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**Near East and
South Asia Review**



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*Special Issue: The Levant and
North Africa in 1986*



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6 December 1985

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**Near East and
South Asia Review**

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Special Issue: The Levant and North Africa in 1986

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Beginning with his agreement with the PLO in February, King Hussein has doggedly pursued a workable peace plan with PLO Chairman Arafat and exhibits no signs of giving up in 1986, but the limited movement so far toward negotiations with Israel and Hussein's growing disillusionment with Arafat will encourage him to hedge against failure.		25X1

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[Redacted]

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Syria: Exploring Options [Redacted] 21

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During 1985 President Assad demonstrated fresh determination to confront the persistent problems of Lebanon, Arab moves toward negotiations with Israel, military preparedness, and the economy, but ever-shifting alliances in the Arab world and the magnitude of the issues facing Syria mean that most of his goals will remain elusive. [Redacted]

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Lebanon: Civil War Without End [Redacted] 29

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Lebanon moved closer to political dissolution and territorial partition during the 10th year of civil war in 1985 as factional militias continued to battle throughout most of the country and initiatives aimed at political reconciliation fell victim to the endemic violence. [Redacted]

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Egypt: The Politics of Austerity [Redacted] 35

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President Mubarak probably looks back on his government's performance in 1985 with a mixture of satisfaction and relief, but he is vulnerable and recent events have made him wary of policies that risk inflaming public opinion against the government. [Redacted]

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Sudan: Facing an Uncertain Future [Redacted] 39

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The overthrow of President Nimeiri has unleashed political forces that promise to keep Sudan in flux over the next year, but the senior officers who ousted Nimeiri appear willing to honor their promise of a transition to civilian rule by next year, despite the lack of preparedness for elections on all sides. [Redacted]

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Libya: Qadhafi Under Siege [Redacted] 45

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An unprecedented combination of rising unrest and foreign challenges coalesced to put Qadhafi at bay in 1985, and, if there is no change in current conditions, his chances of surviving another year are little better than even. [Redacted]

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[Redacted]

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Morocco: Growing Challenges

[Redacted]

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The moderate pro-Western government of King Hassan II is secure for at least the next year, but deteriorating economic conditions coupled with rising expectations among the burgeoning youthful population are potential sources of discontent and could over time destabilize the regime. [Redacted]

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Algeria: Bendjedid Politics Take Hold

[Redacted]

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At mid-decade all indications are that President Bendjedid is consolidating his position and continuing to put his mark on the country, but his efforts to promote private initiative and decentralize the bureaucracy are little more than economic and political tinkering. [Redacted]

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Tunisia: Foreign Crises and Political Immobilism

[Redacted]

57

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This year has been one of unprecedented challenges for the government of President Bourguiba and Prime Minister Mzali that have revealed the weaknesses of the regime and its inability to resolve social and economic problems, and maneuvering in anticipation of Bourguiba's death will sharply limit the government's ability to act in the coming year. [Redacted]

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Mauritania: Taya Under Fire

[Redacted]

61

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After 11 months in office, Mauritania's President Taya appears weak and vacillating in tackling his country's severe economic and political problems, and his ability to cope with these issues is complicated by external pressures to take sides in the Western Sahara dispute. If he cannot show progress in the next year, he may not survive. [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. [Redacted]

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Articles

**Middle East:
Shifting Alliances,
Enduring Rivalries**



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Prospects for a coalescence of Arab states to take the lead in addressing the issues that beset the region appeared to recede during most of 1985. One Arab leader's complaint early in the year that there were "too many waltzes" going on in the region proved to be prophetic.

Leadership quarrels, conflicts of national interest, and the intractability of the issues contributed to the high degree of fluidity in the relations among Middle Eastern states in 1985. Little could be agreed upon in the multilateral meetings called during the year, and Arab League efforts to ease tensions among regional rivals made little headway.

Developments during the past few months—Syrian-Jordanian rapprochement, Arafat's Cairo statement, and movement toward an Arab summit meeting in Riyadh—open the possibility during the coming year of an easing in some regional tensions. Broad agreement is likely, however, only at the cost of blurring the hard issues. Hidden agendas will continue to inhibit an effective Arab approach to resolution of the Arab-Israeli conflict and will contribute to the reappearance of enduring inter-Arab rivalries.

Despite the emergence of numerous claimants, the long-term outlook for effective regional leadership in the Arab world is poor. Regional conflicts are multiplying. No current or prospective head of state has the political resources to put together an Arab consensus or even a majority powerful enough to act or to maintain its ranks against defection when politically controversial decisions must be reached.



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Multilateral Diplomacy and Its Limitations

Contentious Arab League meetings last spring and summer indicated the depth of the divisions within the Arab world through most of 1985. Thirteen Arab foreign ministers and five deputy ministers met in Tunis in late March for long and unproductive sessions on the Iran-Iraq war, the Jordan-PLO agreement, and other issues. Embassy sources reported that few of the delegates could agree on anything. A second ministerial meeting called in Tunis in June and a followup meeting of the permanent representatives in July produced sharp recriminations among the participants and public complaints that the meetings had left the Arabs even more divided.

The extraordinary summit meeting called by the Arab League in Casablanca on 7-9 August served only to confirm the extent of the splits within Arab ranks. The League failed to endorse the Jordan-PLO agreement. The summit meeting produced signs of open disagreement among the very parties to the accord, with PLO Chairman Arafat refusing to accept King Hussein's position that a resolution of the Palestinian issue would be achieved only through hard, but peaceful bargaining. Final language on the Iran-Iraq war reflected the continuing refusal of several states to support Iraq against Iran.

the prevailing mood among the diplomats, delegates, and functionaries involved in the conference was one of futility.



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Similarly, efforts by member states to mediate regional conflicts under the auspices of the League failed to make headway through most of the year. Embassy sources in Algiers reported an Algerian attempt in February to resolve conflicts within the PLO and then to promote a meeting between PLO Chairman Arafat and Syrian President Assad. [redacted]

[redacted] In May, the League was called upon to bring an end to fighting between the Lebanese Shia Amal militia and the Palestinians in the Beirut refugee camps. Each of these efforts produced a flurry of diplomatic activity but no discernible results. [redacted]

Arab Moderates and Their Radical Opponents

Throughout much of 1985, the Arab world appeared split into moderate and radical factions. Jordan's efforts to advance its joint peace initiative with the Palestinians contributed to tension with Syria and to an apparent polarization of the two sides' backers. Damascus set out to block Hussein—primarily by using terrorists to signal that Syria would exact a high price if the King persisted. Damascus responded politically as well, and each side set about enlisting allies to bolster its position. Assad sponsored a "radical" conclave in March that included Algerian, Libyan, and South Yemeni representatives, for example, in response to the moderates' summit meeting in Baghdad a week before that brought King Hussein together with Egyptian President Mubarak and Iraqi President Saddam Husayn. [redacted]

Developments after midyear indicated that the rival Arab alignments amounted to considerably less than was suggested by the rhetoric that accompanied their emergence:

- Jordan remained vulnerable to Syrian intimidation, and neither Egypt nor Iraq were interested in or capable of mounting a sustained challenge to Damascus.
- The "radicals," on the other hand, confronted near-total incompatibility over Lebanon when the "war of the camps" broke out in May. In late August, a meeting in Damascus of the foreign ministers of

Syria, Iran, and Libya produced a communique that the US Embassy characterized as a study in the avoidance of delicate issues. [redacted]

[redacted] the meeting resulted primarily in a review of the differences among the participants. [redacted]

The apparent polarization within the Arab world during the past year—like previous such cleavages—was short lived. In the past two months, Damascus and Amman have initiated a reconciliation, undertaken in the context of an Arab League-sponsored mediation effort. We believe Damascus is seeking to exploit the loss of momentum toward negotiations with Israel to try to bring Jordanian policy into line with Syrian views, while Amman is trying to ease the tension with its northern neighbor and neutralize its disruptive capabilities by finding some common ground. Meanwhile, strains among the "radicals" persist, as the suspension of Iranian oil shipments to Syria and Libyan expulsions of Syrian workers contribute to new frictions. [redacted]

The Arab Agenda and Prospects for the Coming Year

The Arab-Israeli conflict and the possibility of peace negotiations remain at the top of the Arab agenda, but the prospects for an effective regional response to opportunities to achieve even a partial resolution are dim. An Arab summit meeting held in 1986 probably would result in a consensus restating the positions taken at Fez in 1982 and favoring an international conference as a means to move ahead. A successful Arab summit meeting, however, almost certainly would be followed by the dispatch to Washington and European capitals of an Arab delegation seeking Western pressure on Israel and guarantees of an outcome favorable to the Arab side before negotiations even begin. [redacted]

The prospect of stalemate in Arab-Israeli negotiations is reinforced by the "hidden agendas" that will plague Arab politics over the coming year. Effective representation of the Palestinians in any negotiations, for example, can come only after resolution of the struggle for control of the Palestinian movement that

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has raged over four decades. Despite the 1974 Arab League decision that the PLO is the "sole, legitimate" representative of the Palestinian people, competition for influence and control continues among the PLO leadership, Jordan, Syria, and West Bank leaders inclined to one side or another. [redacted]

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The proliferation of inter-Arab conflicts and rivalries occupies an increasingly greater share of the time and efforts of Arab League member states. In addition to the Iran-Iraq war, the League will have to contend with Algerian-Moroccan tensions over the Western Sahara; heightened friction between Libya and most of its neighbors (Algeria, Tunisia, Egypt, Sudan, and others are involved in disputes with Tripoli); and the conflict between Syria or its Lebanese surrogates and the Palestinians in Lebanon. [redacted]

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Over the longer term, the prospects for the emergence of effective regional leadership are poor. With few exceptions, political institutions in the Arab world are weak. Even apparently stable regimes are highly vulnerable to domestic "constituencies" that restrict policy change on what the Arabs call the "fateful" issues. At the regional level, the ideological dimension of interstate conflict has diminished—last year's polarization, for example, pitted Ba'thist Syria, revolutionary Libya, and fundamentalist Iran against the Hashemite monarchy of Jordan, Ba'thist Iraq, and republican Egypt—but the sources of regional tension and rivalry have multiplied along with the number of aspirants to regional leadership. [redacted]

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Israel: A Year of Rebuilding [redacted]

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Under the leadership of Prime Minister Peres, Israel's coalition government focused in 1985 on restoring public confidence shattered by Likud's mismanagement of the economy and its disastrous Lebanon policy. To this end, the government implemented a new and more effective economic austerity package in July and withdrew most Israeli forces from southern Lebanon. Peres also made significant gains in refashioning his public image and strengthening his leadership of the Labor Party, while the rival Likud bloc, under the lackluster leadership of Vice Prime Minister Shamir, was wracked by internal disarray. [redacted]

In the coming year Peres probably will seek to split the ruling coalition and replace it with a Labor-led government, thereby avoiding a transfer of power to Shamir next October as agreed when the coalition was formed. In the meantime, the government will strive to enforce the restrictive economic policies imposed last July and may implement additional measures. The government also will concentrate on preventing PLO and radical Shia attacks against Israel and maintaining its military capability to deter future Arab threats. Peres is not likely to depart from past Israeli positions on major peace negotiation issues but would try to capitalize on a favorable response from Jordan to his proposal made at the United Nations in October for direct negotiations under international auspices. [redacted]

Peres and Labor Ascendant

After 15 months in office, Prime Minister Peres has emerged as the dominant political figure in Israel. He has transformed his image from a widely disliked, unscrupulous politician to a dignified, self-confident leader. This is largely the result of his success in withdrawing the bulk of Israeli forces from Lebanon and his personal intervention to secure tough economic austerity measures last July. [redacted]

The upsurge in terrorist incidents on the West Bank and Israel last summer strained the coalition's fragile cohesion, with Commerce Minister Sharon and other

Likud hardliners accusing Peres of lacking the stomach to order tough security measures. Peres's tough talk and subsequent government actions in combating terrorism—particularly the airstrike against PLO headquarters in Tunis and the increasing prowess of Israeli security in breaking up terrorist cells on the West Bank—enabled him to regain the initiative. Peres's public standing also was enhanced by cordial meetings with US officials during his visit to Washington in October. [redacted]

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Peres's popularity at the end of 1985 was at an alltime high. A recent public opinion poll suggests that over two-thirds of the public approves of his performance as prime minister. Peres's political standing in the Labor Party also has risen. After years of bitter feuding with Defense Minister Rabin, Peres has emerged as undisputed party leader. Senior Labor Party officials have told US diplomats that Peres and Rabin consult regularly to maximize party harmony. [redacted]

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Nonetheless, the rise in Peres's popularity has not carried over to Labor, which has improved its public standing only marginally during the past year. A recent poll suggests Labor would win only about three more seats than it won in the last election in July 1984. [redacted]

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Hard Times for Likud

In contrast to Labor's unity and Peres's popularity, the Likud bloc has been divided under Shamir's vapid leadership, with the Herut and Liberal Party components openly squabbling. Throughout 1985, Shamir's authority was under siege by Deputy Prime Minister Levi and Commerce Minister Sharon, and Liberal leader and Finance Minister Moday recently announced that he, too will seek the leadership of Likud. Shamir's future leadership, in our view, depends almost exclusively on Peres's abiding by his agreement to hand over the reins of government next

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October. If the coalition falls apart before then, we believe Shamir will not long survive as Likud leader.

