Find a modus vivendi with the new leadership and at the same time explore ways to moderate Khartoum's behavior through the influence of pro-Egyptian groups in Sudan.
- Attempt to apply economic leverage by threatening expulsion of Sudanese workers and denial of scholarships to Sudanese students.
- Terminate military cooperation, assistance, and training provided by Egypt.
- Renounce mutual defense agreements. [redacted]

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Egypt would prefer to seek an accommodation even with a potentially hostile regime. Threats to expel the 2 million Sudanese workers from Egypt would risk strong disapproval from the Egyptian population, many of whom are of Sudanese extraction, and would draw comparisons with Qadhafi's censured behavior. Even if Cairo ignored the opposition and implemented an expulsion policy, the probable effect would be the creation of deeper hostility inside Sudan and would make future reconciliation more difficult.

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Termination of the Egyptian-Sudanese military relationship would create the opportunity for Libya to strengthen its already growing military ties to Sudan. [redacted]

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If military action appears necessary . . . Egypt would be ill disposed to send its armed forces into a hostile environment without extreme provocation. Military intervention is plausible under three scenarios:

- Limited-objective raids to rescue hostages or conduct disruptive actions.
- Military support for an insurgency against a pro-Libyan regime.
- Larger scale action to answer a request for assistance or to counter a Libyan-backed coup or invasion. [redacted]

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Provocations that might appropriately call for a limited military reaction would be:

- Denial of protection for Egyptian personnel and property from attack.
- Arrest or detainment of Egyptian diplomats.

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- Announcement of plans—with Libyan assistance—to develop reservoirs and irrigation projects that would curtail Egyptian use of Nile River water.

[redacted]

Egypt could use a small force to engage in disruptive activities—[redacted] against a hostile regime. For that type of mission, Cairo would employ its 999th Special Operations Unit, an elite 250-man force specially trained to rescue Egyptian hostages or prisoners of war and to carry out sabotage operations against foreign strategic targets. [redacted]

The 999th would be effective in conducting short, violent hit-and-run raids. In more complex operations requiring extensive and precise coordination and sophisticated execution, their chances of success would not be great. [redacted]

If Libya deployed troops to Sudan at the invitation of a new Sudanese regime, Egypt might consider providing materiel assistance to antiregime dissidents and encouraging an insurgency to keep Khartoum off balance. Cairo could also assist by infiltrating commando units to attack Libyan troops in Sudan. Egypt could combine these operations with attacks on northeastern Libya, with a view toward negotiating a Libyan withdrawal from Sudan and a modification of the Sudanese regime's behavior. Most civilians would argue against involvement, especially if Khartoum did not request Egyptian military assistance under their mutual defense agreements. [redacted]

Conditions could arise, however, that would force Cairo to consider a larger scale military intervention:

- The ruling Council requests Egyptian military support to help establish law and order.
- Sudanese authorities, fearing an imminent pro-Libyan coup, call for help.
- Libya attempts to intervene militarily in Sudan.

[redacted]

Significant Egyptian military intervention in Sudan is constrained by two related factors: Sudan's undeveloped transportation system and the country's large size. There are limited road and no direct rail

connections between Egypt and Sudan, and marginally adequate road and rail links connect Port Sudan to Khartoum. For rapid deployment, Cairo would have to airlift its forces over long distances to Sudan. Egypt's modest airlift capability and the distances involved—Khartoum is nearly 1,600 kilometers from Cairo—significantly reduce the size and capability of any intervention forces. Without external assistance, such as US C-141 transports, Egypt cannot project rapidly into Sudan the kinds of forces (surface-to-air missiles, armor, or mechanized infantry units) necessary to counter a major Libyan intervention. [redacted]

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We believe Egypt's best option, if Libya invaded Sudan, would be to attack Libya in the northeast.

[redacted] Egypt has contingency plans to counter Libyan provocations with limited assaults against targets in eastern Libya. If, as we expect, such an assault went in Egypt's favor, Tripoli would be forced to redeploy most of its forces in Chad and Sudan. [redacted]

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For rapid deployment to Khartoum, Cairo would call on elements of its special operations forces—some 20,000 airborne and commando troops. If called on to help maintain public order, they probably would perform relatively passive security functions or provide backup assistance to local security forces. By employing Egypt's available transport capacity—21 C-130 transports based at Cairo International and 9 DHC-5D transports based at Cairo Almaza—Egypt could realistically expect to deploy within 24 hours at least two battalions (700 to 1,000 men) of commandos from Inchas or Aswan. Should reinforcement be required, an entire commando group (2,000 men) or several battalions from an airborne brigade could be deployed within 48 to 72 hours. All of these units possess limited firepower, principally small arms, antitank guided missiles, SA-7s, medium machineguns, and mortars. [redacted]

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To reinforce, Egypt could march the major components of a mechanized infantry brigade overland along the Red Sea coast to Port Sudan for road and rail connections to Khartoum within two to three weeks. Other overland routes through Wadi Halfa and Atbra in Sudan could support movement of light equipment to Khartoum. Within a month Egypt could establish a sea-land link through Port Sudan to deploy an additional mechanized infantry brigade.

[redacted]

Once an intervention force was in place, Egypt would face significant support problems. The notoriously high failure rate of Egyptian transport aircraft would eventually begin to grow in direct proportion to usage. Egypt, therefore, would try to limit the scope and duration of a military action, gambling that a pro-Egyptian regime could be installed before a humiliating withdrawal of Egyptian forces became necessary.

Outlook

Egypt's most optimistic expectations for Sudan in the near term are that the Transitional Military Council will retain control in Khartoum. Under current conditions, Cairo considers elections in Sudan inconceivable and expects the regime will fail to make significant progress in subduing the southern insurgency or in solving Sudan's growing political and economic problems. In all likelihood Khartoum will experience a succession of coups until a strongman emerges to establish control.

The Egyptians will accept any regime in Khartoum that is not actively hostile. They almost certainly are resigned to efforts by the regime to put distance between itself and many of ex-President Nimeiri's pro-Egyptian policies.

In any event, Cairo is more likely to behave as a spectator than as an actor. Egypt probably will continue efforts to strengthen its influence and promote the interests of pro-Egyptian groups in

Sudan. Cairo, however, does not appear to have reconciled itself to the fact that for the near term Sudan has no intention to resume its place in Egypt's shadow. Egypt is assuming—with some justification—that a longstanding natural affinity eventually will reunite Egyptian and Sudanese interests and that Libyan influence will dissipate. Egypt's policy is based on the assumption that time is

Egypt has little interest in a military adventure in Sudan. Military intervention, while possibly appealing to a small number of generals, is the least practical and most risky course of action. Egypt would stand to lose more than it would gain.

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Lebanon: The Druze Search for Security [redacted]

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The Druze have significantly expanded their territory—primarily at the Christians' expense—since the second phase of the Israeli withdrawal from Lebanon this spring. With increased aid from the USSR, Druze leader Walid Jumblatt and his Progressive Socialist Party (PSP) militia are preparing to defend their emerging Druze canton and to exert military pressure on Lebanese President Amine Gemayel. Although nominally allied with Shia leader Nabih Barri, Jumblatt is concerned about Shia encroachment and the growing power of the Amal militia, which Syria has recently begun to arm and train. [redacted]

Jumblatt publicly supports Syrian efforts to pacify Lebanon and to reform its political system, but he is determined to defend his recent gains. He probably fears Syria would sacrifice Druze-controlled territory to reach an accommodation with the larger Shia and Christian confessional groups. For the foreseeable future, Jumblatt probably will seek to husband Druze power and continue to play a key, possibly swing role in Lebanon. [redacted]

The Emerging Druze Canton

As Israeli troops withdrew last April, the PSP militia moved swiftly to claim Jabal al-Baruk, which dominates the Druze heartland in the Shuf Mountains. At about the same time, the Lebanese Forces militia abandoned its attempt to defend Christian villages in the Iqlim al-Kharrub, which historically had a mixed Christian and Druze population. The PSP—aided by anti-Arafat Palestinians—quickly moved to the coast. In an interview with the US Ambassador to Lebanon, Jumblatt claimed he wanted to forestall a move by Shias in the Beirut suburbs to occupy the Kharrub and invited displaced Christian villagers to return and live in peace under his protection. Although there probably is some truth to Jumblatt's explanation, the move to the Kharrub makes a Druze canton more autonomous by giving Jumblatt control of the Beirut-Damascus highway and the port of Khaldah, which ensures a line of supply free of Syrian control. [redacted]

Jumblatt and the PSP have been working to establish a Druze canton for some time. As Lebanon's Minister of Public Works, Jumblatt has used his position to develop the Shuf. [redacted]

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[redacted] the Druze have used tractors and other heavy equipment from the central government to build over 100 kilometers of new roads connecting villages in the Shuf. In July, [redacted]

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[redacted] the PSP had established an elaborate civil administration for the Kharrub as well as the Shuf. In August, [redacted]

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[redacted] Jumblatt planned to integrate the Druze civil administration into the PSP structure—enabling him to head a nominally secular canton containing a large non-Druze population and to deflect charges that he is merely a Druze warlord. [redacted]

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PSP efforts to establish a Druze canton are hampered by financial problems, and its leaders are unscrupulous in seeking sources of income—making Khaldah all the more valuable. For example, [redacted]

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[redacted] in exchange for exorbitant payments, the PSP was acting as a middleman for troops and military equipment destined for pro-Arafat Palestinian groups. [redacted]

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The Soviet Connection

The PSP is allied with the small Lebanese Communist Party and has long had good relations with the Soviet Communist Party. [redacted]

[redacted] Soviets to provide sophisticated military equipment, [redacted]

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[redacted] the Soviets agreed to provide such weapons and have begun to train PSP militiamen to operate light aircraft, helicopters, and patrol boats as well as continuing to provide armor and infantry training. [redacted]

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[redacted] the Soviets delivered additional T-54 tanks to the PSP via Syria, [redacted]

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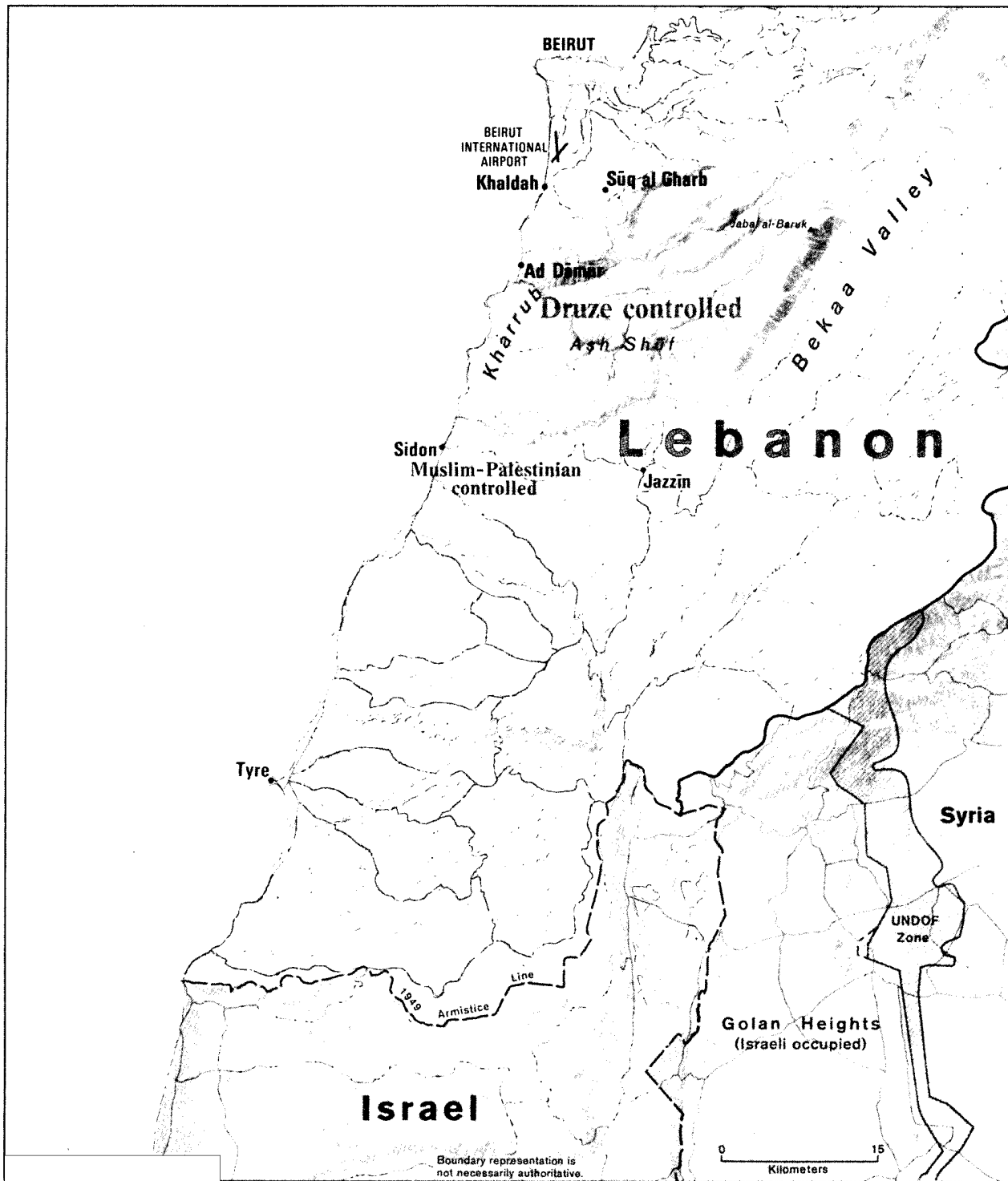
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The types of weapons and training the Soviets are providing indicate the PSP wants a capability to conduct offensive operations. With fire support from artillery batteries dug in on the Shuf, the Druze could use tanks and armored personnel carriers to conduct limited combined-arms operations along the coastal plain from the southern suburbs of Beirut to Sidon. Operating from the Israeli-built airstrip at Ad Damur, the PSP militia could conduct reconnaissance, coordinate artillery fire, and use helicopters to conduct air assault operations. The Druze believe Suq al-Gharb, which overlooks the presidential palace, should be part of their canton

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[Redacted]

Despite concern over Shia expansionism, Jumblatt wants to avoid a major clash with Amal while working with Barri to press Lebanon's Christians to make concessions. Encouraged by Syrian prodding to rekindle a political dialogue, Jumblatt and Barri were instrumental in the formation in August of the National Unity Front, which issued a lengthy declaration calling for major political reforms—including the "deconfessionalization" of Lebanon. The Druze constitute only 7 percent and the Christians about 25 percent of Lebanon's population, but they are the only confessional groups concentrated in well-defined geographic areas. Jumblatt probably is counting on strenuous Christian opposition to prevent Lebanon from being reorganized into a single electoral district in the event serious political discussions ensue. [Redacted]

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Relations With Amal

Although the PSP and the Shia Amal movement oppose Amine Gemayel and continued Christian dominance of Lebanon, tensions between the two have been high since last spring and have resulted in repeated clashes between elements of their respective militias. The Druze are concerned about the growing assertiveness of the Shias, who constitute about 40 percent of the Lebanese populace. During Amal's attempt in May and June to take over the Palestinian refugee camps outside Beirut, the Druze prevented Amal reinforcements from moving north from Sidon along the coastal highway and allowed Palestinian artillery to operate from the Shuf. [Redacted]

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[Redacted]

Dealing With Damascus

In seeking to enhance the degree of PSP independence from Damascus, Jumblatt has pushed the Syrians about as far as they will go. In May, Damascus warned Jumblatt to sever all ties to Israel and, [Redacted] underscored the warning by hanging several Syrian Druze who had earlier been convicted of spying for Israel. [Redacted]

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[Redacted] The burgeoning Soviet-Druze relationship probably has contributed to Syria's decision to buttress the Amal militia. [Redacted]

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[Redacted] Damascus plans to increase aid to Amal and to use the Syrian Social Nationalist Party, a small Lebanese party that favors union with Syria, to foment trouble in Druze-controlled areas. [Redacted]

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Jumblatt probably will continue to kowtow to Damascus—widely regarded as responsible for assassinating his father, who opposed Syria's intervention in Lebanon in 1976 and its political reform program. He probably will not refrain, however, from castigating Damascus for supporting President Gemayel whom Jumblatt regards as weak and unwilling to push any reforms that would reduce Christian dominance of Lebanon's political and economic structure. Jumblatt will not voluntarily curtail his direct contacts with the USSR, nor will he agree to relinquish his recent territorial gains. Jumblatt probably views Syria's military support of Amal and the meeting early last month in Damascus with Lebanese Forces leader Elie Hubayqa as signs Syria would sacrifice Druze interests to reach an accommodation with the larger Shia and Christian factions. [redacted]

The Syrians, [redacted] intend to establish political control over Lebanon, but they do not have a fixed plan for reforming its government.

[redacted]

[redacted] According to the US Embassy in Beirut, Syria seems intent on getting the factions to attend another national unity conference similar to those held in Lausanne in 1983 and Geneva in 1984, but Damascus seems willing to proceed more slowly and to become more directly involved this time. Syrian special forces are monitoring a cease-fire in Tripoli, where pro-Syrian factions recently fought Iranian-backed Sunni fundamentalists and pro-Arafat Palestinians.

[redacted]

Prospects

Jumblatt probably would be best served by a federal government that assured PSP predominance in the Shuf with free access to Beirut and Druze co-religionists in the Lebanon-Syria-Israel border area. The chances of a renewed Lebanese political dialogue resulting in such a system, however, are slim. Continued Syrian and Soviet aid probably will ensure that, at a minimum, Jumblatt will be able to defend the Druze heartland against the Christians and Amal. At a maximum, Jumblatt's PSP militia might be able to successfully defend the emerging Druze canton and become a pivotal factor in the internal political balance in Lebanon. [redacted]

[redacted]

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Countertrade in the Middle East and South Asia: A Growing Phenomenon

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Countertrade—trade that links one transaction to a reciprocal transaction—by Middle Eastern and South Asian countries has grown from virtually nothing in 1983 to more than \$32 billion in 1984, or over 8 percent of all trade in the region, and, we believe, more than \$24 billion so far in 1985. Every major country in the region countertrades, whether to discount prices, especially of oil; conserve hard currency; enter new markets; maintain or increase market shares; or gain access to new technology. The costs associated with countertrade are often considerably higher than those of cash sales, and profits are reduced accordingly.

Case Studies

Iran. Iran may be the world's largest countertrader. We have documented at least \$13 billion of countertrades since 1983 for a full array of civilian and military goods. As accessible foreign exchange assets dropped to \$2.5 billion at the end of 1984 from over \$20 billion in 1979, Tehran turned increasingly to countertrade. It sees countertrade as conforming to Islamic principles stressing bilateral balance in exchanges, and it even briefly attempted to import only through countertrade. Today all nonessential goods must be purchased via countertrade or on delayed payment terms. Large trading houses are often required to meet a \$100 million minimum limit that Tehran imposes on barterers.