[redacted]

Shamir's ineffective leadership was manifested during the two political crises this past fall that almost tore apart the coalition. In the aftermath of Peres's speech at the United Nations, Likud bungled an opportunity to force the Prime Minister to coordinate his negotiation strategy more closely. Although Peres had discussed his approach with Shamir, Likud hardliners—led by Levi and Sharon—threatened to break up the coalition if Peres did not rule out more explicitly PLO participation and an international conference. Peres called their bluff, and Likud ultimately voted in the Knesset to support his strategy rather than bolt the coalition.

Recriminations among Likud leaders abounded following this debacle. Shamir and Arens criticized Levi and Sharon for making the party look inept because of their desire to improve their leadership credentials among party hawks. Levi, meanwhile, faulted Shamir for poor leadership, arguing that he was interested only in making sure nothing stands in the way of his assuming the premiership.

The second coalition crisis occurred in mid-November and was caused by Sharon's stinging public criticism of Peres's negotiation strategy. Peres threatened to dismiss Sharon from the Cabinet without Shamir's concurrence, a move that probably would have forced Likud out of the coalition. As with the first crisis, Shamir stayed out of the political fray rather than champion Likud's cause. Although a compromise featuring a Sharon apology was worked out by religious party members of the coalition, Sharon's contrition is unlikely to last long, and the Likud household will remain unruly.

Likud is also suffering from sagging popularity in Israeli public opinion polls. An early November poll suggests that public support for Likud has declined by almost 10 percent since the 1984 election. The drop in Likud support has benefited the rightwing Tehiya-Tzomet and Kach Parties and not Labor.

Foreign and Security Policy

The ruling coalition focused on three foreign policy issues during the past year: extricating the Israeli Army from Lebanon; resolving the border dispute with Egypt over Taba; and laying the groundwork for peace negotiations with Jordan. Israel withdrew most of its troops from Lebanon, pulling back to a security zone just north of the frontier controlled mainly by General Lahad's Army of South Lebanon with

[redacted]
[redacted]

So far, this arrangement has worked well for the Israelis. Israeli casualties have fallen off sharply, and northern Israel has experienced no major cross-border attacks.

The reduction of Israeli forces in Lebanon clearly strengthened public confidence and morale after three years of internal debate over the 1982 invasion. Moreover, in October the Air Force destroyed the PLO headquarters complex in Tunis in a well-executed, long-range surprise attack dramatically demonstrating Israel's military prowess.

The government's second priority was to improve relations with Egypt, largely by resolving the Taba border dispute. Peres wanted rapid progress on this issue to improve the atmosphere for peace negotiations with Jordan. He, therefore, pressed the Cabinet to accept binding international arbitration of the dispute to meet President Mubarak's condition for holding summit talks and returning Egypt's ambassador to Tel Aviv. Likud ministers rejected arbitration and steadfastly advocated direct negotiations with Egypt.

Peres's eagerness to improve ties to Egypt failed to win enough public support to help him overcome Likud's obstructionism. The Cabinet eventually endorsed a plan calling for continued discussions of options for settling the dispute, including the ground rules for possible arbitration, but Cairo postponed the start of talks until early December in protest against

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the Israeli raid on the PLO in Tunis. By the end of 1985, however, Taba had become less of a priority for Peres because his attention had shifted to Jordan.

From the beginning of the coalition government, Peres was determined to engage Jordan in direct talks but not at the expense of the fragile political consensus he had reached with Likud in support of measures to heal the economy and reduce Israeli forces in southern Lebanon. Given Likud's opposition to negotiations involving territorial concessions on the West Bank, Peres has had to be particularly cautious in his efforts to arrange Israeli-Arab talks.

We believe Peres did not see much opportunity to promote Israeli-Arab talks until after the hijacking of the Achille Lauro, which he viewed as widely discrediting PLO Chairman Arafat's professed commitment to peace negotiations. Peres tried to capitalize on the PLO's setback in his UN speech by conveying Israel's readiness to enter direct talks with Jordan alone or with non-PLO Palestinians, possibly under international auspices. He clearly hoped to encourage King Hussein to abrogate the 11 February PLO-Jordan accord and exclude the PLO from a role in peace talks. At the end of the year, Peres still hoped that Amman would respond positively to his proposal for direct negotiations.

The Economy

The formation of the coalition government was intended, in part, to assure broad-based support for tackling Israel's worsening economy. Seven years of Likud rule had left Israel with soaring triple-digit inflation, burgeoning external deficits, and a public demoralized by ineffective government economic policies. The coalition government was believed by many in Israel to possess the necessary political clout to overcome partisan differences and push through a long-overdue austerity program.

The government acted quickly by proposing substantial budget cuts, a shekel devaluation, and higher energy prices. It also attempted—without much success—to implement several wage-price accords, selected tax hikes, higher travel fees, and import restrictions. All of these efforts lasting well

into the summer of 1985 were merely ad hoc attempts to reduce the budget deficit, cut foreign exchange losses, and generate renewed public confidence.

The ineffectiveness of these measures forced the coalition to bypass labor and business leaders and unilaterally introduce, via emergency decrees, a new stabilization plan on 1 July. This more comprehensive plan called for reductions in government spending, additional taxes, reduced public-sector employment, a major devaluation of the shekel, and price increases to cover subsidy reductions that would be followed by a wage-price freeze.

Initial public reaction to the austerity program was sharply critical, particularly by Labor Party figures active in trade union affairs who were upset that they had been ignored by their own Prime Minister. A one-day national strike, combined with the threat of additional protests, forced the government to back down on some of the more controversial elements of the plan, but much of the program remained intact.

By the end of the year, the Israeli economy was beginning to respond to the government's more restrictive economic measures:

- Inflation has averaged under 4 percent since August, the lowest figure in four years.
- Real wages have dropped to roughly late 1980 levels.
- The civilian trade deficit continued to drop because of import cuts and increased exports.
- The sharp drop in foreign exchange reserves slowed considerably during the summer, and reserves have since climbed to \$2.9 billion due to the infusion of US supplementary economic assistance.
- Government spending was running close to planned levels.

The Coalition in 1986

We believe Peres will seek to provoke Likud's resignation from the coalition with the intention of forming a Labor-led government and thereby avoid relinquishing the premiership next October. Peres

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probably anticipates that, if he lives up to his agreement with Likud, his popularity will steadily erode as he is shunted to the less conspicuous jobs now held by Shamir—Vice Premier and Foreign Minister. He probably is also concerned that, once in power, Shamir and Likud would score major gains in public support if the economy begins to show signs of growth and thus would be better able to contest Labor in the next scheduled election in November 1988. []

After exchanging jobs with Shamir, Peres's standing in Labor also would probably decline. He would be overshadowed by Rabin, who would benefit from the influence and high visibility of the defense portfolio, which he will retain throughout the government's term. In such circumstances, Rabin would be in a strong position to challenge Peres for the Labor Party leadership before the next parliamentary election. []

If Peres seeks to split the coalition, he will do so sometime within the next few months to avoid appearing opportunistic to the public for reneging on his agreement with Shamir. He probably will seek to engineer or manipulate a coalition crisis that would force Likud to bolt over an issue of principle, probably involving the prospect of imminent peace talks with Jordan. He would then seek to form a narrow coalition with the support of small religious and secular parties. []

The early end to the crisis in mid-November caused by Sharon's public outburst indicates, in our view, that the religious parties prefer to maintain the current coalition. But they might join a narrow Labor coalition, especially if the alternative is an early election. []

As next October draws nearer, and absent a bolt by Likud, Peres could resign over some issue—such as Sharon's sniping at Labor—in hopes that President Herzog, himself a Labor man, would give him the first opportunity to form a new government. In our view, Peres would accept the risk of a new election only as a last resort because of uncertainty that Labor would do well enough to establish a coalition without Likud. []

Shamir's strategy over the next 10 months is to ignore Labor provocations and hang on long enough to assume the premiership. Should he conclude that Peres does not intend to hand over power, Shamir could seek to bolster his flagging leadership credentials in Likud and among sympathetic hardline groups by taking Likud into the opposition. []

Foreign Policy Aims and Security Concerns

Peres's principal foreign policy objective during the remainder of his tenure will be to engage King Hussein in direct negotiations. Achieving progress toward peace negotiations with Jordan would also serve Peres's strategy of forcing Likud to bolt the coalition because of its staunch opposition to giving up any part of the West Bank. Likud leaders Shamir, Sharon, Levi, and Arens will watch carefully for hints of unacceptable concessions by Peres, but there is little he can do independently to initiate direct negotiations in the absence of a favorable response from Amman to the framework for negotiations that he outlined at the United Nations last October. []

In the coming year the Israeli Army will continue to focus on preventing PLO terrorist operations and radical Shia attacks. Shia and Hizballah attacks—including suicide car bombings—against Israeli troops and their Lebanese auxiliaries in southern Lebanon and occasional rocket attacks on northern Israel will continue. Moreover, PLO leaders in Amman probably will try to orchestrate anti-Israeli unrest by Palestinian activists on the West Bank. Israel probably will launch reprisals comparable to the airstrike on PLO headquarters in Tunis if terrorist attacks increase. The ruling coalition probably would prefer to attack PLO facilities in Algeria or in North or South Yemen, believing such action offers less risk of harming relations with the United States and undermining the peace process than would striking at the PLO in Jordan. Peres and Rabin, however, probably would support punitive action against PLO bases in Jordan if there were a terrorist "spectacular" or continuing smaller attacks they believed were launched from Jordan. []

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Israel's leaders are predictably concerned about the expansion and modernization of Arab militaries and will seek to insure that the Israeli Army is capable of defeating any likely combination of Israel's Arab enemies. Of particular concern to Israeli military planners is the continued growth of Syria's Army and its acquisition of more advanced Soviet armored vehicles, fighter aircraft, antitank weapons, and air defense equipment. Saudi Arabia also is purchasing new and more capable arms, and Jordan is acquiring relatively modest amounts of new equipment from the United Kingdom and may soon close a similar deal with France. [redacted]

To meet this challenge, Israel believes it must continue to procure adequate numbers of the latest and most capable weapon systems and ensure that Israeli training, doctrine, organization, leadership, and battle management remain superior to those of the Arab states. The resources required for this effort will strain Israel's sluggish economy. The Israelis thus will continue to look to the United States for massive infusions of military aid. [redacted]

Israel will try to ameliorate its financial problems by encouraging its defense industries to maintain full production lines for the indigenous development of weapons and equipment for use by its own forces. The Israelis will also continue to aggressively market these products and obsolescent US-origin weapons overseas [redacted]

Economic Outlook

We believe the ruling coalition is committed to enforcing the entire range of restrictive policies outlined in its July program. Israeli consumers seem to have accepted the need for fiscal austerity despite its unpleasant impact. Recent polls suggest that a majority of the public supports the government's program, and labor protests have virtually ceased. Given the positive response of the economy to reform, the government may decide to push through additional measures during the coming year:

- According to the US Embassy, the Treasury's proposed 1986-87 budget calls for further reductions in planned spending of approximately

\$600 million as compared with the 1985-86 budget. Although negotiations for the 1986-87 budget are still in the preliminary stages, the government's budget strategy is a step in the right direction.

- Tax reforms appear likely next year as the new budget includes far-reaching reforms to reduce the direct tax burden by an estimated 25 percent. With worker incentives already distorted by high marginal tax rates, such changes would go a long way toward reversing the recent slide in labor productivity.
- Some wage indexation reforms are possible after the current agreement on cost-of-living adjustments expires next spring. The government must also end indexing of financial assets if it hopes to further reduce inflationary expectations. [redacted]

We believe that, on balance, such measures would have a positive impact on the economy. Whether these measures would ultimately be implemented depends on the response of the Israeli public. If workers perceive that they are once again bearing the lion's share of austerity, broad public support could wane in the coming months. Unemployment, in particular, could become a thorny issue. The current rate of 8 percent is already straining the tolerance of labor leaders, and the rate is projected to climb as high as 10 percent early next year. Moreover, with inflation low—largely due to the current price ceilings—the battle to control inflation is by no means over. [redacted]

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PLO: An Opportunity Lost?

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PLO Chairman Arafat's position among Arab moderates was significantly enhanced at the start of 1985. Just two months before, he had successfully convened the long-awaited Palestine National Council in Amman despite opposition from Syria and Palestinian radicals. He also had succeeded in removing pro-Syrian opponents from PLO councils and replacing them with Arafat loyalists. Such actions—followed closely by his signing of the accord with Jordan on 11 February—encouraged moderate Arab leaders to believe the PLO Chairman finally was serious about seeking peace with Israel.

By the end of the year, however, the PLO's international prestige lay in ruins, and Arafat's support among Arab moderates had become tenuous. The PLO Chairman had seriously miscalculated his ability to follow a two-track policy, by which he would pursue a diplomatic solution to the Palestinian problem while condoning military operations against Israel. Palestinian terrorist activity increased significantly during the year, not only by radical groups seeking to undermine Arafat and derail the search for a broader peace, but also by Arafat supporters frustrated by the apparent failure of their leader's diplomatic efforts. Such operations—capped by the disastrous Achille Lauro hijacking in early October—damaged Arafat's image as a man committed to finding a peaceful solution to the Palestinian problem and lent support to Israeli claims that the PLO was a terrorist organization and should be excluded from peace negotiations.

The PLO-Jordan Accord

Early in the year Arab moderates viewed the pace of Arafat's renewed dialogue with King Hussein as a sure indication that the PLO Chairman was ready to move ahead on peace negotiations. In their previous discussions during the period 1982-83, the two men had spent over seven months trying to develop a plan for cooperation. This time, Arafat and Hussein agreed

in less than two months on a joint strategy, resulting in the 11 February PLO-Jordan accord. The accord advocated:

- Acceptance of the land-for-peace principle.
- A Palestinian state united in confederation with Jordan.
- An international conference to be attended by the five UN Security Council permanent member states and all parties to the conflict, including the PLO. The PLO would participate in a combined Palestinian-Jordanian delegation.

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At the time, most Arab observers believed that Arafat's eagerness to reach agreement with Hussein was a result of Arafat's success at the Palestine National Council meeting in Amman. In their view, the PLO Chairman perceived his leadership position and popular support among the Palestinian diaspora as significantly strengthened, enabling him to make controversial decisions on peace negotiations.

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Arafat faced extensive opposition to the accord from the outset. Some members of Arafat's Fatah organization adamantly opposed close cooperation between the PLO and Jordan. Fatah hardliners had long suspected Hussein's intentions. They believed Hussein ultimately planned on finessing the PLO out of any peace negotiations. The hardliners apparently muted their opposition for a time to see if Arafat could win concessions—particularly US recognition—but eventually lost patience and stepped up their pressure on Arafat to abandon his agreement with Hussein.

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Syrian-allied Palestinian radicals underscored their rejection of the accord by forming a new alliance—the Palestinian National Salvation Front. The Front resembled the earlier Syrian-supported National Alliance of Arafat opponents with the addition of George Habbash's Popular Front for the Liberation of Palestine. The Popular Front, the second-largest PLO faction, had previously avoided choosing sides, but Habbash's strong opposition to cooperation with Jordan apparently persuaded him to join the Syrian camp. The National Salvation Front was ineffective from the beginning, however, because of internal rivalries and divisions within each component group. As a result, it has had little effect on Arafat. [redacted]

Arafat's troubles with the contending PLO factions worsened during the spring and summer of 1985 as a result of efforts to arrange a preliminary meeting between a joint Jordanian/Palestinian delegation and US Assistant Secretary of State Murphy. US insistence that the Palestinian representatives have no clear association with the PLO generated great controversy among senior Fatah officials. The hardliners rejected the idea of non-PLO representatives because they believed this was the first step in precluding PLO participation in future peace negotiations. US Embassy officers believed Arafat was enthusiastic about the meeting and tried to convince his senior aides that it could help the PLO establish direct contact with the United States. Arafat and his Fatah lieutenants ultimately agreed to propose seven candidates to participate in the joint delegation, although at least four of them had clear PLO ties. [redacted]

The subsequent debate over whether these candidates met the US criterion raised new questions about Washington's interpretation of whether membership on the Palestine National Council constituted affiliation with the PLO. Israeli officials made no distinction between the two organizations and rejected all of the PLO-proposed candidates except for two from the West Bank and Gaza Strip. US officials asserted, however, that Israel would have no veto over the list—encouraging PLO leaders to believe a compromise might be arranged. [redacted]

Palestinian optimism waned, however, as PLO leaders awaited Washington's response to the PLO-proposed

list. During the prolonged delay, Fatah hardliners began to press Arafat to abandon the diplomatic option, arguing that the United States had rebuffed the PLO's "good faith" effort toward peace. [redacted]

Increased Terrorist Activity

Increasing Palestinian disillusionment over the prospect for peace negotiations resulted initially in an upsurge in anti-Israeli violence on the West Bank, much of it by Palestinian youths acting on their own. Israeli intelligence noted that the increased number of PLO officials in Jordan—a byproduct of Hussein's efforts to encourage Arafat to cooperate in negotiations—were directing stepped-up terrorist operations on the West Bank. [redacted]

Arafat's diminished control over the PLO since its component groups split into pro- and anti-Arafat camps in 1983 has complicated his efforts to rein in PLO operatives. Moreover, we do not believe Arafat sees it in his interest as PLO Chairman to do so. Arafat's prime motivation is to preserve his leadership position within the PLO, and to do that he believes he must maintain the cohesion of Fatah, the largest of the eight PLO factions. Arafat probably has selectively supported Fatah hardliners' demands to carry out operations to demonstrate that the PLO is a viable national liberation movement that neither the United States nor Israel can ignore in settling the Palestinian problem. [redacted]

The PLO Blunders

Arafat clearly miscalculated the effect on his international credibility in continuing to pursue his two-track policy after signing the 11 February accord with Jordan. The PLO's assassination of three Israeli yachtsmen in Cyprus in late September and the Achille Lauro hijacking staged by an Arafat loyalist discredited the PLO around the world. The sudden cancellation of a Jordanian-arranged meeting between British officials and a joint Jordan-PLO delegation—because the PLO would not publicly recognize UN Resolution 242—further damaged Arafat's credibility and outraged King Hussein and Egyptian President Mubarak. The two men believed

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they had gone out on a limb for Arafat in promoting the PLO as an essential participant in peace negotiations. [redacted]

Arafat has since tried to minimize the PLO's involvement in terrorist operations and to repair some of the damage to its international reputation. His public declaration in Cairo in early November affirming an end to terrorism "outside the occupied territories" was designed to mollify Hussein and Mubarak and get the PLO back onto the diplomatic track. The careful wording of the declaration, however, almost certainly guarantees that the Palestinians will attach many different—and self-serving—interpretations to "resisting the occupation." Some PLO factions are likely to target Israeli interests not only in Israel and the occupied territories, but also elsewhere in the region and in Europe. US citizens and facilities also are likely targets because of PLO anger over Washington's support for Israel. [redacted]

What Is Next for Arafat on the Negotiation Front?

We believe that Arafat is determined to prevent any party from usurping the PLO's role in peace negotiations, and that he will try to maintain his dialogue with King Hussein as well as the 11 February accord. To these ends, Arafat will continue to toy with accepting UN Resolution 242 and selecting non-PLO Palestinian representatives for a joint delegation. The PLO Chairman almost certainly will resist making firm commitments, relying on the usual arguments that the timing is not right or that he must first check with senior PLO officials before making such decisions. [redacted]

Arafat is convinced that Hussein will not enter peace talks alone, and he doubts that the King could convince credible West Bank leaders to join Jordan without the PLO to negotiate with Israel. We believe Arafat would order selective assassinations of West Bank leaders to discourage them from challenging the PLO's mandate as the "sole legitimate representative of the Palestinian people." [redacted]

At present, Arafat retains strong backing among West Bankers, Gazans, and Palestinians in the diaspora. US Embassy officers report that he

continues to be viewed as the only Palestinian leader with enough Arab and international credibility to seek an equitable settlement for the Palestinian people. A sharp increase in the PLO's involvement in terrorist activity, however, may eventually convince some West Bank notables that Arafat cannot or will not adopt an effective political strategy to negotiate an end to Israel's occupation of the territory. [redacted]

PLO Financial Troubles

Arafat's popular appeal in the occupied territories also may be tested by the PLO's growing financial problems. The Palestine National Fund, the financial arm of the PLO, has publicly reported large operating deficits and is drawing down reserves to make ends meet. The rising red ink stems from the PLO's increased expenses since it was expelled from Lebanon and from reduced generosity by Arab states, particularly those in the Persian Gulf whose oil revenues have sharply declined. [redacted]

We believe that the money shortfalls are sharply diminishing the PLO's traditional role as a social welfare organization for the Palestinian people. At a time when Palestinians are being hard hit financially for a variety of reasons—reduced job opportunities in Israel, Jordan, and the Gulf states and cuts in the UN's refugee budget are two prime examples—the PLO cannot step in and offer employment alternatives or substantial aid. Arafat, in particular, may be suffering as financial difficulties not only test his traditional sources of patronage, but also take up more of his time and energy. [redacted]

The PLO's terrorist capabilities will not be weakened by the financial crunch. The upswing in PLO-related violence over the past year shows it has been little affected. The funds needed for a hijacking, bombing, or West Bank operation are insignificant compared with the available reserves. Moreover, the PLO leadership appears to be going to great lengths to ensure that its military arm remains the number-one budget item. Arafat, for example, bypassed normal PLO channels on one occasion to deposit Saudi aid worth \$86 million directly into military accounts. [redacted]

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Looking for a Patron

Arafat almost certainly will not be able to reunify the various PLO factions, nor do we believe he cares to do so. A reunification of the organization would increase the problems he already faces within Fatah over his freewheeling style and would strengthen demands for a collective leadership. [redacted]

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The PLO Chairman may explore the possibility of reconciling his differences with the Democratic Front for the Liberation of Palestine, the only major PLO faction besides Fatah remaining outside the Syrian camp. We believe Arafat would find reconciliation with the Democratic Front attractive because it would extend his leadership authority beyond Fatah. [redacted]

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We cannot rule out the possibility of Arafat trying to reopen contacts with Syria if his relations with moderate Arab states sour. Soon after the Achille Lauro incident, a senior Arafat adviser, Hani al-Hassan, publicly spoke of this possibility. US Embassy officials in Damascus, however, say that most Syrians believe the personal animosity between Arafat and President Assad is so intense that reconciliation seems impossible. We believe Arafat would seek out Assad only as a last resort. A rapprochement would require major, humiliating concessions by Arafat that would severely limit his freedom of action and make the PLO a Syrian proxy. [redacted]

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Arafat is more likely to turn to Syria's archenemy, Iraq, for support if moderate Arab states turn him away, particularly if King Hussein orders the PLO out of Jordan. He is already taking advantage of Iraq's willingness to house PLO fighters, who are being asked to leave other host countries for fear of an Israeli airstrike similar to the raid on PLO headquarters in Tunis. Arafat also has considered relocating PLO headquarters from Tunis to Baghdad. [redacted]

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Jordan: In Pursuit of Peace

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King Hussein has been conducting an active diplomacy since the meeting in Amman in November 1984 of the Palestine National Council. Through a series of moves, beginning with the 11 February PLO-Jordan agreement, the King has doggedly pursued a workable peace plan with PLO Chairman Arafat and exhibits no signs of giving up in 1986. Even so, the limited movement in 1985 toward negotiations with Israel and Hussein's growing disillusionment with Arafat will encourage the King to hedge against the possible failure of his initiatives. We believe Hussein will continue to try to increase Jordan's influence with West Bank leaders in the hope of persuading them to join Jordan in negotiations if Arafat remains unyielding, realizing that fear of PLO-directed assassination attempts will discourage their break with Arafat. In our view, the King also will continue his efforts to reduce the near-term threat Damascus poses to Jordanian security by seeking to improve relations with Syrian President Assad in the coming year.

King Hussein's policy objectives will be constrained by Jordan's dependence on Arab economic aid, used both to keep the country's economy afloat and to bolster its armed forces. Despite its growing trade with the West and recent declines in Arab aid, Jordan cannot afford to alienate its key Arab supporters. In particular, Jordan may seek extensive Saudi funding to purchase European fighter aircraft if US arms remain unavailable.

Search for Peace

In our judgment, the King resumed his dialogue with PLO Chairman Arafat in 1985 in the hope that Arafat's alienation from Syria would make him vulnerable to Jordanian pressure for greater flexibility on key peace issues. The King also viewed President Reagan's reelection and the selection of Labor Party leader Shimon Peres to head Israel's coalition government as particularly auspicious signs. Hussein clearly hoped these developments would facilitate his

efforts to encourage greater understanding of and support for moderate Arab views in the United States and possibly within Israel.

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Hussein's decision to allow the long-delayed Palestine National Council to meet in Amman in late 1984 was intended to encourage Arafat to break with Syrian-sponsored Palestinian radicals and to cooperate with moderate Arab leaders to find a formula for peace. US Embassy reporting suggests the King saw Arafat's actions at that time as evidence that he, too, wanted to pursue this course. Three months later Hussein and Arafat worked out a joint plan of action embodied in the PLO-Jordan accord. Hussein's agreement to allow PLO offices to transfer to Amman also was intended to encourage Arafat to demonstrate greater flexibility on peace negotiation issues.

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Shortly after the accord was signed, King Hussein and Egyptian President Mubarak urged the United States to meet with moderate Palestinians to explore peace issues. In meetings with US officials in Washington in the spring, both leaders proposed "prenegotiations" between the United States and a joint Jordanian-Palestinian delegation.