Tehran has had limited success using countertrade to increase nonoil exports. Yugoslavia, for instance, agreed in February 1985 to take nonoil goods worth 15 percent of Yugoslavia's exports to Iran.

Some Western firms receive commissions as high as 18 percent from Iran. Turkish traders, for instance, add significant markups on goods that they have imported to reexport to Iran under a \$3 billion deal between Ankara and Tehran. A few large Western firms are probably incurring losses, but they continue to countertrade to maintain positions in a potentially lucrative market. Others that have found

Forms of Countertrade

Countertrade encompasses at least six different forms of trade. In each, the flow of goods in one direction is linked—or countered—to another flow of goods, usually in the opposite direction:

- **Barter** is the direct exchange of goods for goods without direct use of money.
- **Counterpurchase** involves otherwise separable, but contractually linked sales. For example, India has proposed to buy Iranian oil, but only after Iran agrees to buy Indian goods.
- **Buybacks** require a company or government to provide equipment or money for a project and to take repayment in the product of the enterprise.
- **Offsets** are common in military and aerospace deals and require a contractor to license to, coproduce with, subcontract with, or directly invest in domestic firms.
- **Clearing accounts** specify that trade will occur for an agreed period, at the end of which all outstanding balances must be settled.
- **Switch trading** refers to the multinational form of any or all of the above.

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countertrade arrangements unacceptable have been able to improve terms by appealing to and perhaps paying off senior Iranian officials or by using their market power.

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Iraq. Facing serious problems meeting debt payments, Iraq has tried to get creditors to accept oil instead of cash. Some have been forced to take oil at official OPEC prices rather than spot prices—in effect accepting less than full payment. Others have refused to take oil because of the uncertainties in the oil market.

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FIGURE 1: COUNTERTRADE BY MIDDLE EAST AND SOUTH ASIAN COUNTRIES, 1985

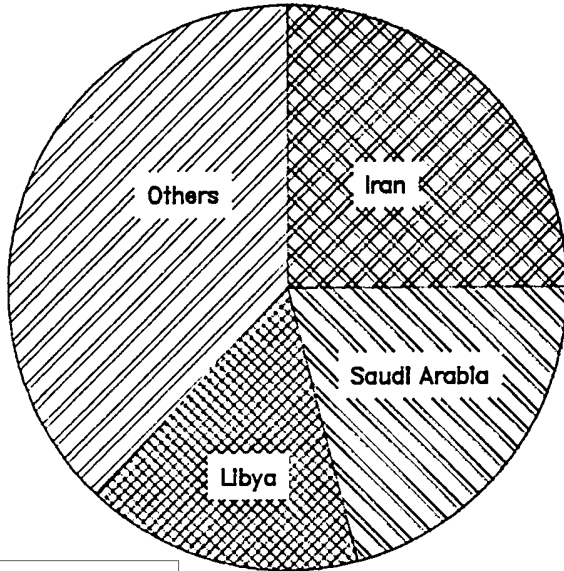
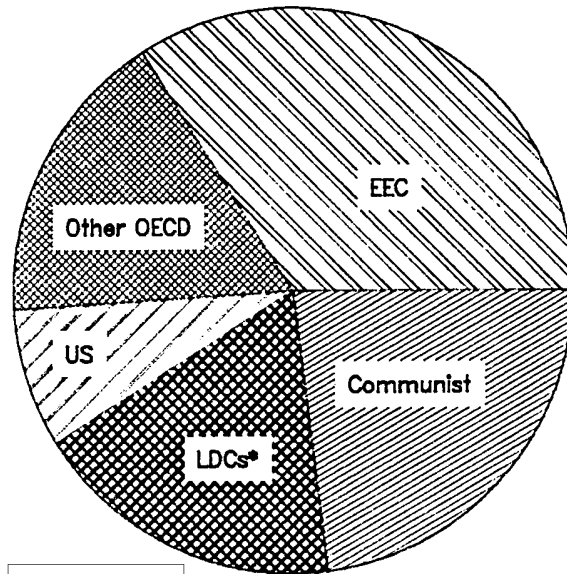


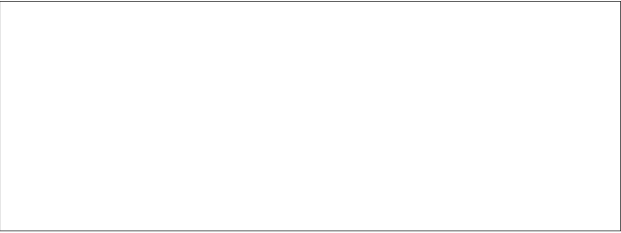
FIGURE 2: PARTNERS OF MIDDLE EASTERN AND SOUTH ASIAN NATIONS IN COUNTERTRADE, 1985



Many large construction projects in Iraq are financed by oil barter. French and Italian firms, for example, agreed in August 1984 to take 1.2 million barrels of Iraqi crude as a downpayment for constructing a lube oil complex near Baghdad. Before a buyer could be found, however, the price of the oil fell by slightly more than \$2 per barrel, producing losses of more than \$2.4 million on the downpayment. Baghdad has the option of paying the \$35 million balance in crude oil, refined products, or cash. [redacted]

A \$4-4.8 billion deal for 72 British Tornado fighters and some 60 other military aircraft was approved in principle in mid-September 1985, according to the Western press. A large, but as yet unspecified, portion of the payment will be in crude oil. The United Kingdom will have explicit permission to resell the oil. OPEC members usually try to prevent resales because they occur in the spot market and weaken the cartel's ability to control prices. [redacted]

Saudi Arabia. Riyadh has countertraded to obtain civilian and military aircraft valued at about \$6 billion. In 1984 the Saudis bartered as many as 50 million barrels of crude for 10 Boeing 747s, Rolls Royce engines, and spare parts, all valued at \$1.34 billion. They discounted the price of the oil by up to \$2 per barrel, according to the US Embassy in Riyadh. An artificially high value was assigned to the planes, and additional barrels of oil—nominally at OPEC prices—were offered in payment. [redacted]



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The Saudis turned to offsets in March 1983 to acquire technology, increase domestic employment, and conserve foreign exchange. Despite rules requiring all government contractors to subcontract at least 30 percent of the contract value to Saudi-owned firms, offsets have not increased domestic content significantly because of shortages of skilled Saudi labor. [redacted]

The Saudi air defense system, Project Peace Shield, will entail offsets from US contractors of at least \$1.2 billion. The entire amount must be spent on nonpetroleum Saudi industries, many of them involving high technology. For example, Saudia, the government airline, is likely to participate in joint ventures with General Electric to establish an aircraft engine overhaul facility. [redacted]

United Arab Emirates. The United Arab Emirates also has used barter to cheat on OPEC prices and to conserve declining foreign exchange. Abu Dhabi discounted the price of its oil by 13 percent to make a \$778 million deal for 18 specially equipped French Mirage 2000s in 1984. [redacted]

Jordan. Amman countertrades to increase its share of the world phosphate market, requiring some contractors with the Jordanian Government to accept between 35- and 50-percent payment in phosphate. A US firm and the Jordanian Air Force concluded a \$115 million barter of phosphate for an automated command and control communications system in December 1984. The Air Force soon after proposed a \$200 million phosphate-for-helicopters barter with another US firm, but the deal apparently fell through because the company realized that it could not obtain a desirable price for the commodity in a market already flooded with phosphate. [redacted]

Israel. More than \$500 million of Israeli export sales have been tied to offset agreements. Israeli law requires an offset in any deal in which an Israeli Government agency or state corporation imports goods and services worth more than \$500,000. [redacted]

Offset programs with the United States currently in effect are worth \$200-245 million. These include:

- A 30-percent offset that allows Israelis to coproduce a subsystem for the Lavi fighter aircraft.

- A 40-percent offset in the purchase of 12 military helicopters (with an option on 28 more), with the funds to be used to establish industries to produce goods to be sold outside Israel. [redacted]

Libya. Libya uses countertrade to cheat creditors, paying them less in oil than their contracts called for in cash. Turkish contractors, for instance, were told that they could take oil as payment or nothing. The Turks were sent about 19 million barrels of oil—at OPEC prices—to settle the \$700 million debt. The implied price was about \$7 per barrel above the then current spot market price. Other creditors have suffered similarly. [redacted]

India. New Delhi formed a government committee in 1983 to increase Indian countertrade, especially counterpurchase. The committee has encountered jurisdictional disputes among agencies, with some officials unwilling to accept a loss on one part of a linked transaction in return for a greater profit for another agency. India has been trying to negotiate a counterpurchase agreement with Iran since early 1985. Only tea would be left off the list of goods offered to Tehran since Iranians already willingly buy it. [redacted]

New Delhi is also negotiating a buyback arrangement with Saudi Arabia under which India would help construct a fertilizer factory for the Saudis and take payment in fertilizer. [redacted]

Egypt. Offset agreements have helped Egypt win Third World customers for its arms industry. Moreover, according to reliable business press, Egypt has gained so much French technology through offsets that Cairo may soon emerge as a competitor of France, especially in the market for low-technology conventional weapons. [redacted]

Pakistan. Declining worker remittances and serious trade imbalances have drastically cut Pakistan's foreign exchange reserves and caused Islamabad to seek more countertrade. Pakistan recently signed a \$400 million counterpurchase deal with Iran; bilateral trade had fallen to less than \$100 million last year.

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Other large deals are under consideration. Wheat shortages have led Pakistan to engage in a series of switch trades in which Sweden, Finland, Bulgaria, and Czechoslovakia have obtained 200,000 MT of Australian wheat and bartered it to Islamabad. [redacted]

Countertrade With Communist Countries

Middle Eastern and South Asian countries have countertraded with Communist countries for many years—mainly through clearing accounts. Countertrade with the Communist countries amounted to at least \$7 billion in 1984 and at least \$5.5 billion in the first eight months of 1985. Countertrade with those countries has been increasing for the same reasons that it has increased with the West: hard currency shortages, demands for reciprocity, and the soft oil market:

- India and the USSR, New Delhi's second-largest trading partner, traded more than \$3 billion through a clearing account in 1984. India sent agricultural goods and low-quality consumer goods to the USSR for oil. In the future, New Delhi will have to increase merchandise exports to Moscow to balance payments for military purchases.
- Pakistan has increasingly countertraded with Communist countries for wheat. Pakistan and Bulgaria will barter \$164 million of goods in FY 1985, a 100-percent increase over FY 1984. Other East European countries are reported to be reselling, at discounts, unwanted Pakistani goods obtained in barter. Pakistan will import electrical equipment and spare parts from the Soviets and will export textiles, surgical instruments, and sporting goods under a barter agreement signed in May 1985, according to the US Embassy in Islamabad.
- Libya barter oil to the USSR for arms. In addition, during a visit to the USSR this fall, Qadhafi secured Soviet agreement to accept oil in payment for Libyan debt; Moscow had earlier insisted upon payment in hard currency.
- Algeria has not been as successful as Libya in persuading Moscow to accept goods in payment of debt. Algeria's offer to settle its trade deficit with the USSR by sending refined products was refused in 1984, according to the US Embassy in Moscow. [redacted]

Outlook

We believe countertrade by the Middle Eastern and South Asian countries will continue to grow during the rest of the decade. The oil market will remain soft; OPEC members will still have an incentive to cheat on each other to increase their market shares; debt and liquidity problems will continue—making cashless trade attractive; both combatants in the Iran-Iraq war have long-term barter commitments; there will be an increase in demand for offsets as other countries observe the success of Israel and Saudi Arabia and demand offsets of their own; there will be more intraregional countertrade such as that between Pakistan and Iran; countertrade with Communist countries will continue to increase. [redacted]

We do not agree with observers who view countertrade as a response to recession in the West and who, therefore, expect it to diminish with the return of prosperity. We note that Middle Eastern and South Asian countertrade has increased during the recovery in the United States and as performance in the industrial sectors of other Western nations—those most likely to use the region's primary products—has improved. [redacted]

Implications for the United States

The greatest area of concern for the United States over countertrade is in offset programs that require technology transfer. Programs compelling US producers to build and equip modern factories abroad, train local personnel, and transfer technological knowledge can only diminish—and in some cases eliminate—the US comparative advantage that is the economic basis of most of our trade with countries of the region. There is also the danger that US technology will be reexported to third countries. [redacted]

Western firms will continue to countertrade despite concern over technology transfer, economic inefficiency, and the increased costs. These companies sometimes make money on individual deals, and they often view countertrade as a way to protect market shares, especially in oil-producing countries that may be lucrative markets in the long run. [redacted]

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**Pakistan:
Back From the Brink?**

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Increased foreign exchange bank deposits and the success of special bond issues have enabled Pakistan to forgo an IMF standby loan this year. We judge that the influx of funds and an improved trade balance will buy Islamabad some time, but the tenuous political situation will probably limit any effort at substantial economic reform. Without such reform we expect Pakistan's foreign payments problems and budget deficit to deteriorate next year, forcing Islamabad to increase pressure for additional US aid on softer terms.

Exchange Drain

Until recently, Pakistan teetered on the brink of financial crisis, precipitated by disastrous cotton and foodgrain crops and a 15-percent drop in worker remittances since FY 1983 (July/June). Rather than curb rapid economic growth or resort to unpopular austerity measures, the Zia regime financed imports by drawing down reserves. As a result, liquid foreign exchange reserves fell from a record \$2 billion at the end of 1983 to about \$325 million in mid-August—equivalent to less than three weeks' imports—according to official data and US Embassy reporting.

Pakistan's precarious financial position has also been strained by a rising debt service burden. Debt payments—estimated at about \$1.2 billion in FY 1985—have increased 50 percent since FY 1981. Nearly \$200 million in US FMS payments due this fiscal year will add to the burden. We estimate that at least 25 percent of the earnings from exports this fiscal year will service debt payments.

Creative Financing

New financial instruments, commercial loans, and deposits in foreign banks have temporarily bolstered reserves and enabled Pakistan to forgo an IMF standby loan for the time being. Over the past month, Pakistan's foreign exchange reserves have nearly doubled with an infusion of more than \$400 million, according to the US Embassy. In addition to bank deposits—possibly including transfers of Saudi funds—and a \$150 million commercial loan, the

Black Money

Pakistan's high tax rates, lax enforcement, and excessive regulation have spawned a sizable "black economy." There is no precise estimate of the extent of the parallel economy, but studies claim it accounts for anywhere from 20 to 50 percent of GDP. Most of Pakistan's black money is derived from bribes, narcotics trafficking, tax evasion, and illicit foreign currency or unofficial "Hundi" (moneychanger) transactions. Black incomes are usually invested in fixed assets such as land, houses, or valuables. With tax revenues stagnant at about 14 percent of GDP since FY 1981, Pakistan's large black economy provides a considerable source of untapped funds for the government.

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government has floated two new financial instruments: the Special National Fund Bonds (SNFBs) to tap resources in Pakistan's large "black economy" and Foreign Exchange Bearer Certificates (FEBCs) to lure expatriate foreign currency deposits.

According to US Embassy and press reports, the domestic SNFBs were originally designed to net about \$200 million, but sales are estimated to have reached nearly \$1 billion. Sales picked up when the government decided to provide liberal credit, make the bonds exempt from income tax, and grant immunity to purchasers from future tax evasion investigations. Because most of the country's black money is held in fixed assets, the government allowed purchasers to use these as collateral to purchase the bonds. As a result, the press reports that about 20 percent of the value of the bonds issued was paid in cash. Nevertheless, the US Embassy reports that the infusion of funds covered the projected FY 1986 budget deficit and increased the tax base because undisclosed assets have now been declared.

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The FEBCs have helped bolster Pakistan's sagging foreign exchange reserves. The press reports that the high-interest bonds—14.5-percent annual interest payable in a foreign currency—have garnered an estimated \$38 million since the beginning of August. High yields as well as simplified banking procedures are likely to increase foreign exchange deposits and reduce reliance on the black market and “Hundi” transactions—where at least 10 percent of worker remittances were funneled.

Pakistan's financial position has also benefited from temporarily increased exports, lower imports, and higher worker remittances. The US Embassy reports export earnings are up 14 percent (July/August) over the same period last year, with the largest gains in raw cotton and yarn. During the same period import expenditures registered a more than 10-percent decline. A recent decline in the value of the dollar relative to the Pakistani rupee has required overseas workers to increase remittances slightly compared to the same period last year.

Temporary Fix

Pakistan's clever efforts to mobilize financial resources are likely to provide only temporary relief from its chronic foreign payments and budget deficit problems. In our view, the domestic “black money” SNFBs were mainly a circuitous means for Islamabad to borrow from the banking system to eliminate the budget deficit without raising politically sensitive taxes. The FEBCs are also a gamble, since they risk raising Pakistan's debt service burden and provide a means of capital flight should the economy falter. Moreover, foreign exchange bank deposits can easily be withdrawn, thereby undermining the country's precarious foreign exchange reserve position.

The influx of capital has bought needed time, but we judge the Zia regime is unwilling to tackle longstanding economic problems. Since FY 1981 the current account deficit has increased 61 percent and reserves have fallen 48 percent. The government has also been reluctant to reduce costly subsidies—equivalent to two-thirds of the FY 1985 budget deficit. Even with growing financial and fiscal problems, Islamabad—citing political constraints—has rejected US and multilateral lending institution recommendations for economic reform.

Outlook

We judge that the success of the new financial instruments, higher exports, and increased remittances will temporarily strengthen Pakistan's foreign exchange position, increase its tax base, and eliminate this year's budget deficit. These improvements will probably be sufficient to keep Pakistan's liquid reserves equivalent to about two months of imports and alleviate the need to seek an IMF loan this year. Stiff international competition, low commodity prices, and quota barriers, however, are likely to limit export earnings to levels recorded in the early 1980s.

We expect Islamabad to undertake only limited reforms—most notably a reduction in some cumbersome regulations. We judge that political considerations are likely to provide Islamabad an excuse to defer needed fundamental economic policy changes, such as a currency devaluation, tax reform, or spending cuts. Although the government has promised to keep a tight rein on the money supply, we believe that the massive borrowing to finance the domestic bond schemes may well ignite inflationary pressures and squeeze credit to industry and agriculture. Unless Islamabad undertakes long-term economic reforms and further reduces imports, we expect little improvement in Pakistan's precarious foreign payments position next year. In our judgment, the country's tenuous financial condition will force it to increase pressure on the United States for more highly concessional economic and military aid in the aid package currently under discussion.