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According to US Embassy reporting, President Mubarak promised that he and King Hussein could "deliver" the PLO if, as a preliminary step, the United States persuaded Israel to acquiesce to Jordanian-Palestinian-US talks. This led to Jordan's formulation of a step-by-step approach whereby a preliminary meeting between US officials and a joint Jordanian-Palestinian delegation—without PLO members—would be followed by Arafat's public acceptance of UN Resolutions 242 and 338; a meeting between the United States and PLO officials; and, finally, negotiations with Israel at an

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international conference attended by the five UN Security Council permanent member states and all Arab parties to the conflict including the PLO. [redacted]

The composition of the joint Jordanian/Palestinian delegation presented a major stumblingblock. Hussein insisted that Arafat and senior PLO officials allow Palestinians not clearly identified with the organization to serve on the delegation, arguing that the United States and Israel would not allow other candidates. PLO leaders eventually agreed to include some Palestinian independents among the candidates proposed for the joint delegation, but Arafat's insistence on PLO participation frustrated and angered the King. [redacted]

As efforts to arrange the meeting stalled by early autumn, the PLO made three major mistakes—killing three Israeli yachtsmen in Cyprus in late September, hijacking the Achille Lauro in October, and failing to follow through with a Jordanian-arranged meeting involving PLO and British officials. Even though he is outraged at Arafat, Hussein appears determined to continue pursuing negotiations. Jordanian officials told the US Embassy they strongly urged Arafat in a recent meeting to get his organization under control and to accept UN Resolutions 242 and 338 and to discontinue terrorist operations as a good faith gesture. [redacted]

Hussein's Pursuit of Peace in 1986

Despite his frustrations, King Hussein sees no alternative to working with the PLO to retain credible Palestinian backing for his efforts toward negotiating with Israel. Despite the recent setbacks, he is unlikely to abandon his agreement with Arafat made last February, and he will continue to press tough conditions for partnership with the PLO in future talks with Arafat. King Hussein appears determined to make progress with his peace initiative before Peres turns over the Israeli prime-ministership in the fall of 1986 to Vice Prime Minister Shamir, leader of the hardline Likud. [redacted]

The Israeli raid on PLO headquarters in Tunis probably will prompt the King to check any further growth in the PLO's presence in Jordan for fear of similar Israeli reprisals. Hussein probably will crack

down on Fatah Western Sector activities, limit the frequency of Arafat's visits, and restrict the movements of key senior Fatah officials. Jordanian security already has ordered several Western Sector and other PLO personnel to leave the country. [redacted]

Jordanian officials continue to state publicly that Jordan will not enter peace negotiations with Israel without the PLO, but we believe Hussein may try to increase Jordan's influence with West Bank leaders in the hope of persuading them to join Jordan in negotiations if Arafat remains unyielding. Hussein is acutely aware of the extensive support for Arafat and the PLO among West Bank leaders and presumably does not expect them to move away from the PLO soon. We estimate that major West Bank leaders are unlikely to break with Arafat to join the King in negotiations with Israel during 1986. West Bank fear of PLO-directed assassination attempts will continue to be an overriding constraint, in our view. [redacted]

The King's Syrian Option

The King hoped that his appointment of Zayd al-Rifa'i as Prime Minister last April would smooth relations between Damascus and Amman because of Rifa'i's extensive Syrian contacts and because he was believed to favor closer relations with Syria. Rifa'i's active involvement in the King's dialogue with Arafat, however, deepened Syrian distrust of Jordanian policy. As a result of the dialogue, Jordan became the target of increased Syrian-sponsored Palestinian terrorism, with attacks staged against Jordanian officials at home and abroad. [redacted]

The limited movement toward negotiations in 1985 and Hussein's disillusionment with Arafat probably have encouraged the King to seek to improve relations with Damascus. Recent discussions in Riyadh between Syrian and Jordanian officials evidently did not produce major agreements, but the King presumably sees the dialogue as a way of reducing the near-term threat Damascus poses to Jordanian security. Barring serious, early movement toward negotiations with Israel—which Hussein undoubtedly

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regards as unlikely—the King probably will continue efforts toward a rapprochement with President Assad.

Iraq is concerned that Jordan's dialogue with Syria will weaken the support Baghdad receives from Jordan and other Arab moderate states. The Iraqis have a stake in encouraging the Hussein-Arafat initiative in 1986 to frustrate Syria's aims and ambitions. Moreover, the Iraqis anticipate that the fundamental differences between Jordan and Syria over the search for peace will encourage Jordan to remain aligned with Iraq. According to the US Embassy, King Hussein has kept Iraqi leaders fully apprised of the status and details of the Jordanian-Syrian talks.

Economic Constraints

King Hussein's ability to move boldly in foreign policy is limited by Jordan's harsh economic realities. Despite its growing trade with the West and declines in Arab aid, Jordan's economic links to the Arab world remain strong. The King cannot afford to alienate his key Arab supporters in pursuit of negotiations with Israel:

- Annual Arab aid is at least \$550 million, consisting largely of Saudi Arabia's \$357 million contribution as pledged in the 1978 Baghdad accords. This publicly announced Arab assistance amounts to at least 80 percent of Jordan's foreign aid receipts. Arab support for Jordan's purchases of arms or oil is not officially reported.
- About 50 percent of Jordan's exports go to Arab countries, while 25 percent of its imports are of Arab origin. Oil is the major import—it amounts to almost 90 percent of all imports from Arab states—with most of it purchased from Saudi Arabia on easy terms.
- At least 300,000 Jordanians work abroad, largely in the Gulf states. These workers remit over \$1 billion annually—Jordan's largest source of foreign earnings.

Arab economic support has been instrumental in keeping Jordan afloat during a period when many less developed countries have run into financial

difficulties. Worker remittances coupled with Baghdad payments have gone a long way toward offsetting Jordan's trade deficits of \$2-2.5 billion annually the past few years. Moreover, Arab participation was a key factor in the syndication of two loans totaling \$365 million in 1984 and 1985.

Jordan's financial position, nonetheless, is beginning to fray. The International Monetary Fund reported that Jordan's balance of payments moved into a deficit in 1984, due in part to a \$140 million reduction in Arab aid. To help cover shortfalls in the capital account in 1984, official reserves fell by nearly \$300 million.

We believe that Jordan's balance of payments may have improved somewhat in 1985, but this will remain a key concern for King Hussein over the next few years:

- Arab aid picked up in 1985 largely because of grants from Oman and Abu Dhabi, but Jordan cannot always count on such help. Kuwait is becoming less reliable in honoring its aid pledges, and even Saudi Arabia has delayed some aid payments.
- Worker remittances grew a surprising 10 percent in 1984 as returning workers brought home assets. Amman is expecting remittances to begin leveling off as more Jordanians return home from the recession-plagued Gulf states.
- Jordan will have great difficulty in reducing its annual trade deficit much below the \$2 billion mark. Imports cannot be cut much further without constricting industrial output, and export growth may cool because of lower prices for key exports and reduced exports to financially strapped Iraq.
- Debt service obligations are climbing sharply, with interest payments probably above \$200 million. Jordan's officially reported debt—which excludes military debts—has increased by 60 percent since 1981 and now exceeds \$2.5 billion.

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Tightening financial constraints—although not yet serious—are depressing the domestic economy. Recently revised economic statistics suggest that GNP growth has dropped below 2 percent per year since 1982. This is well below the 7-percent rates achieved throughout much of the 1970s and early 1980s and represents a decline in per capita terms, given Jordan's annual population growth of nearly 4 percent. Jordanian officials recently told the US Embassy in Amman that declining Arab aid has forced the government to reduce spending. [redacted]

The economic slowdown has yet to make a major impact on living standards, as both inflation and unemployment remain low. Nonetheless, Amman is keenly aware that several problems—such as poor job opportunities for new university graduates and returning workers and growing demands on limited water resources—will become more serious as the decade draws to a close. [redacted]

Amman hopes to combat its economic weaknesses by strengthening the private economy. One of the Rifa'i government's first moves last spring was to relax government control over the economy. More recently, the Jordanian Cabinet restricted imports of goods that are domestically produced and granted tax incentives to export industries. Similar moves—particularly to improve the operation of inefficient state-controlled enterprises—will dominate economic policies over the coming year. The five-year plan that begins in 1986 is structured to boost the domestic economy by significantly increasing investments. [redacted]

Jordan's strategy is a long-term one, recognizing that highly expensive efforts to increase self-sufficiency cannot be accomplished overnight. Jordan's limited resource base—human capital will remain its most important asset—suggests that Amman will continue to rely primarily on Arab aid. Western countries—the United States in particular—are also likely to be approached for increased support. [redacted]

Jordan's Military Options

Jordan's financial crunch is restricting King Hussein's efforts to strengthen both the internal security and deterrent capabilities of the Jordanian armed forces. Specifically, Jordan must maintain a credible military

force to prevent a situation similar to 1970 when PLO fighters in Jordan threatened the regime's stability. Jordan also seeks greater deterrent capability to resist veiled Syrian military threats. Undertaking these efforts will depend heavily on the willingness of patrons such as Saudi Arabia to continue to provide financial support. The King is acutely aware that acquisition of new weapon systems also is important to ensure that the career military—his chief political support—continues to back him. [redacted]

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In 1985 the Jordanian military helped Jordanian security monitor the activities of PLO fighters returning to Jordan. Eventually most of these fighters were sent to a camp adjacent to the Army base at Az Zarqa, northeast of Amman, where Jordanian forces ensured that they did not receive major weapons and did not undertake operations against Israel. [redacted]

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The Army also has been engaged in incorporating newly delivered Soviet air defense equipment—SA-8s, SA-13s, SA-14s, and ZSU-23-4s—into its units. Some of this air defense equipment continues to arrive from the USSR. [redacted]

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By the end of 1986, Jordan will have completed the integration of Soviet air defense equipment into the Army and will have made significant progress in upgrading its air defense radar network. These improvements would not prevent Israel from striking PLO targets in Jordan, but they might enable the Jordanian military to inflict damage on Israeli aircraft if they struck PLO sites in the country. [redacted]

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In September, Jordan announced it would buy about \$360 million in arms and equipment from the United Kingdom, including air defense radars, tank ammunition, combat engineering gear, and modernization kits for tactical aircraft. [redacted]

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In 1986, Jordan's military modernization will continue, albeit at a slower pace. If significant progress is achieved toward peace negotiations with

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Israel, Jordan will hope for US Congressional approval to begin to purchase \$1.5-2 billion in US arms, [redacted]



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If Congress does not approve such a sale, Jordan may negotiate with the United Kingdom, France, and the USSR for some equipment, particularly air defense weapons and new aircraft. Jordan would purchase fighter aircraft from the United Kingdom or France only if a major patron such as Saudi Arabia provided the required funding. Otherwise, only the USSR could offer acceptable terms to Amman. [redacted]



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Syria: Exploring Options

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During 1985 President Hafiz al-Assad demonstrated fresh determination to confront the persistent problems of Lebanon, Arab moves toward negotiations with Israel, military preparedness, and the economy. Assad is a masterful tactician prepared to explore all options that would enable Syria to play the central role it covets in inter-Arab deliberations. Despite Assad's considerable political skills, ever-shifting alliances in the Arab world and the magnitude of the issues facing Syria mean that most of his regional goals will remain elusive.

On foreign policy issues, Assad has shown a willingness to make tactical accommodations with his adversaries, primarily to win short-term political and economic benefits, but also to shed Syria's rejectionist image. Despite Assad's apparent flexibility, aimed at establishing Syria as the pivotal regional power, he has not been able to initiate policies that would win broad Arab support. As a result, leadership of the Arab world continues to elude Assad, and Syrian goals are pursued largely through coercion and intimidation.

The Syrian economy continued its dismal performance, suffering from incompetent managers, corrupt officials, and the malaise and inefficiency of a centrally planned system. One bright spot this year was the naming of an economic reformer as Minister of Economy and Foreign Trade. Despite the implementation of some pragmatic reforms, Syria's economic distress will not be easily overcome in the near term.

Syrian efforts to expand and reorganize its military forces moved ahead in the past year as part of Assad's quest to achieve an Arab-Israeli strategic balance. Military expansion to date has enabled the minority Alawite regime to better ensure its survival, but it has not significantly reduced Tel Aviv's strategic advantage. Military parity with Israel—a Syrian condition for a negotiated settlement to the Arab-Israeli conflict—remains an unrealized dream.

Assad's renewed activism indicates that efforts to make progress on basic Syrian goals are back on track after Assad's health crisis of late 1983 and early 1984, which triggered the most serious political and military challenge of his tenure. Despite the destabilizing events of 1984, Assad has not moved to resolve the troublesome succession issue. Nagging concerns about his health and the vagaries of an untested succession process will be a prime focus in the coming year for Assad's friends and foes.

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25X1**Getting a Grip on Lebanon . . . Almost**

Most of Syria's political energies continue to be expended on Lebanon. Damascus has claimed credit for forcing the Israeli withdrawal from Lebanon last spring and is now seeking to translate that success into a more comprehensive settlement of Lebanon's decadelong civil war. Syria has come close on several occasions to forcing Lebanon's contending factions to the negotiating table, but the basic intractability of Lebanon's domestic problems will keep a political accommodation out of reach for some time.

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The hallmark of Syrian efforts in Lebanon this past year has been the decision to bypass traditional politicians and instead deal directly with younger militia leaders who wield real power in war-ravaged Lebanon. This approach, while more realistic than previous Syrian efforts, is flawed because it excludes the traditionally powerful Sunni community, which does not have an effective militia. Despite their military weakness, the Sunni community is politically significant because of its dominance in the Arab world and the fact that Saudi largess to Damascus could be linked to Syria's treatment of Lebanon's Sunnis.