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The Press in Pakistan []

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Since the legislative elections in February, the government's attitude toward the press has gradually become less hostile. President Zia probably feels more politically secure and thus finds less need to restrict the press. We believe, if the press too blatantly serves the opposition or attacks President Zia or his concept of an Islamic state, Zia would again resort to press controls. []

Press Content

Pakistani newspapers seem drab and uninteresting by Western standards. Pakistani papers run frequent stories on loyalty to Islam and on Muhammad Ali Jinnah, the founder of Pakistan, and they display a consistent anti-Indian bias. These topics are strongly voiced in both the Urdu- and English-language press on a daily basis. Another topic that has recently become a prominent subject in the newspapers is the narcotics issue because of the increased drug abuse in Pakistan. This now appears almost daily in the papers. []

Newspapers usually reflect the government's emphasis on Islam. They display their religious orientation by printing quotations from the Koran on the editorial pages. Religion and religious symbolism are used in the press to promote different viewpoints, both to commend and condemn government policies. Although the press attacks corruption in the bureaucracy and highlights national and local social and economic problems, it does not attack President Zia personally or his concept of Pakistan as an Islamic state. []

The English-language newspapers expound "liberal" ideas, such as women's liberation and modernization, to appeal to the elite. In these newspapers, economic news predominates, followed by political and cultural news; sports are relegated to the back pages as in most Western papers. Frequent use of syndicated material from international news agencies provides readers with good coverage of foreign developments. []

The Urdu newspapers concentrate on local and regional news, with very little attention to foreign affairs, economics, and sports. Urdu papers also tend to have a more marked religious content. In our opinion, the Urdu press better reflects the present state of Pakistani society and public criticism of the government for the deterioration in social and political conditions. The Urdu press also clearly reflects a distrust of the United States. []

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Advertising accounts for up to half of the content of the major newspapers. As in India, the government is the largest single advertiser, at times accounting for half of all advertising. The content is usually sober and not an effective means for retail advertising. Prices and sale items are not listed, and the ads are of little benefit to the consumer. []

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Government Leverage Over the Press

The constitution of Pakistan guarantees freedom of the press but allows much leeway for government control. It allows restrictions in the interest of Islam; the integrity, security, or defense of Pakistan; friendly relations with foreign states; public order, decency, or morality; or in relation with contempt of court, defamation, or incitement to an offense. The government uses various measures to control the press:

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- The Press and Publications Ordinance of 1963 empowers the Interior Ministry to take action against newspaper publishers for printing any statements or pictures that the government determines are not complimentary. In many cases the publisher is required to post a very heavy bond that may be forfeited if he is found to have violated the law.

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Newspapers and Periodicals in Pakistan

The Pakistani press has undergone considerable change since independence and is more vibrant today than in the past. In recent years the government has made an extensive effort to develop a more sophisticated press. [redacted]

Before independence, most established papers in what is now Pakistan were controlled by Hindus and Sikhs. The Muslim press was small and suffered from inadequate capital and low circulation, and its advertising was almost nonexistent. Still it was vocal and exerted influence because it was a crusader for independence. [redacted]

The number of dailies increased substantially from 1953 to 1980, according to the Ministry of Information. The growth in publications was probably due to economic growth and an increase in literacy. In 1980 Pakistan had approximately 114 daily newspapers and 355 other publications that appeared weekly or on some other regular schedule, according to the Information Ministry. There were an additional 827 publications, but these appeared irregularly. [redacted]

[redacted] the number of English-language newspapers has since decreased, although the number of Urdu-language papers has increased. We believe this is attributable to the acceptance of Urdu—now taught in all the schools—as the national language. [redacted]

The Pakistani press prints newspapers in five different languages—English, Urdu, Sindhi, Pushto, and Gujarati. About 90 daily newspapers are in Urdu, and 31 are in English. Of the nine leading dailies, four are in English, four in Urdu, and one in both languages. [redacted]

Published circulation figures do not correspond to actual readership. As in other Third World countries, many readers cannot afford to buy a newspaper and will go to public places to read the dailies or borrow them. In the rural areas three or four or more persons may share one newspaper. [redacted]

- The government controls small newspapers because it controls newsprint. The major newspapers are less susceptible to government manipulation because they are financially more stable and are allowed to import newsprint without import duties.
- The placement of government advertising also serves to influence the print media. The government can financially cripple a publication by withholding advertising and even put it out of business.
- The government makes sure newspapers use the Press Information Department's press releases on sensitive domestic issues such as student riots or sectarian disturbances. [redacted]

Although the government-owned National Press Trust prevents its newspapers from reporting critically on the government, there have been incidents when a feisty editor stepped outside the Trust's restrictions boundaries by criticizing government policies. Mullahs also try to exercise censorship over Shia- and Sunni-oriented publications when a controversy arises over a paper's interpretation of Islam. [redacted]

President Zia removed the requirement for newspapers to submit articles for prepublication review in 1982. In Sind Province, however, he reimposed prepublication review by a government editor following the sectarian clashes in Karachi in 1983. [redacted]

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Major Newspapers and Periodicals

	Language	Location	Circulation ^a	Comment
Daily Newspapers				
Jang	Urdu	Karachi, Quetta, Rawalpindi, and Lahore	250,000	Independent, conservative, pro-Arab, no political affiliation
Nawa-i-Waqt	English, Urdu	Lahore, Karachi, Rawalpindi, Multan	200,000	Independent, democratic with Islamic orientation, anti-Communist
Mashriq	Urdu	Lahore, Karachi, Peshawar, and Quetta	160,000	Owned by government-controlled National Press Trust
Morning News	English	Karachi	90,000	Owned by government-controlled National Press Trust
Dawn	English, Gujarati	Karachi	70,000	Independent, liberal, no political affiliation
Imroze	Urdu	Lahore, Multan	65,000	Owned by government-controlled National Press Trust
The Pakistan Times	English	Lahore, Rawalpindi	50,000	Owned by government-controlled National Press Trust
Jasarat	Urdu	Karachi	50,000	Independent, liberal, influenced by the Jamaat-i-Islami, Sunni fundamentalist
The Muslim	English	Islamabad, Rawalpindi	30,000	Independent, pro-Iranian, skeptical of US and Zia's Afghan policy
Weeklies				
Noor Jehan Weekly	Urdu	Karachi	16,000	Film journal
Pakistan and Gulf Economist	English	Karachi	20,000	Conservative, business/economic, supports business interests
Akhbar-e-Jehan	Urdu	Karachi	82,000	Illustrated family magazine
Kilal	Urdu	Rawalpindi	40,000	Armed forces weekly
Viewpoint	English	Lahore	25,000	Leftist, political/literary, may receive some Soviet funding, generally hostile to United States

^a 1984 estimate.

[REDACTED]

Although prepublication review was not imposed before the legislative elections last February, the government outlawed publication of statements by opposition spokesmen against the December referendum on Zia's policy of Islamization or in favor of the election boycott instigated by the opposition Movement for the Restoration of Democracy. Government control was also extended to foreign correspondents at this time. Some US and British journalists were expelled because of negative reporting of Zia's proposed political framework. [REDACTED]

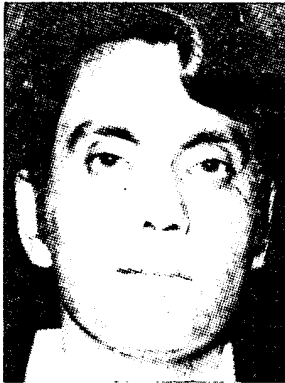
The government has since relaxed its leverage over the press. The new Minister of Information, Hamid Nasr Chatta, has been portrayed in the press as a liberal because he favors removing the allocation of advertising and newsprint as a weapon for controlling the press. He agrees, however, with President Zia that the Press and Publications Ordinance should remain intact, according to Pakistani press reports. [REDACTED]

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Hamid Nasr Chatta,
Minister of Information
and Broadcasting

Pakistan Times
Overseas Weekly ©

Soviet and Iranian Influence

Soviet influence on the press declined in Karachi when the Pakistani Government closed down the Soviet Information Department in 1980. Soviet press placements dropped sharply, and the Soviets used more indirect means to get their views across,

[redacted]

Nonetheless, the Soviets still have a sizable covert propaganda effort under way in Pakistan and provide clandestine monetary support to specific Pakistani journalists, according to US Embassy reporting. Periodically, stories appear in the press that portray the USSR and its allies as the natural ally of the Third World. [redacted]

The Soviets have few outlets in Pakistan for their own publications. In Lahore the People's Publishing House published and distributed Soviet literature until September 1984 when the regime arrested its publisher, Abdul Rauf Malik, for distributing banned literature. The government has continued to permit the distribution of some Soviet literature, such as a Soviet children's magazine and the Soviet equivalent of *Readers' Digest*. [redacted]

The Soviets cultivate contacts with the Pakistani press. Soviet Embassy officers routinely visit the offices of Pakistani newspapers and journals. The Soviet Press Information Department has written many letters to the editor supporting Soviet policy. The letters are signed with Pakistani names and mailed to various Urdu- and English-language newspapers. *The Muslim* frequently prints Soviet viewpoints, although this reflects more the paper's pro-Iranian, anti-American stance than an alignment with the Soviet Union. The *Morning News* in Karachi, the *Khyber Mail* in Peshawar, and the weekly *Viewpoint* in Lahore also print articles sympathetic to the Soviets, according to US Embassy reports. [redacted]

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[redacted] the Iranians provide some financial support to the Pakistani press, particularly to the owner and publisher of *The Muslim*. In our judgment, *Haidar*, a new pro-Iranian publication, also receives funding from these sources. Local Shia organizations supported by Iran give Pakistani journalists articles for publication in both the English-language press and the Urdu press. [redacted]

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South Asia: Improved Prospects for Regional Cooperation [redacted]

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The first South Asian Association for Regional Cooperation (SAARC) summit meeting is scheduled for 7-8 December in Dhaka.¹ A draft charter calling for further institutionalization of the organization will be the first item on the summit agenda, but atmospheric will probably be more important than matters of substance. SAARC protects its fragile existence by confining its activities to noncontroversial areas such as telecommunications, agricultural research, and health programs. New efforts in narcotics control and regional environmental programs appear promising, although both political sensitivities and scarce resources will limit expansion. Efforts to develop a regional approach to terrorism will be seriously complicated by mutual suspicions rooted in years of rivalry and conflicting interests. [redacted]

The postsummit period, during which SAARC will move from planning to implementation, could see underlying regional conflicts rise to the surface, especially if the organization attempts to expand its activities too rapidly into controversial areas where the groundwork for cooperation has not been laid. [redacted]

Background

SAARC represents an effort by the South Asian countries to overcome the pattern of conflict that has marked their relations for many years and to build a regional organization that will provide economic and developmental—and ultimately security—benefits. The fledgling organization has also developed into a useful forum for informal bilateral discussion of more controversial issues. In addition, UN representatives from the South Asian countries meet regularly in New York to coordinate their positions. [redacted]

¹ Originally called South Asian Regional Cooperation group (SARC). India, Pakistan, Bangladesh, Nepal, Sri Lanka, the Maldives, and Bhutan are members. Two important rules govern its operation—unanimity in decisionmaking and avoidance of sensitive political or economic issues. [redacted]

SAARC technical committees have developed programs for cooperation on postal services, weather research, agriculture, rural development, population and health planning, telecommunications, transport, and sports, arts, and culture. At the regional foreign ministers' meeting in the Maldives in 1984, telecommunications and transport linkages—especially between capitals—were singled out as areas of special importance, as were agricultural projects. Health programs have been stressed at subsequent sessions. [redacted]

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Each of SAARC's technical committees is chaired by a country with a strong interest in that area. India chairs the meteorology, and sports, arts, and culture committees; Pakistan, the committees on science and technology, and telecommunications; the Maldives chairs the transportation committee; Bangladesh handles the committee on agriculture; and Nepal heads the health and population committee. So far, the committees have set up seminars for training and information on subjects of common interest such as biogas processing and improving transit across state boundaries. Regional centers for health, weather, and agricultural research are in the planning stage. [redacted]

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One of the key motivations for most South Asian states to support SAARC is to improve prospects for external assistance, especially from multilateral organizations. Financial support for SAARC projects has already been offered by the Food and Agriculture Organization, the International Telecommunication Union, and the European Communities. SAARC members at first feared offers of outside assistance would cut into existing bilateral aid programs but later decided to proceed if donors would pledge not to cut other aid. [redacted]

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Political Motivations

In addition to hopes for economic and developmental benefits from SAARC, important political realities motivate member countries to cooperate:

- India wants to ensure that the smaller states do not coalesce in opposition to its major interests, especially in conjunction with Pakistan. India also hopes to limit the smaller South Asian countries' links with states outside the region. Originally loath to join, New Delhi suspected that a SAARC without Indian membership might become a US tool to divide India from the smaller South Asian countries and to wean India away from the USSR. But India's leaders realized they could accomplish more inside the organization than outside. Rajiv Gandhi probably finds SAARC a useful instrument for furthering his "good neighbor" policy.
- Pakistan, also originally unenthusiastic about SAARC because it feared Indian domination, sees SAARC as a means to dilute Indian influence and to strengthen the independence and integrity of the smaller South Asian states. The Pakistanis hope that SAARC membership will strengthen India's bonds with countries more closely aligned with the non-Communist world and eventually weaken Indian ties to the Soviet Union.
- SAARC is the linchpin of Bangladesh regional strategy, both as a hedge against possible Indian hegemony and against economic disaster. Bangladesh has several continuing disputes with its larger neighbor—for example, over sharing water resources.
- The smaller states—Sri Lanka, Nepal, Bhutan, and the Maldives—support SAARC most enthusiastically. They hope to find strength in numbers and gain international recognition and economic assistance as a bloc representing one-fifth of the world's population. All have disputes with India and expect to gain some maneuvering room by institutionalizing regional cooperation. The leaders of the smaller states also hope to strengthen their regimes domestically. [redacted]

SAARC: No ASEAN

The Association of Southeast Asian Nations (ASEAN) was an inspiration for SAARC. The differences between the two, however, are significant:

- ASEAN united against a common enemy—an expansionist Communist Vietnam. SAARC perceives no common enemy.
- ASEAN countries were on a capitalist economic road, with well-developed ties to the United States and the West. SAARC countries have mixed economic systems and follow differing foreign alignments.
- ASEAN economic growth rates are much higher than those of the SAARC countries.
- ASEAN is a relatively balanced grouping, while India's size and influence dominate SAARC. [redacted]

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Possibilities for Expanding Cooperation

Prospects for intensifying cooperation or moving into new areas are mixed. In addition to their determination to avoid controversy, SAARC members are concerned about stretching limited resources too thin.² [redacted]

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- **Narcotics.** Nearly all the major SAARC countries have expressed interest in improving cooperation to control the considerable flow of narcotics within the region. Some have serious drug problems with their own youth, others face severe criminal challenges from drug traffickers. Prospects are good for

² Regional conflicts and rivalries hamper SAARC's cooperative goals. Although India and Sri Lanka are discussing their problems directly, Colombo until recently believed that India was supporting Tamil separatists. This issue nearly caused Colombo to boycott the SAARC meeting in May 1985 in Bhutan. Pakistan suspects India is helping Bhuttoist oppositionists. India believes that Pakistan is assisting rebellious Sikhs. Pakistan also worries about India's nuclear capabilities and its relationship with the Soviet Union. India suspects Pakistan's nuclear aspirations and distrusts the Pakistanis' close ties to the United States. Nepal suspects India of supporting antimonarchist forces, and Nepal and Bhutan both have water-sharing disputes with India. [redacted]

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establishing a regional drug enforcement policy so long as no one country attempts to dominate the effort. Police and customs training in narcotics enforcement might be possible action areas. [redacted]

Some sources indicate that the final decisions on these issues might not be taken until after the summit.

Because the smaller countries hope to keep authority decentralized and maintain influence over issues of special interest, they—Sri Lanka in particular—tend to view institutionalization with some reservations. A formal secretariat would enable outside assistance to be channeled more effectively, but it would also offer more opportunities for Indian domination. [redacted]

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- **Terrorism.** India and Pakistan are exploring the possibility of using SAARC to develop a regional approach to combating terrorism in spite of deep mutual suspicions on this issue. SAARC members sharply disagree over the difference between “legitimate” struggles for self-determination and unacceptable terrorist acts. Even if these differences were eliminated, porous common borders and an abundance of dissident groups would hamper cooperation. Thus, only minimal regional steps against terrorism are likely to be taken in the foreseeable future, perhaps in less sensitive areas such as airplane hijacking. [redacted]

Summit Outlook

At the December summit meeting, atmospherics will probably be more important than matters of substance. By their attendance, regional heads of state will indicate their personal commitment to the organization, and reinforce its importance on the international stage. The South Asian countries are proud of the progress they have made to date and note that ASEAN existed for nine years before it held a summit. All the same, SAARC remains a paper organization, with well-developed plans but limited resources. India’s change in attitude has been the key to recent advances. A shift in Indian policy away from support for SAARC could severely hamper SAARC efforts to progress beyond the relatively modest sphere in which it operates today. [redacted]

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- **Reducing nuclear tensions.** Although Rajiv Gandhi has publically supported longer term regional efforts to control nuclear tensions, India prefers bilateral discussions with Pakistan rather than any multilateral forum. New Delhi probably would turn to SAARC only after reaching an understanding with Pakistan. The Indians strongly reiterated this policy in discussions with high-ranking US officials in September. [redacted]

If Indian support remains steady, the summit meeting could mark a watershed in the organization’s development. With the added international attention and the possibility that new economic resources might become available, South Asian leaders might be tempted to go beyond the carefully prepared areas embodied in the committees. We believe SAARC will remain a cohesive organization for the foreseeable future only as long as it confines its activities to noncontroversial developmental programs and concentrates on building the informal links between leaders necessary for more meaningful cooperation in the future. [redacted]

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- **Environmental problems.** Since many environmental issues cut across borders, they lend themselves readily to a regional approach. SAARC has already organized a workshop on environmental problems. The thin support given by SAARC countries to the existing South Asia Cooperative Environment Program, however, suggests that progress will be modest because of mutual distrust and the lack of political payoffs for member regimes. [redacted]

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Next Steps

The primary decision facing SAARC is whether to go ahead with institutionalization. The Dhaka summit will consider the location of a permanent headquarters (Bangladesh and Nepal have been mentioned as possibilities) and the creation of a permanent staff. As proposed, each country would contribute a small number of personnel, leaving annual program budgets as the only common cost. [redacted]

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Chronology of SAARC Development

- May 1980** General Zia-ur-Rahman, President of Bangladesh (1975-80), proposes a regional organization for South Asian countries in response to the Soviet invasion of Afghanistan.
- 1980-82** Foreign secretaries from South Asian countries discuss ways and means of implementing the notion, develop noncontroversial issues for working groups.
- January 1983** Committee of the Whole meets in Colombo to develop program of action incorporating guidelines for structure and financing of new organization.
- March** South Asian foreign secretaries meet in Dhaka. Endorse program of action developed at Colombo meeting, technical committees in agriculture, rural development, health and population, meteorology, telecommunications, transportation, postal services, and science and technology. Committees will be staffed by countries holding the chair; chairmen urged to begin programs where financial resources available. Offer of financial assistance from European Communities and International Telecommunication Union accepted in principle so long as outside aid does not detract from bilateral aid to the individual countries.
- August** New Delhi Declaration inaugurates South Asian Regional Cooperation organization (SARC). Signed by South Asian foreign ministers, declaration combines pursuit of common goals with mutual respect for national sovereignty. SARC officially inaugurated with an "Action Program." Standing committee of foreign secretaries designated to coordinate and monitor efforts, authorize projects, determine financial procedures, and mobilize regional resources and resources outside the region; to meet at least once a year. Technical action committees established in specific areas. Each country to pay for own personnel.
- February 1984** Regional foreign secretaries meet in New Delhi. Little accomplished besides discussion of global economic situation, north-south dialogue, need for concessional financing from donor countries. Reports of technical committees reviewed.
- July** Regional foreign ministers meet in the Maldives (followed closely by India-Pakistan bilaterals). Ministers recommend convening of a summit meeting by end of 1985. Stress urgency of improving telecommunications and air links between capitals. To consider proposal to establish institute of air transport, technology, and training; take steps toward establishing regional meteorological center, convene South Asian games in late 1984, hold an archeological congress in India in 1985, set up a regional agriculture information center, establish a regional center for research in the field of tuberculosis, hold a regional history conference, and arrange a cultural festival. More discussion of ITU and EC offer of aid in

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transport, science and technology, and telecommunications. Concern expressed over economic plight of developing countries, world economic situation, north-south dialogue. Some member states to significantly increase their financial contributions.