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Syria's most significant breakthrough in Lebanon, the establishment of a cooperative relationship with the traditionally anti-Syrian Christian Lebanese Forces

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militia, has gone sour over the last several weeks. Christian second thoughts about Syrian proposals that reduce Christian power and increase Syrian influence threaten to unravel the agreement, which also involves the Shias and Druze and which Damascus has touted as the formula that will end the civil war. The Druze, who have been busy loosening their ties to Damascus, are only slightly less uncooperative than the Christians, leaving Damascus in the unenviable position of making the somewhat militant and unruly Shias the cornerstone of a Lebanese settlement. [redacted]

In addition to the difficulties posed by bringing Lebanon's principal factions to heel, Syria has had to grapple with other spoilers represented by pro-Arafat Palestinians and Iranian-backed Muslim fundamentalists. Damascus achieved some success in routing Sunni fundamentalists in Tripoli, where Syrian influence and military presence are strong. The results have been less satisfactory, however, in dealing with elements operating in areas where Syrian troops have limited access and have had to rely on Lebanese surrogates. [redacted]

The bloody monthlong siege launched by the Syrian-backed Shia Amal militia against Beirut-based Palestinian fighters last June failed to eliminate Arafat supporters and caused a furor among Syria's friends and foes. Damascus ignored the outcry and has given every indication that it plans to pursue its Palestinian solution at a more convenient time. Amal's poor showing in the fighting resulted in an immediate effort by Damascus to equip and train the Shia militia, presumably to carry the war to Arafat's fighters in the south. [redacted]

Dealing with the Iranian-backed radical Shia fundamentalist Hizballah movement is proving to be especially difficult and will be a continuing problem until Damascus is prepared to sever its ties to Tehran. Syrian leaders are angered by Hizballah's activities in Lebanon that obstruct Syrian efforts to restore a semblance of order there. Hizballah's initial usefulness in spearheading the resistance to the Israeli presence in the south has been overtaken by Amal and other smaller groups associated with Syria, which provide most of the suicide bombers used against the Israeli security zone. [redacted]

Damascus, nonetheless, is reluctant to move against the fundamentalists for fear of further upsetting its relationship with Tehran. The economic benefits of Syria's alliance with Iran have declined dramatically during the last several months, but the political advantages continue to be significant. Iran's determination to pursue its war with Iraq, Syria's nemesis in the region, remains the principal reason that Syria tolerates Tehran's unwelcome activities in Lebanon. [redacted]

The Syrian-Iranian relationship is inherently paradoxical, based primarily on mutual hatred of Iraq. A deepening economic crisis in Syria during the coming year combined with stepped-up fundamentalist activity in Lebanon could prove too much for the relationship. [redacted]

Stalemating the Peace Initiative

One reason Syria has been eager to close the file on Lebanon is to enable Damascus to monitor more closely the Jordanian-PLO peace initiative. Syria is determined not to allow other Arab states to break with a policy of confrontation toward Israel or to accept bilateral settlements. Damascus has taken advantage of recent Saudi inducements to make overtures to Jordan. Damascus sees closer ties to Amman as a means of insinuating itself into Arab deliberations on negotiations with Israel to limit Jordanian options and encourage King Hussein to abrogate his 11 February agreement with the PLO. [redacted]

[redacted]

[redacted] As long as moves toward negotiations with Israel remain stalemated, Damascus will soft-pedal its objections to the agreement and pursue reconciliation with Jordan. If Hussein attempts to revitalize the peace initiative, Assad is likely to renege on recently signed economic and commercial accords and resume subversive activities against Jordan. [redacted]

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Destruction caused by the Syrian-backed Shia Amal militia in fighting against pro-Arafat Palestinians in Beirut last June

Monday Morning ©

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Syria-Iraq: A Little Cooperation Between Enemies
Syria's willingness to cooperate with recent Saudi-sponsored Arab reconciliation efforts is geared to removing obstacles to Syrian participation in an Arab summit meeting and positioning itself at the core of a new Arab coalition that would emerge if the US-Jordanian-PLO peace initiative collapsed. This strategy appears to explain Assad's cautious steps toward a tactical accommodation to Iraq. Assad also may be toying with improving ties to Baghdad as an alternative to Syria's souring relationship with Iran.

accommodation. In the near term, however, there are economic benefits to be reaped by improving relations.

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Suspension of Iranian oil shipments to Syria and continuing debt problems are the principal factors pressing Damascus to reassess its hard line toward Baghdad. The loss of Iranian oil has forced Syria to slow refinery operations and to use scarce foreign exchange to purchase oil on the spot market. A thaw in the Syrian-Iraqi relationship could replace Iranian oil with Iraqi supplies and provide Baghdad with increased revenues to finance its war with Iran. Despite Syrian disenchantment with Iran, it is not

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Rapprochement between Damascus and Baghdad appears to be out of the question. Intense personal hatred between Assad and Iraqi President Saddam Husayn and broader regional rivalry between Syria and Iraq probably preclude anything but a tactical

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Three would-be Lebanese suicide bombers pose in front of a montage of other martyrs displayed with a portrait of President Assad. [redacted]



Syrian Times ©

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clear whether Damascus will dump Tehran—Baghdad's minimum demand for improved relations. [redacted]

Syria's Troubled Economy

Overall, the Syrian economy is in dismal shape after suffering three years of real GDP decline and five years of balance-of-payments deficits. Syria's multiple exchange rate system is badly in need of reform, and the Syrian pound should be devalued by at least 50 percent. The government is running out of foreign exchange at a time when its lucrative oil relationship with Iran is unraveling and its aid relationships are coming to an end. [redacted]

Under the Baghdad Agreement of 1978, Arab states pledged to provide Damascus up to \$1.85 billion a year for 10 years. Saudi Arabia is the only country meeting its commitment, providing \$528 million a year in aid. [redacted]

Damascus's other major source of nonmilitary aid has been its oil agreements with Iran. For each of the last three contract years, Iran agreed to provide 1 million tons (20,000 b/d) of free oil and another 5 million tons (100,000 b/d) at a \$2.50 per barrel discount. The free oil plus the discount equaled about \$300 million a year in direct aid. Syria, however, delayed paying for

the oil and was able to get Iran to forgive nearly \$1 billion in debt and later to convert another \$1 billion in debt into interest-free loans. [redacted]

The Iranian-Syrian oil relationship has been troubled for over a year because of Syria's inability to pay. In addition, a cooling of the Iranian-Syrian political friendship and Iran's need for cash has cut Iranian tolerance for Syrian tardiness on payments. Iranian oil shipments to Syria have been suspended for at least two months. If the oil dispute is not settled soon, Syria will be forced to turn to Saudi Arabia, Libya, or possibly Iraq for help in meeting its oil needs. [redacted]

Over the longer term, Syria's economic and oil shortages will be alleviated by the development of the recently discovered Thayyem oilfield in eastern Syria. The field is currently producing 12,000 b/d of light oil and should provide about 60,000 b/d when a new pipeline is completed around August 1986. Production at 60,000 to 70,000 b/d would cover half of Syria's oil imports and relieve some of the pressure the country is experiencing. Syria must pay its foreign partners for their share of Thayyem oil, however, so the discovery will not be an economic panacea. [redacted]

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Another recent event of potential economic significance was the installation last July of Dr. Muhammad al-Imadi, an economic reformer, as Minister of Economy and Foreign Trade. Imadi is determined to reform the Syrian economic system, including revitalizing the private sector. He has already pushed through changes in Syria's restrictive foreign exchange and import regulations and has developed a four-year program of reform. [redacted]

Imadi faces opposition from hardline Ba'th socialists, recalcitrant sections of the civilian bureaucracy, and public-sector managers, all of whom have vested interests in maintaining the status quo. He appears to have President Assad's backing, however, and his actions could eventually cause a dramatic shift in Syria's economic performance. [redacted]

In Pursuit of a Strategic Balance

Although President Assad's quest to achieve an Arab-Israeli strategic balance remains dependent on the return of Jordan or Egypt to the ranks of the confrontation states, Syria continues and may even intensify the buildup and modernization of its own military forces. Early this year the Defense Companies—a hodgepodge of regular and special forces units dedicated to protecting the regime—were reorganized into a regular armored division and a special forces division. Although initially under strength, Damascus assigned the special forces division to support Syrian military operations in Lebanon and has begun to flesh out the unit. [redacted]

The Israeli withdrawal from Lebanon this year encouraged Damascus to reduce its regular forces there and place greater reliance on special forces—resulting in some savings and an overall increase in military readiness. Syria reduced the number of troops in or directly supporting operations in Lebanon from nearly 60,000 to fewer than 30,000 and has subsequently concentrated on retraining these units to restore their combat effectiveness eroded by prolonged duty in Lebanon. Since July, the Syrians have used special forces to police Zahlah and enforce a cease-fire in Tripoli, and, as part of its efforts to reach an accord with the major Lebanese factions, Damascus has developed plans to use special forces to help police greater Beirut. [redacted]

During the past year, Damascus has continued to modernize its armed forces, primarily through the acquisition of new Soviet-designed equipment:

[redacted] 25X1

• [redacted] 25X1
the Soviets delivered a number of T-72M1 tanks, which have much better armor than earlier T-72 models. [redacted] 25X1
[redacted] the tanks belong to the Republican Guards Brigade, which is the primary defender of the Assad regime. 25X1

In addition, Syria contracted with Poland and Czechoslovakia for the delivery over the next few years of enough T-72s—possibly T-72M1s—to outfit two armored divisions. [redacted] 25X1

The prospect of continued close relations with the Warsaw Pact countries and the expansion of domestic oil production indicate President Assad will be able to continue his buildup of Syria's armed forces in the foreseeable future. [redacted] 25X1
[redacted] Assad plans to expand the Republican Guards Brigade into a division next year and to organize a Ba'th or Republican Guards Corps as a strategic reserve. He probably regards its establishment as a way of ensuring the survival of his minority Alawite regime while increasing the overall military threat to Israel. [redacted] 25X1

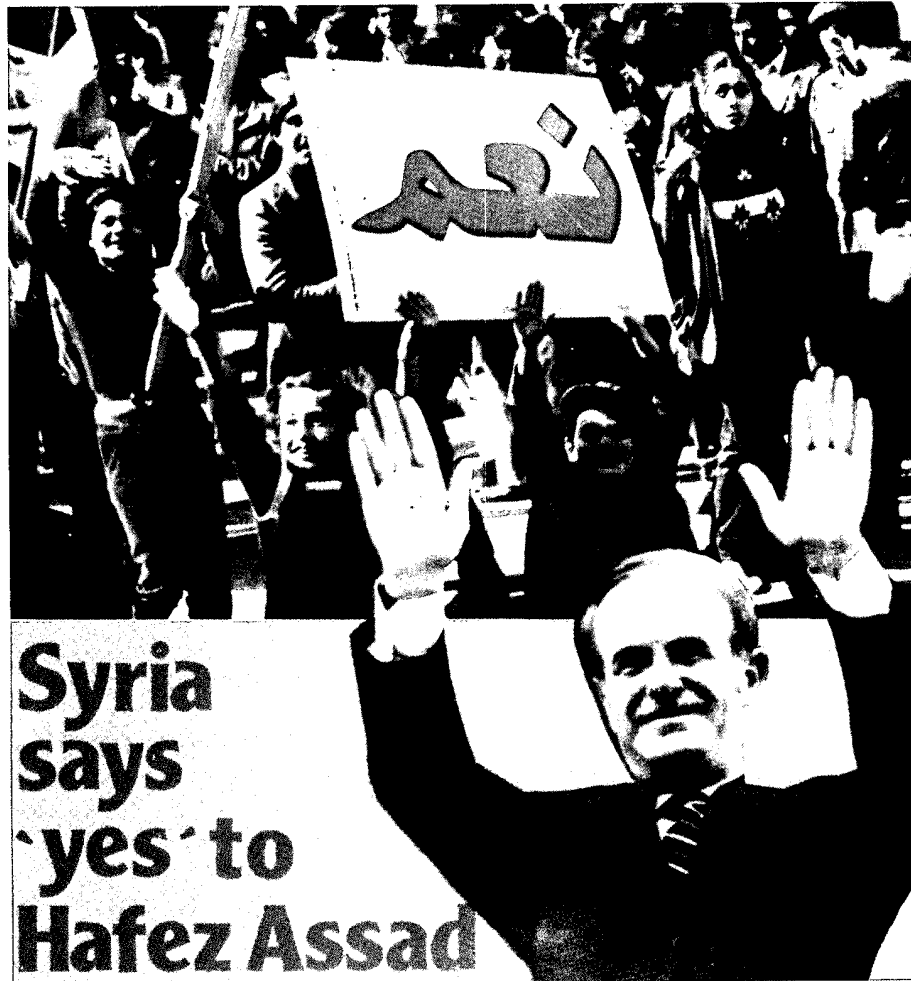
[redacted] 25X1

In the event of a conflict with Israel, Assad probably would take the strategic offensive by retaking part of the Golan Heights but would fight as much as possible on the tactical defensive, which requires considerably less skill and does not place as great a premium on having the most modern equipment. In so doing, Assad probably would mainly use the better trained and equipped Republican Guards Corps to counter Israeli breakthroughs. [redacted] 25X1

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Hafiz al-Assad began his third seven-year presidential term last March. [redacted]



Monday Morning ©

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President Assad's concern with the security of his regime that leads him to fill key posts with fellow Alawites, rigid adherence to Soviet training practices that do not fully use the capabilities of the equipment, and the generally lower educational level of Syria's personnel will continue to hamper the development of the armed forces. Moreover, the gap between Syrian and Israeli capabilities is so wide that President Assad almost certainly will not be able to restore an Arab-Israeli strategic balance unless Egypt and Jordan return to the ranks of the confrontation states. [redacted]

ruthlessness, but, according to the US Embassy in Damascus, they respect his strength, particularly after his successful struggle with the Muslim Brotherhood in the late 1970s and early 1980s and, more recently, his deft reestablishment of political order following his lapse in health and the ensuing political and military tensions. [redacted]

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Syria Without Assad: Thinking the Unthinkable

Hafiz al-Assad has provided Syria with 15 years of political stability. The Syrian people suffer from his

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[Redacted]

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The succession theoretically would be handled by the Ba'th Party, but in fact it would be determined by a consensus among members of Assad's inner circle. Assad's lieutenants have a common interest in preserving Alawite domination—although possibly with a Sunni figurehead—and would attempt to head off an internecine struggle. Assad's younger brother Rif'at, who is held in contempt by most of the President's supporters, might attempt another clumsy power grab like the one during late 1983 and early 1984 that nearly erupted into open warfare. Even if a transition were successfully managed, longer term prospects for stability under a successor are slim.

[Redacted]

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[Redacted] Strong continuity in Syrian policies, particularly resistance to a peace initiative, would be likely through the transition. A weak successor regime might contribute to new tensions in the region. A new Syrian leader less tactically adept than Assad and seeking to strengthen the regime's legitimacy might abandon Assad's caution on a number of issues, step up anti-US rhetoric, and even bungle into a renewed conflict with Israel. [Redacted]

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Lebanon:
Civil War Without End [redacted]

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Lebanon moved closer to political dissolution and territorial partition during the 10th year of civil war in 1985. Factional militias continue to battle throughout most of the country, and initiatives aimed at political reconciliation have fallen victim to the endemic violence. Extremists on all sides use terrorism to discourage moderates from seeking a common ground. Despite increasing Syrian efforts to stabilize the country, Lebanon remains a political and security minefield for US interests. [redacted]

Political disagreements festered among leaders of each of the four major Lebanese religious communities—Christian, Druze, Shia Muslim, and Sunni Muslim. Each group is determined to maximize its parochial interests—in terms of power and security—at the expense of the Lebanese Government and the national political system. Political loyalties in Lebanon revolve around family, village, and religious sect. Most Lebanese feel no allegiance to the central government, which has become practically irrelevant. [redacted]

The Lebanese Army units under government control—the few remaining Christian brigades—constitute a force no larger than either the major Shia or Druze militias. These Army units control only part of the Green Line, the area around the Presidential Palace in East Beirut, and a small part of the Alayh ridge southwest of the Palace. Much of the Lebanese Army is stationed in areas over which the Lebanese Government has no control. The 1st Brigade is in the Bekaa Valley and is directed and supplied by Syria. The loyalties of most troops of the 2nd Brigade, stationed in Tripoli, appear divided between Syria and the local anti-Syrian militias. The 6th Brigade in West Beirut is loyal only to Shia sectarian leaders. [redacted]

The Rising Shia Tide

The increasingly militant Shia Muslim community pressed its challenge to the Lebanese Government and the Christians in 1985. Shia organizations—both the



The "Green Line" that divides Christian East and Muslim West Beirut remains a no man's land. Monday Morning © [redacted]

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fundamentalist Hizballah movement and the more moderate Amal militia—continue to grow in power and influence in relation to the other major confessional groups. They are demanding a greater political and economic role more commensurate with their numbers. [redacted]

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Divisions sharpened this year within the Shia community as the Amal secular reformers and the Hizballah fundamentalist revolutionaries clashed over territory and the right to speak for the Shias. Amal adherents generally seek to alter the existing political system to accommodate Shia demands, while the Hizballah radicals advocate the violent overthrow of the present system and the establishment of an Iranian-style Islamic republic. The Israeli withdrawal from most of southern Lebanon last spring sparked an intense struggle between the two Shia militias. [redacted]

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Amal remains a larger organization, but the Hizballah network this year grew dramatically in size, sophistication, and effectiveness as a political party

Druze leader Jumblatt (left) and Shia Amal chief Barri (second from left) confer with Muslim religious leaders in West Beirut. [redacted]



Monday Morning ©

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and as a militia. The Hizballah published its first political "manifesto" last February and then held a series of public demonstrations in Shia areas of Lebanon that attracted large crowds. Hizballah fighters have almost completely supplanted Amal militiamen in the Bekaa Valley, operate virtually at will throughout West Beirut, and are expanding their foothold in southern Lebanon on a village-by-village basis. [redacted]

Syria has moved to stem the Hizballah fundamentalist tide by bolstering the Amal militia and preparing it to serve as the primary instrument of Syrian policy in Lebanon. Syria furnished Amal with nearly 50 T-55 tanks last summer, began a training program for several hundred Amal fighters, and agreed to help reorganize the militia into three regional brigades [redacted]

[redacted] Amal leader Nabih Barri has devoted most of the militia's resources and manpower to a crackdown on Palestinian guerrilla activities in Shia areas, which climaxed in the "war of the camps" in Beirut last May. [redacted]

Christians, Sunnis on the Defensive

Most leaders of the Christian community, which dominates the Lebanese Government and the Army, [redacted]

[redacted]

refuse to compromise on Muslim demands for political and military reforms. Christians, who now comprise a minority in Lebanon, fear that concessions to the Muslims would erode the Christian power base and threaten the security of the Christian heartland north of Beirut. Hardliners in the Lebanese Forces militia and the Phalange Party rebelled last spring against what they saw as the capitulation of some Christians—including President Gemayel—to Muslim and Syrian demands. [redacted]

Despite their intransigence, Christian leaders are slowly coming to grips with the need to deal with Syria. Key political and militia officials, including the new Lebanese Forces chief Elie Hubayqa, began traveling regularly to Damascus this year to negotiate with the Syrians. Hubayqa then endorsed a Syrian-sponsored peace plan in November, although it fell apart within weeks because of opposition within the Christian and other confessional communities. Hubayqa and other Christians hope that a show of submission to Syria will persuade the Syrians to guarantee Christian prerogatives in Lebanon. [redacted]

Sunni politicians also sought Syrian assistance in preserving their traditional position in the political system. The Sunnis, however, cannot compete with [redacted]

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Lebanese President Gemayal traveled to Damascus several times in 1985 to seek guidance from President Assad. Monday Morning ©



Christian militia leader Eli Hubayqa refuses to compromise with the Muslims. 25X1

Monday Morning ©

carriers via Syria—despite Syrian objections—and delivered small arms, artillery ammunition, and even helicopters directly through the new Druze port at Khaldah for the first time this year, 25X1

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including training for helicopter and fixed-wing aircraft pilots. 25X1

other confessional groups because they have no effective militia. Traditional Sunni leaders also felt increasingly threatened by the growth of a fundamentalist Sunni movement in Tripoli, Beirut, and Sidon. This pro-Iranian radical movement is spearheaded by the Tawhid militia, which spent most of 1985 battling Syrian-backed militias in Tripoli. 25X1

The Druze: Consolidating Gains

Druze leader Walid Jumblatt, head of the Progressive Socialist Party (PSP) militia, succeeded in consolidating Druze control over his community's heartland in the Shuf mountains south of Beirut. The Israeli withdrawal from the Sidon area last spring gave Druze militiamen the confidence to move against the few remaining Christian villages on the periphery of the emerging Druze "canton" in the Shuf, forcing a Christian exodus. 25X1

The PSP, seeking to become a full-scale Druze regional army to defend the Shuf, moved to expand its conventional military capabilities and diversify its sources of military supplies. The Soviet Union supplied the PSP with tanks and armored personnel 25X1

Jumblatt, determined to protect Druze gains, remained as stubborn and uncooperative as ever in Syrian-backed negotiations aimed at reconciling the warring Lebanese factions. Jumblatt and various Lebanese leftist leaders last summer formed a new political alliance, the National Unity Front, which was the latest in a series of coalitions opposed to the Christians. Jumblatt crippled Syrian efforts to broker an agreement between the factional militias in October by refusing to deal with Christian leader Hubayqa. 25X1
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Terrorism and Turf Battles

Lebanon remains a battleground for trigger-happy militias for whom fighting has become a way of life. Factional violence erupted at various times of the year in virtually all parts of the country. Lebanese Army units and Druze militiamen exchanged fire repeatedly on the Alayh ridge south of Beirut. Southern Lebanon witnessed regular fighting between Amal and 25X1



Shia fundamentalist fighters are increasingly active in West Beirut.

Monday Morning ©

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Hizballah gunmen, between Amal and Palestinians, and between the Israeli-backed Army of South Lebanon and practically everyone else. Sidon in particular experienced over a month of heavy street fighting as Muslim, Palestinian, and Christian militias struggled for control of the city and its environs. Pro-Syrian, anti-Syrian, and Palestinian factions reduced much of the city of Tripoli to rubble during an extended battle that lasted all year.

sparked wider conflagrations. A three-day battle between PSP and Amal militiamen in November occurred after the Druze tried to remove Lebanese flags from Amal-held buildings—a miniwar that the US Embassy described as “futile, even by Lebanese standards.”

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Beirut remains a lawless, heavily contested war zone in which turf battles erupt almost daily. Artillery duels are common between Christian East and Muslim West Beirut. During the past year, clashes occurred between virtually every combination of West Beirut militias. Clashes sometimes arose from disputes over which faction controlled which street, but as often as not they resulted from personal vendettas or carelessness at militia checkpoints that

Terrorism is a fact of life in Lebanon. Most of the sectarian factions viewed car bombs, assassinations, and kidnapings as an acceptable form of warfare in 1985. Targets of major car bombings included the home of Shia fundamentalist leader Fadlallah in West Beirut, Druze and Christian militia centers on both sides of the capital, several Christian-owned supermarkets and a conference of Christian leaders in

East Beirut, mosques and churches in Tripoli, and numerous Israeli and Army of South Lebanon facilities in the south. [redacted]

government has had no problem funding this deficit because Lebanese banks have few local investment alternatives. [redacted]

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Lebanese terrorism continues to victimize foreigners, especially Westerners. Extremists kidnaped four more Americans, four French, and three British citizens in 1985. Sunni fundamentalists seized four Soviet diplomats to try to force Syria to end its siege of Tripoli in October. Shia militants hijacked TWA flight 847 in June, resulting in the death of one American and a two-week hostage crisis in Beirut, where the absence of any central authority enabled the terrorists to operate with impunity. [redacted]

The economic picture remains gloomy, but people have sufficient food, and considerable money remains in circulation. The militias continue to obtain overseas funds, possibly totaling as much as \$100 million during some months. Illegal trade with Syria increases commercial activity by \$50-75 million a month and provides income. Remittances from Lebanese abroad still continue, providing \$60-90 million a month. Lastly, the illegal and lucrative drug trade continues unencumbered by Syrian or Lebanese Government interference. [redacted]

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[redacted] Hizballah continues to plan terrorist attacks against US personnel and facilities. [redacted]

The Lebanese economy cannot recover until the security situation is brought under control. This, however, would require a political accommodation between the contending factions that is unlikely in the near future. In the meantime, the economy will function at its presently stagnant level, and the government will have to continue to resort to borrowing, eventually generating greater inflation and further worsening the situation. [redacted]

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Bleak Economic Picture

Lebanon's economy remains depressed with little chance of improvement in the coming year. After 10 years of civil war, the economy is probably operating at about half of its prewar level. Much of Lebanon's economic infrastructure has been damaged or destroyed, many of its most skilled people have emigrated, and the country is divided into sectarian zones of influence. [redacted]

Outlook and Implications for the United States

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In the last year, inflation has more than doubled to about 75 percent, the Lebanese pound has depreciated by over 55 percent, and government debt has grown by over one-third. On the plus side, the Central Bank has been able to rebuild its foreign exchange reserves by refusing to fund the government's foreign exchange deficit, and agricultural production has started to recover from the disruptions caused by the Israeli invasion in 1982. [redacted]

We see no evidence that the Lebanese factions are prepared to make peace. Fundamental political and economic problems have worsened during the past year, and a decade of civil war has generated often insurmountable personal animosities between sectarian leaders. Many younger Lebanese who have come of age during the turmoil of war have no concept of a Lebanon in which all religious groups live together peacefully under one government. Despite the genuine war weariness that pervades much of society, the ethnocentric civil war mentality remains strong. [redacted]

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The government continues to finance much of the country's economic activity through deficit spending. It pumps money into the economy by way of its bloated payroll and a few public works projects even though government revenues cover less than 15 percent of expenditures. As a result, government debt has grown from roughly \$1.6 billion at the end of 1984 to about \$2.3 billion in September. The deficit this year may total \$700-900 million. So far, the

Even if the mainstream religious communities could find a basis for cooperation, the increasingly influential Islamic fundamentalists and other extremists would seek to disrupt any political

settlement. The fundamentalist movement is likely to continue to flourish in the anarchical environment of Lebanon. Despite their relatively small numbers in relation to other groups, the fundamentalists are determined and capable of playing a spoiler role in any Lebanese political reconciliation. [redacted]

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In our judgment, Lebanon will remain in effect a partitioned country for the coming year. The Christians and Druze will jealously protect their respective "cantons" in the mountains north and south of Beirut. The Shias will consolidate their areas of control in West Beirut, southern Lebanon, and the Bekaa Valley. The Lebanese Government will remain largely powerless, existing in name only. Violence between factions almost certainly will continue. [redacted]

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Continuing violence and instability in Lebanon affect US interests because of the potential spillover into regional politics. Syria remains preoccupied with enforcing a settlement in Lebanon, and its success or failure in doing so affects its relationship with Iran, Israel, and the United States—the other states that Syrian leaders view as participants in Lebanese politics. Israel will continue to react vigorously to threats to its northern border by Lebanese Shia radicals or Palestinians, and an escalating cycle of cross-border violence between Israel and Lebanon would heighten tension in the region. [redacted]

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The self-destructive tendencies of the Lebanese civil war are likely to cripple US policy initiatives aimed at reconciling the warring factions. US officials working in Beirut, moreover, will remain at high risk both from terrorism and from the random shelling that has become a fact of life in Beirut. [redacted]

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**Egypt:
The Politics of Austerity**

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President Mubarak probably looks back on his government's performance in 1985 with a mixture of satisfaction and relief. On the positive side, Egypt is politically stable. Mubarak's pragmatic "safety valve democracy" has infused the country with a political resiliency that enabled him to weather a series of potentially destabilizing challenges. Egypt now boasts the liveliest political environment in its modern history with active political parties, an independent judiciary, and a spirited opposition press.

pricing—have included price increases averaging 20 to 30 percent annually. Still, internal prices generally are substantially below world market levels, and the reform effort has been too piecemeal and gradual to significantly affect the economy.