February 1985

Foreign secretaries meet in the Maldives. Preliminary work done on declaration for summit. Envision two major councils, one for foreign secretaries and one for ministers. Postpone discussion of institutionalization.

May

Foreign ministers meet in Bhutan. Change name to South Asian Association for Regional Cooperation (SAARC). Prepare way for the Dhaka summit in December: draw up proposal for charter. Discuss further organizational steps—secretariat, permanent headquarters. Draft political declaration reaffirming adherence to principles of UN Charter and the Nonaligned Movement.

December

SAARC summit to be held in Dhaka, Bangladesh, preceded by meetings of foreign secretaries and foreign ministers.



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Rajiv Gandhi and Nepal: Following in His Mother's Footsteps

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Despite Rajiv Gandhi's announcement of a "good neighbor" regional policy based on cooperation, the Indian approach toward Nepal has not shifted far from the heavyhanded attitude demonstrated under Indira Gandhi in the late 1970s and early 1980s. In our view, this is partly because Indian attitudes toward Nepal are driven by the state of Indo-Chinese relations, an issue that has not yet received much of Rajiv's attention and in which there has been little movement.

The absence of change can probably also be explained by the likelihood that, until Nepalese King Birendra's recent state visit to New Delhi, Gandhi had not paid much personal attention to Nepal, leaving relations with Nepal to the Foreign Ministry. As a result, Kathmandu, which initially welcomed Rajiv's succession, appears disheartened by New Delhi's failure to demonstrate flexibility in bilateral affairs. A shift is not likely in the near term. New Delhi would most likely be moved to review its policy if the Nepalese Government were to change suddenly or if new dynamics developed in relations with Beijing.

An Unequal Equation

India's view of China as its long-term threat colors its relations with Nepal and, we believe, will continue to act as a counterweight to Kathmandu's efforts to achieve greater independence from Indian influence. All Indian prime ministers since the Sino-Indian war in 1962 have emphasized that India's legitimate security concerns begin in Nepal's Himalayas.

Nepal's strategic location between India and China—the Nepalese refer to their country as "the root between two stones"—gives a unique flavor to Indo-Nepalese relations. We believe India values the role Nepal plays as a buffer, allowing New Delhi to avoid direct confrontation with Beijing along much of its northern border. Nepal's international standing, its relatively strong sense of nationalism, and its avowed commitment to neutrality and nonalignment increase its value to India as a cushion against the Chinese. New Delhi's influence in Kathmandu's affairs, in our

judgment, reflects India's effort both to support Kathmandu's sovereignty and shape Nepal's foreign policy on key bilateral issues.

Indian policymakers have a well-documented record of exerting influence on Kathmandu's handling of its domestic and foreign affairs. India continually presses Nepal to conform to a restrictive interpretation of an outdated 1950 Friendship Treaty and the secret letters of intent that accompanied that agreement. According to this understanding, New Delhi and Kathmandu "will consult each other" on foreign policy decisions of mutual interest. All Indian prime ministers have interpreted this to mean that India has the right to broker all Nepalese foreign affairs that might affect New Delhi's concerns in the region. Kathmandu, according to Embassy reporting, has argued unsuccessfully that Indian foreign policy initiatives within the region—the Indo-Pakistani wars, the Sino-Indian conflict, India's invasion of East Pakistan—contravened the bilateral nature of this understanding and therefore its binding power on Nepal.

India also attempts to keep Nepal relatively isolated in world forums and from seeking more substantial bilateral relations with powerful foreign powers. New Delhi lets Kathmandu know the Indian stand on international issues through both diplomatic and informal channels and exerts none-too-subtle pressure on Nepal to conform. King Birendra attempts to deflect some of this influence by:

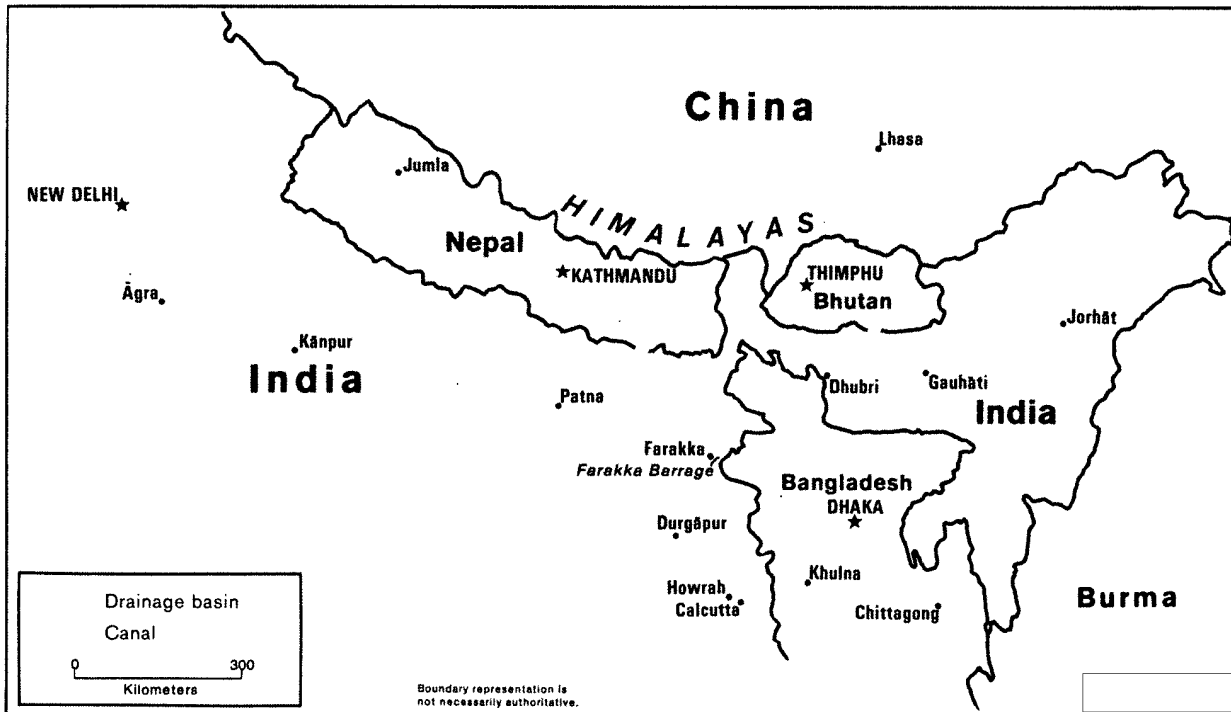
- Welcoming state visits by foreign dignitaries.
- Offering Kathmandu as a site for foreign conferences, meetings, and symposiums.
- Seeking to involve Nepalese representatives in as many cooperative international ventures as possible.

As an example of Kathmandu's effort to play a broader role, Embassy reports describe how highly the Nepalese value the role of Nepal's Gurkhas in UN peacekeeping ventures and the esteem in which the Gurkhas are held by the British military.

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Rajiv: Not a New Broom

Despite Rajiv's efforts to lower tensions with India's neighbors, his administration's record toward Nepal shows little change from New Delhi's traditional heavyhanded approach. In our view, this reflects Nepal's standing below Sri Lanka, Pakistan, and Bangladesh on his priority list, as well as his need to focus immediate attention on more pressing domestic issues, such as Punjab.

Although there is no clear indication that Rajiv has had the time or inclination to focus on Kathmandu, several developments in Nepal last summer have required New Delhi's attention. In June, New Delhi learned of Nepal's decision to accept a Chinese bid to complete the western section of Nepal's only east-west through road. Although India's original offer had been nearly 15 percent higher, New Delhi pressed the Nepalese to cancel the Chinese offer and accept the Indian bid, sweetening the deal by offering to finance the entire project through an aid grant. Rajiv Gandhi's personal emissary visited Kathmandu to underscore New Delhi's sensitivity to the possibility of

large numbers of Chinese workers near India's border with Nepal. New Delhi's handling of the issue suggests that it was left largely to those in the Foreign Ministry who have long overseen relations with Nepal.

A second major issue between India and Nepal arose in late June when a round of bombings occurred in Nepal allegedly carried out by insurgents opposed to the monarchy. The incidents gave new impetus to fears in Kathmandu that New Delhi—in reaction to the road imbroglio—was actively supporting an attempt to destabilize the regime. Nepalese allusions to Indian connivance in the affair—voiced loudly by high-ranking members of Parliament—were supported by allegations in the Indian press by insurgent leaders. We believe the King squelched the findings of his own investigation rather than risk upsetting relations with New Delhi by publicizing conclusions that implicated Indian officials.