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On the other hand, Mubarak is vulnerable, and recent events have made him wary of policies that risk inflaming public opinion against the government. Witnessing Sadat's assassination at close range has made him especially sensitive to crises that could focus popular discontent on his leadership. Consequently, he has tended to respond to long-term challenges with stopgap measures. Mubarak has bought himself time, but he cannot afford to rest on his laurels in 1986.

Mubarak's reluctance to impose needed austerity measures has been deepened by fears of an Islamic resurgence. Last year saw the rise of an active and vocal Islamic fundamentalist movement in Egypt. Since early May, religious figures in Cairo and elsewhere have been demanding the immediate adoption of Islamic law (sharia) as the sole basis for legislation. The depth of popular support for sharia is difficult to gauge, but the US Embassy reports that attendance at mosques is up, consumption of alcohol is down, and more women are wearing the veil. More importantly, fundamentalists have recently gained strength in leading universities and student organizations—traditional breeding grounds for antiregime discontent.

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The Year That Was

During the past year, Egypt's economy exhibited few signs of long-term health. The sudden appointment in early September of a new government headed by a professional economist indicates that Mubarak feels acutely vulnerable on this issue. Weak world oil prices and stagnant or declining revenues from other traditional foreign exchange earners—including remittances from workers abroad—contributed to a marked deterioration in the balance of payments. Egypt's foreign payments swung from a modest \$200 million surplus in the fiscal year ending 30 June 1984 to an estimated \$1.3 billion deficit a year later.

Thus far, Mubarak believes he has successfully contained the fundamentalist threat, but his moves have been largely tactical and the sharia issue is far from resolved. Mubarak has effectively cracked down on extremist elements bent on challenging the regime in the streets, and last summer the government formally took over supervision of Egypt's mosques to better control centers of radical Islamic activity. At the same time Mubarak has attempted to co-opt Islamic moderates by allowing them access to the media and by permitting some debate on the sharia issue in the People's Assembly, where it was quickly shelved last May. The few minor concessions the government has made on sharia, however, are unlikely to keep the issue shelved for long.

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Effective solutions entail political choices that the government has been reluctant to make, fearing widespread civil unrest. Nonetheless, Egypt has attempted in recent months to address some of the serious economic distortions caused by its complex system of subsidies and fixed prices. Policy reforms in two areas—energy and agricultural procurement

Recent events have demonstrated that Egypt's internal stability is also vulnerable to crises outside its borders. A foreign policy that is hostage to a number

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of competing interests further limits Mubarak's ability to restrict domestic fallout. Egypt was severely jolted by two events last October—the Israeli airstrike against the PLO headquarters in Tunis and the US interception of the Achille Lauro hijackers—which inflamed public opinion against the United States and Israel and forced Mubarak to choose between protecting his leadership position and alienating Egypt's main source of aid. [redacted]

Mubarak successfully defused antiregime protests by focusing popular discontent on the United States but moved quickly to put relations with Washington back on track once he believed public outrage had cooled. Beneath his rhetoric, however, Mubarak's sense of personal humiliation and betrayal appears to have been genuine. [redacted]

Looking Ahead: Safety First

The Achille Lauro affair and its aftermath are likely to cast a long shadow over Egyptian domestic and foreign policies during the coming year. Given the array of problems Mubarak faces and the threat they pose to his leadership, we believe he will focus his energies on domestic issues—particularly the economy—despite disruptions caused by the Malta hijacking and subsequent tensions on the Libyan border. In particular, he will carefully gauge the effect on his constituency of any initiative involving Israel or the United States. [redacted]

Mubarak has already begun to prepare public opinion for economic austerity. In a hard-hitting speech at the opening of the People's Assembly in mid-November, Mubarak sought to infuse his people with a sense of national purpose and rally them to the cause of national development. His heightened sensitivity to the public mood, however, will severely limit his ability to impose needed solutions. Mubarak's greatest fear is that realistic austerity measures would incite the hard-pressed population to embrace radical fundamentalism as a weapon against the state. [redacted]

Despite the large US assistance program—over \$1.3 billion in aid during fiscal year 1986—Egypt will be hard pressed to meet its financial obligations. Most probably, Cairo will implement fairly rigorous import restrictions to cut the balance-of-payments deficit. To

maintain subsidies and price supports, these import cuts are likely to be made at the expense of the private sector and capital spending—measures that will probably push economic growth below 5 percent. With an annual population growth rate of 2.7 percent and urban growth of 3.5 percent, the Mubarak regime can ill afford the social and political consequences of a stagnant economy. [redacted]

Subsidy reform will come slowly, if at all. Current plans call for the elimination of most subsidies within five to seven years, a pace that will yield few dividends in the near term. Egyptians believe a faster rate of reform would prove politically suicidal. On the other hand, Cairo's incremental and excessively cautious approach to reform offers little incentive for consumers, producers, and investors to change their economic behavior. [redacted]

Islamic fundamentalist activity—including renewed agitation for the implementation of sharia—will continue to plague the regime. The movement is unlikely to threaten Mubarak's rule as long as its leadership remains politically and philosophically divided and the government's tacit alliance with the conservative Muslim Brotherhood against the extremists holds. The death of aging Brotherhood leader Talmassani could trigger a realignment of these forces. Talmassani's most likely successors have ties to the Brotherhood's more radical paramilitary wing and might be tempted to make common cause with the extremists against the government. [redacted]

Military support for Mubarak is likely to remain strong over the next year. Rumors persist about friction between the President and Abu Ghazala, his highly popular Defense Minister, whose openly pro-US attitudes have left him vulnerable in the wake of the Achille Lauro hijacking. Nonetheless, we have little evidence of antiregime sentiment within the military despite the affront to Egyptian sovereignty and national pride inflicted by the US interception of the hijackers. Although the armed forces are the ultimate guarantors of Mubarak's tenure, they traditionally avoid interfering in internal politics. If

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Mubarak were assassinated, however, we would expect the military to take the lead in approving his successor and ensuring a smooth transition. [redacted]

Nonetheless, Mubarak will need to monitor military attitudes closely. Although complaints about the economy generally concern bread-and-butter issues such as pay and housing, a lack of attention to these grievances would alienate military support for the regime. Mubarak and his advisers are also known to be concerned about the growth of Islamic fundamentalist sentiment within the armed forces which could be fueled by economic discontent. [redacted]

Mubarak appears deeply frustrated with the lack of progress in the search for a broad Middle Eastern peace. Nonetheless, he will continue to play a supporting role, while expecting others—Jordan and the United States—to take the lead. Mubarak is well aware that with a hardline Israeli Government expected to take power next October, time is running out for the moderates on both sides. Ironically, King Hussein is becoming increasingly skeptical that Mubarak has any real role to play in the Jordanian-Palestinian negotiations. Hussein is especially displeased with the inadequacy of Arafat's recent renunciation in Cairo of terrorism and with the publicity accorded Arafat in Egypt. [redacted]

Mubarak has little choice but to back Arafat, despite the lingering distrust he feels as a result of the Achille Lauro affair. Cairo recognizes the need for a central PLO role in any peace negotiations, and Mubarak probably believes that close ties will help him put pressure on the wily PLO chairman to live up to his recent promises on terrorism. In addition, the Palestinian cause is highly popular among rank-and-file Egyptians, including fundamentalists, student groups, and Mubarak's political opposition. Still, [redacted]

[redacted] Mubarak will resist PLO attempts to strengthen their presence in Egypt. [redacted]

Prospects for Egypt's formal reentry into the Arab League appear dim without support from radical states such as Syria and Libya. Mubarak says Egypt will fulfill its responsibility on Arab issues without



Egyptian President Mohammed Hosni Mubarak and PLO Chairman Yasir Arafat [redacted] Reuters ©

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waiting for the restoration of formal ties and will insist that those who broke relations in 1979 take the initiative to restore them. Nonetheless, Cairo has been disappointed that other moderate Arab states—notably Iraq—have not followed Jordan's example and reestablished formal ties. [redacted]

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Implications for the United States

Egypt's need for US economic and military aid will ensure close relations between Cairo and Washington, but Mubarak must avoid too close an identification with US objectives in the region. Moreover, political realities will compel him to demonstrate that these relations continue to serve Egyptian interests. As a result, Washington's leverage in economic reform matters will be sharply limited. At the same time, Mubarak will expect increased financial assistance and debt relief as evidence that the United States is serious about patching up relations after the Achille Lauro affair. [redacted]

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The Mubarak government will almost certainly expand its efforts to obtain greater balance-of-payments support from the United States next year. Rescheduling of \$3.7 million in military debt obligations will undoubtedly top the list. Cairo will also argue strongly for increased conversion of

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economic support funding to cash transfers as a means of channeling more project assistance directly into Egyptian hands. [redacted]

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We believe that at current levels of assistance and with limited economic austerity measures, Cairo probably will muddle through 1986 without resorting to a formal IMF rescheduling program. Nonetheless, rescheduling will almost certainly become necessary—at the latest by 1987 but possibly sooner—without major increases in US balance-of-payments support during the coming year. An IMF-supervised adjustment program would give opposition elements a formidable weapon against Mubarak. In addition, IMF-required subsidy cuts and price increases would fuel massive discontent within Egypt's lower and middle classes and confront Mubarak with an explosive political situation. [redacted]

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If Abu Ghazala is retired or forced out in 1986, the choice of his successor will be critical to US-Egyptian military relations. The abrasive and ailing Chief of Staff, El Orabi—an ardent and outspoken nationalist—is not necessarily the leading contender.

[redacted] promotion to Defense Minister is improbable and suggest that he himself may be replaced by the highly regarded Chief of Operations, Abd al-Halim Salah. Mubarak may elect to keep Abu Ghazala as Defense Minister long enough to groom Salah as his eventual successor. In any event, Mubarak will seek a candidate who is capable of maintaining a working relationship with the United States as well as the respect of the Egyptian officer corps. [redacted]

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In foreign affairs, Cairo will expect Washington to play a more active and constructive role in the search for a broader peace. Strains will appear to the extent that Washington's efforts are viewed as flagging or not evenhanded. Egyptians do not absolve the Arab world of responsibility for lack of movement, but they tend to place primary blame on Israeli intransigence and—by extension—US support for Tel Aviv. [redacted]

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Sudan: Facing an Uncertain Future

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The overthrow of President Nimeiri has unleashed political forces that promise to keep Sudan in flux over the next year. The senior officers who ousted Nimeiri have provided weak, inexperienced leadership through the interim government they created. Nonetheless, they appear willing to honor their promise of a transition to civilian rule by next year, despite the lack of preparedness for elections on all sides.

We believe there is an almost even chance that elections and the transition to civilian rule will take place in 1986. There is an equally strong prospect that a reconstituted interim regime will hold on to power until Sudan is prepared to hold elections. Barring unrest over economic grievances or a costly defeat to southern rebels, the Army probably would prefer to see a civilian or another interim regime demonstrate its inability to run Sudan before moving to take over. Younger generals and middle-grade officers, who might lead a coup, probably could provide stronger leadership to settle the southern insurgency and impose needed economic reforms.

Khartoum's stability will continue to be severely strained by internal divisions, both between and within its civilian and military elements. The south and the economy will provide the other major challenges to stability. Khartoum's acquiescence to labor demands for wage increases and its reluctance to increase prices are likely to result in higher inflation and growing shortages that could spark unrest next year. Meanwhile, the failure of the dialogue between the government and the southern rebels ensures the prospect of intensified insurgent attacks that will severely test the Army's loyalty.

The regime's nonaligned foreign policy, which has strained US-Sudanese relations, probably will continue under likely successor governments. Khartoum will maintain its Libyan connection and pursue improved ties to the USSR and Ethiopia as a

tactic to reduce support to the insurgents in 1986. The decline in support for US positions in regional forums is likely to continue. US-Sudanese military cooperation will be curtailed, but Khartoum will continue to count on US military and economic aid.

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The Interim Regime's Scorecard

Senior Sudanese officers—spurred by civil unrest, a general strike over price hikes, and increased insurgent activity—deposed President Nimeiri last April, after 16 years in power. The senior command's seizure of power was motivated largely to preempt a takeover by younger officers.