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Other issues that suggest Nepal has not received a fresh perspective in New Delhi include continued Indian pressure on Nepal to maintain trade and migration policies that many Nepalese officials view as harmful. The Nepalese press has carried articles by Nepal's Foreign Minister Subba over the last few months criticizing India for strangling Nepal's foreign trade through its control of border traffic. Subba reiterated the longstanding Nepalese contention that the porous border allows Indian immigration into the sparsely settled Terai region of south Nepal and that Indian border officials encourage Indian exports to Nepal while restricting Nepalese exports to India.

There are few signs that suggest Rajiv focused on Indo-Nepalese relations before King Birendra's visit in September. Even then, there were no indications of Rajiv's personal imprint on New Delhi's relations with Nepal. Rajiv and Birendra met privately for more than two hours, but they apparently did not address tough bilateral problems. The King sought to establish a number of joint commissions to deal with implementation of future transportation development projects, cross-border terrorism, and bilateral trade relations, apparently hoping to demonstrate Nepal's flexibility. Both leaders publicly identified control of terrorism and antigovernment elements as an area of immediate mutual concern; a joint antiterrorism program is likely to be announced soon.

Outlook

The evolution of Rajiv's policy toward Nepal will depend in part on developments in New Delhi's relations with Beijing. Improvement in relations with China, we believe, would free New Delhi to be more receptive to Kathmandu's push for greater equality in the relationship. A downturn relations with Beijing, however, would probably lead India to push to increase its influence in Nepalese affairs. Kathmandu would have difficulty resisting.

Developments in Nepalese domestic politics also could cause a change in India's attitude. We believe a strong movement toward democratic political reforms in Nepal would draw India's attention and encourage greater Indian meddling in Nepalese domestic affairs. A working democratic apparatus based on competing political parties could jeopardize New Delhi's influence by subjecting the Indo-Nepalese relationship to open political debate. The development of an insurgency in Nepal threatening the monarchy could encourage the King to seek Western military aid, a move India would oppose.



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Bhutan: Forging New Ties [redacted]

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The Himalayan Kingdom of Bhutan is gradually assuming a modern political role in South Asia. After two decades of near total economic dependence on India, Bhutan has increased borrowing from multilateral aid institutions, established new trade relations in South Asia, Europe, and the Pacific, streamlined its budget and internal administration, and begun to assert increasingly independent foreign policy positions on a range of regional and global issues. Indian Prime Minister Gandhi's personal friendship with King Jigme Wangchuck and New Delhi's choice of Bhutan as a venue for this summer's Sri Lanka peace talks have reaffirmed India's excellent relations with Bhutan and highlighted Bhutan's emerging role in South Asian affairs. Although still reluctant to establish diplomatic relations with its other giant neighbor, China, Bhutan completed a second round of border talks with Beijing in April. [redacted]

Managing Ties to India

India is the major focus of Bhutan's foreign relations. Unlike its Himalayan neighbor, Sikkim, Bhutan has never faced a direct Indian threat to its sovereignty and has prospered as an independent monarchy since 1907 in relative isolation from New Delhi. In 1949, India and Bhutan agreed by treaty to continue the British policy of New Delhi "guiding" Bhutan's foreign relations. Despite massive infusions of development assistance—including the construction of a road between New Delhi and Thimphu—India has avoided using its economic leverage to influence Bhutan's internal affairs, which remain politically, ethnically, and culturally distinct from India. King Wangchuck has placed high priority on maintaining excellent relations with New Delhi—a necessity for economic development—and on preserving Bhutanese political and cultural independence. [redacted]

According to press reports, Gandhi's three-day visit to Bhutan last month underscored strong bilateral ties and paved the way for Bhutan's establishment of diplomatic ties to Switzerland, Sweden, Denmark, and the European Community. For Gandhi, the visit

renewed regional attention to India's "good neighbor" policy, provided a welcome contrast to New Delhi's recent strong-arm tactics in Nepal, and strengthened his longstanding friendship with the 29-year-old King. Since assuming the throne in 1974, Wangchuck has usually met with Indian officials in New Delhi. Gandhi's journey to Bhutan is only the third visit by an Indian Prime Minister and the first since 1972. [redacted]

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The visit also allowed the King an opportunity to reaffirm Bhutan's principal foreign policy objective of maintaining excellent ties to India, its most important trading partner and aid donor. Bhutan also acts as host to nearly 10,000 Indian Army troops who are frequently rotated to maximize Indian troop familiarization with the region. Wangchuck and Bhutan's National Assembly are careful not to criticize India's economic clout, military presence, and the self-serving nature of Indian development assistance. Despite the King's determination to preserve Bhutan's cultural identity, he appears equally committed to gradual economic development. [redacted]

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Although Bhutan has been able to develop alternative aid sources, India's grip on Bhutan's fledgling economy is unchallenged. New Delhi has contributed \$204 million toward Bhutan's fifth economic plan (1981-86)—more than half of the plan's total outlay. It has also financed 60 percent of an ambitious 336-megawatt hydroelectric project designed to make Bhutan an energy exporter to India. Bhutan's emerging export industries of timber, minerals, canned fruits and cement represent only 5 percent of the country's \$300 million GDP and are located principally in the south, closest to Indian markets and technical assistance. Embassy reports indicate that Wangchuck is eager for continued Indian aid and has successfully courted both Rajiv Gandhi and Indian public opinion. [redacted]

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Portrait of Bhutan

Landlocked Bhutan, about 47,000 square kilometers in area, is nearly the size of Vermont and New Hampshire combined. Much of the population lives in remote valleys that are just beginning to be touched by modern development and the laws and activities of the central government. [redacted]

The majority of Bhutan's population of 1.4 million are Bhotias—Buddhists of Tibetan descent—who dominate the government and the clergy. People of Nepalese origin and a number of small tribal groups account for much of the rest of the population. Most of the Nepalese were brought in as laborers, and we believe they plan to return to Nepal. [redacted]

Because of difficult communications and transportation, most Bhutanese communities have traditionally been self-sufficient, meeting basic needs through farming, raising livestock, cottage industries, and trade. Compared to much of South Asia, living standards are relatively good. [redacted]

Bhutan's official language, Dzongkha, is similar to Tibetan. A number of dialects are spoken in highland villages, and Nepali is widely spoken in the south. The medium of instruction in the country's secular schools is English. [redacted]

A few hundred students attend secondary and higher schools in India, but an increasing number are being sent to Europe and the United States under UN auspices. It is estimated that approximately 10 percent of the adult population is literate. [redacted]

Bhutan has been a monarchy since 1907. King Jigme Singye Wangchuck was crowned in 1974 at the age of 18. All political power is vested in the monarch, but increasingly he has delegated authority to the Council of Ministers, which was established in 1968. [redacted]

Bhutan has no political parties. The National Assembly (Tshogdu) of 152 members is empowered to enact legislation and to approve or reject senior appointments. [redacted]

Signs of Independence

Press reports indicate that Bhutan is eager to end its long period of isolation and is seeking ways to expand its ties to the outside world. Although the King claims to have no intention of making Bhutan's capital, Thimphu, a "South Asian Geneva," his success as host to two rounds of Sri Lanka peace talks suggests Thimphu could become a more regular site for regional negotiations. Moreover, the kingdom's active participation in the South Asian Association for Regional Cooperation will inevitably accelerate Bhutan's political and economic integration into the region, spurring greater independence from New Delhi. [redacted]

Cordial relations with Bangladesh are also helping Bhutan emerge from India's shadow. Building on a 1980 trade agreement, Bhutan and Bangladesh agreed formally in January to expand trade and economic relations. In exchange for the full range of Bhutan's exports, Bangladesh will provide pharmaceuticals, textiles and tobacco. In addition, both countries issued a joint communique in April 1983 that called for "immediate and unconditional withdrawal of foreign troops from Afghanistan and Kampuchea"—positions that diverge from New Delhi. So far New Delhi has not officially objected to the growing ties between Thimphu and Dhaka, but Embassy and press reports suggest that India is unlikely to permit Bangladesh too much influence in Bhutan's Indian-oriented foreign policy. [redacted]

Bhutan has also shown a willingness to break with New Delhi on its own. Recently, Bhutan acceded to the Nuclear Non-Proliferation Treaty, which New Delhi opposes. Bhutan's first independent steps in foreign policy complement its drive to diversify from predominantly Indian sources for development assistance. Faced with major budgetary constraints at home, New Delhi appears content to allow Bhutan independent membership in a range of multilateral institutions including the Asian Development Bank, the World Bank and the International Monetary Fund. Although New Delhi encourages greater economic independence for Bhutan, it will almost certainly prevent Thimphu from asserting any regular opposition to Indian strategic interests. [redacted]

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A Cautious Approach to China

Bhutan's relations with China are based primarily on negotiating an undemarcated 500-kilometer border in the Himalayas. Although New Delhi is wary of Beijing's push for better ties to Bhutan, it permitted Bhutan to undertake direct talks with China in 1984. So far, two rounds of talks have produced little progress. Bhutan has reiterated its opposition to an official reopening of economic relations with Tibetan traders. After reluctantly harboring a troublesome Tibetan refugee community during the 1960s and 1970s, the King is eager to keep Tibetan and Chinese influence out of Bhutan. [redacted]

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Outlook

With the qualified support of Rajiv Gandhi, King Wangchuck is likely to continue an expansion of Bhutanese economic and political relations. Hydroelectric power, tourism, and increasingly better trained and effective administrators are likely to enhance Bhutan's internal revenue and reduce Thimphu's heavy economic dependence on India. Bhutan's recently announced decision to establish diplomatic relations with a number of European countries will also help develop new export markets and improve prospects for increased development assistance. Despite Bhutan's growing independence, good relations with India will remain the focus of Bhutan's foreign policy. [redacted]

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