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The former President's policies, specifically his imposition of Islamic law and the political division of the south into three regions in 1983, heightened ethnic differences, causing growth in the then Libyan- and Ethiopian-backed southern rebellion that shut down major oil and water development projects. Furthermore, already poor economic conditions were made worse by shortages of food and energy and a serious drought that contributed to instability.

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The Transitional Military Council's promise to return the country to civilian rule in 1986 underpins its legitimacy and is a major reason that the regime has survived despite weak, inexperienced leadership. In our view, Khartoum is hard pressed to respond effectively to the conflicting demands from Islamic northerners and non-Muslim southerners, from the military and civilian sectors, and from international creditors and Sudanese domestic economic needs. Decisionmaking is further confused by the Military Council's continuing struggle with the civilian Cabinet. Nevertheless, divisions among opponents give the regime a durability it has failed to earn on its own.

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Transitional Military Council
Chairman Abdel Rahman
Mohamed El Hassan Suwar El
Dahab [redacted]



Prime Minister El Gizouli
Dafalla [redacted]

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The freer political atmosphere in Khartoum and the regime's nonaligned foreign policy allow opponents to take advantage of the existing political instability. Weakened counterintelligence capability—caused by the abolition of the State Security Organization—makes Khartoum more vulnerable to internal and external subversion. Radical groups such as the Communists, Ba'thists, and Libyan-backed Sudanese Revolutionary Committees operate openly and receive foreign support, and some are building their own militias. Libya is working hard to penetrate Sudanese society, and an increased number of agents from radical Arab and Muslim states are operating in Sudan. [redacted]

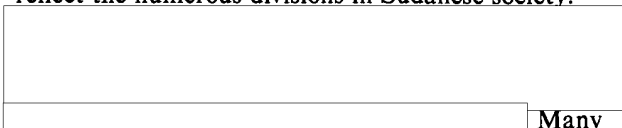
Khatmiyyah's Democratic Unionist Party. If the Ansar and Khatmiyyah parties cannot form a coalition, elections may be postponed by the Military Council, particularly since some members of the council have begun to question the wisdom of holding elections next spring. [redacted]

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Domestic Political Scene. Preparation for elections scheduled next spring is a major focus for the regime. The Military Council reached a consensus on the interim constitution and an election law only after long and arduous debate with its civilian counterparts. More than 30 political parties have declared themselves since the coup. The regime now must whittle down their number by passing a political parties law granting official recognition to run in elections. [redacted]

The regime's survival depends on the Army's loyalty. Several coup attempts and a mutiny of southern troops in Khartoum failed to overthrow the government in 1985. The military has become further politicized, however, and seems more than ever to reflect the numerous divisions in Sudanese society. [redacted]

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[redacted] Many officers and enlisted men are critical of the Military Council's lack of leadership, its failure to control civilian opposition activities, and its inability to resist the pressures of leftist-dominated unions. They also nurse resentments over slow promotions, poor pay, and fighting in the south. [redacted]

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Only a handful of the parties have any following, and most of these have yet to reestablish the cohesion and structure lost under the former regime. The political spectrum of the parties ranges from the far left to the fundamentalist Muslim Brotherhood. The Ansar sect's Umma Party, the largest Muslim party, probably could win a majority if it succeeds in entering a coalition with its historic rival, the

Foreign Policy. Khartoum has sought a more nonaligned foreign policy since the coup, largely to avoid the perception of being under foreign influence and as a mechanism to undercut external support to the insurgents. This policy gives both Libya and the Soviet Union an opportunity to increase their influence at the expense of the United States and

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Egypt. Khartoum is likely to value its recent rapprochement with Libya as long as Tripoli refrains from direct military support to the insurgents. Libya, moreover, has won influence in Khartoum by providing economic and military aid. Khartoum believes that the Soviet Union can press Ethiopia to withdraw its crucial support to the rebels. The regime will continue to seek improved relations with the USSR and spare parts for old Soviet equipment. [redacted]

Sudan's relations with Cairo and Washington have been strained by Khartoum's efforts to pursue a neutral foreign policy, especially the rapprochement with Libya. Relations with Cairo have improved in recent months, but US-Sudanese relations have further soured. The regime appears to lack the political will and ability to address US demands to expel Libyan and PLO terrorists in Khartoum and to control the anti-US tone in the trial of the former Sudanese Vice President for his part in the exfiltration of Ethiopian Jews. [redacted]

Nevertheless, Khartoum continues to say it values relations with Washington and views US aid as crucial. Sudan, however, supports the United States less frequently on regional issues, and military cooperation has declined. The regime suspended a US-Sudanese military exercise in 1985 and is likely to continue to avoid such conspicuous military cooperation. [redacted]

The Economy. Economic conditions remain chaotic despite an increase in aid since the coup. Stocks of fuel—with help from Libya—and consumer goods have been replenished, but famine relief is still impeded by inadequate transport and bureaucratic inertia. The war in the south is a financial drain that absorbs some \$500,000 a day. In addition, the insurgency continues to jeopardize Sudan's long-term economic future by blocking the development of vital oil and water resources. [redacted]

Sudan's financial status remains unsettled. The IMF has agreed to endorse conditionally Khartoum's limited economic reform package and not declare

Sudan ineligible for further Fund assistance if arrears totaling about \$200 million are quickly paid.

Prospects for international assistance to repay arrears, however, are not good. The United States and Saudi Arabia together have pledged \$70 million, but other donors are noncommittal. Barring unexpectedly large pledges of aid, the arrearage issue will most likely remain unresolved, an impediment to larger aid disbursements by international donors as well as a constant source of tension between the Sudanese Government and the IMF. [redacted]

Khartoum's politically expedient economic policies are likely to become a source of major instability over the next year. The government's quick acquiescence to labor demands for large wage increases and its reluctance to allow consumer price increases are an almost certain prescription for higher inflation and growing shortages in 1986. Moreover, the failure to adopt a unified exchange rate or to demonstrate restraint in budget expenditures sends a negative signal to the business community, international and domestic alike, and confirms the suspicion of many that the interim government cannot, or will not, implement genuine economic reform. [redacted]

The South. Insurgent leaders placed the onus for initiating dialogue on Khartoum when they made their first serious overture last fall. They declared a cease-fire and set conditions for talks, including demands for public commitment to a national conference regarding the election of a new interim government by participants in the conference. A major factor behind the rebel initiative may be Khartoum's recent resort to a carrot-and-stick policy. The civilian Cabinet was encouraged to pursue a dialogue, while the Military Council worked to isolate and press the rebels by seeking to cut off their external support and pursuing a military solution. [redacted]

Resolution of the southern conflict will not be easy and may not be possible in the next year for any government in Khartoum, but, in our view, a military regime may prove more capable of flexibility than an

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elected civilian government. At the heart of a political settlement will be Khartoum's adoption of a federal model of government in which the south will receive constitutional guarantees against the imposition of Islamic law and formal agreements on revenue sharing. Meanwhile, internal divisions among southerners are likely to impede progress on agreement. If a successful dialogue between the government and the rebels fails to materialize, the insurgents probably would receive Ethiopian backing to intensify their attacks in the south to weaken Khartoum's resolve. [redacted]

Political Outlook for 1986 and Implications

Political instability in Sudan makes its future uncertain, but several outcomes are possible in the coming year:

- Barring massive civil unrest or a major military defeat in the south, there is an almost even chance that the current regime can muddle through to elections in the spring and a turnover to civilian rule. There is an equally strong prospect that a reconstituted interim regime will hold on to power until Sudan is prepared to hold elections.
- If prolonged civil unrest or a costly defeat in the south occurs before elections or after elections are postponed, the prospect increases that younger generals or middle-grade officers will lead a successful coup.
- Less likely is a coup by radical or extreme leftist junior officers with Libyan backing, particularly if the security situation deteriorates and the more senior officers fail to take charge. [redacted]

Extensive divisions among civilians in an elected government or military-civilian tensions in a new interim regime are likely to impair the government's ability to make the necessary hard decisions on domestic problems. In addition, there is likely to be little agreement on large portions of the constitution, including the status of Islamic law. If talks between Khartoum and the rebels fail to materialize, the insurgents probably would view any election that took place as invalid, would find it difficult to reach a settlement with an ineffective regime, and would

continue fighting. All these factors would make a civilian government or an interim regime vulnerable to removal by a coup. [redacted]

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A civilian government or another interim regime, including one headed by Ansar leader Sadiq al-Mahdi, would continue a nonaligned foreign policy. Military cooperation with the United States would further decline, and Nimeiri's offer of military facilities to the United States might be rescinded. Such regimes, however, would continue to look to the United States for economic assistance. The USSR probably would remain a target of suspicion, but relations with Libya would remain good. [redacted]

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A takeover by younger generals or middle-grade officers would be more effective and would have the greatest popular support if it took place in the midst of a crisis. A strong military-dominated regime, for example, might have greater leeway to impose stricter security and unpopular austerity measures needed to stabilize the domestic political and economic situation. Elections and a constitution probably would be postponed for some time. Ending the insurgency would be a priority for such a regime, which would have more flexibility and probably be less dogmatic than an elected civilian government. Insurgent leaders probably would have more trust in these officers, as opposed to some of the more senior officers in the current regime, especially if they had limited ties to former President Nimeiri. [redacted]

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A new military regime would find the current nonaligned policy advantageous. It would also maintain the Libyan rapprochement and pursue improved ties to the USSR and Ethiopia as a tactic to reduce support for the rebels and as a source of much-needed economic and military assistance. Still, a military regime would be wary of Libyan, Ethiopian, and Soviet subversion. In addition, it would count on continued US economic and military support. Consequently, it would be unlikely to confiscate US investments and probably would over time renew

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military access rights and exercises, even if these had been initially suspended to appear more independent of foreign influence. [redacted]

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The least likely scenario, a coup by junior officers with a radical or extreme leftist orientation, probably would require the extensive support of Libyan or Soviet surrogates to be successful. US interests in Sudan would be damaged. Cairo would be unlikely to tolerate such an unfriendly regime in Khartoum for long. It would seek to develop an internal opposition that could lead a countercoup and as a last resort might consider military action. [redacted]

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**Libya:
Qadhafi Under Siege** [redacted]

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An unprecedented combination of rising unrest and foreign challenges coalesced to put Qadhafi at bay in 1985. Four consecutive years of economic decline prompted growing dissatisfaction with the regime among the public and key interest groups. Dissident activity both abroad and in Libya is on the upswing, and for the first time in two years serious unrest in the Armed Forces was discovered. Doubts about the regime's viability have emerged, even among senior officials, and they are beginning to position themselves to succeed Qadhafi. Moreover, Qadhafi's principal adversaries close to home, Egypt and Algeria, are cooperating to put Libya on the defensive. Qadhafi has responded to these pressures by giving greater power to relatives and young radicals whose programs include domestic repression and international terrorism. Qadhafi could reduce the threat to his power by reversing or moderating his unpopular policies, but he shows no willingness to do so. In our view, political and economic trends in Libya continue to run against Qadhafi, and, if, as seems likely, there is no change in current conditions, his chances of surviving another year are little better than even. [redacted]

The Economic Squeeze

Faltering economic performance and a declining standard of living continued to erode Qadhafi's public standing in 1985. Despite Libya's producing about 150,000 b/d of crude oil above its OPEC quota of 990,000 b/d, we estimate that total export earnings will remain at about \$11 billion this year. Severe austerity measures probably will hold 1985 imports to \$7 billion, which, in conjunction with worker remittances and other services, will leave a current account deficit of about \$1.2 billion—slightly better than the \$1.5 billion deficit in 1984. Foreign exchange reserves have dwindled from about \$14 billion in 1981 to a current level of \$3.5 billion. [redacted]

Declining income has forced Tripoli to reassess its development goals. Qadhafi has imposed lengthy delays on the completion of several showcase projects,

including the \$11 billion Great Manmade River water project. Qadhafi also has slowed payments to foreign companies operating in Libya. [redacted]

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The regime's efforts to cope with economic decline have placed a growing burden on the local population. An increasing number of Libyans in Tripoli are complaining about the unprecedented deterioration in living conditions. [redacted]

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[redacted] Shortages of food, water, and electricity have become a way of life. Long lines at state-run stores are becoming more common, generating sporadic disturbances that have resulted in several deaths. What is available is often expensive: a carton of US cigarettes, for example, cost \$70 last summer. [redacted] an emerging consensus among Libyans that Qadhafi's social experiment has failed and that change is needed. [redacted]

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Qadhafi probably has aggravated these economic grievances by his continual exhortations to revolutionary activity which further undermine the sense of security Libyans are seeking in their daily lives. [redacted]

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at the beginning of the year, Libyan officials confiscated privately owned tractors and construction equipment, probably to prevent the owners from using the machinery in private business ventures. In July, Qadhafi ordered Western musical instruments destroyed as part of an attack on symbols of foreign culture. To enforce Qadhafi's dictums against private land ownership, pro-Qadhafi extremists burned property records in Tripoli. [redacted]

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Unrest at Home

Public discontent with the regime has become more open this year, despite heavy penalties against it.

[redacted] university and secondary school students have held protest meetings and even sent a letter to Qadhafi criticizing his internal policies. Antiregime leaflets and graffiti—some found near Qadhafi's headquarters at Azziziya Barracks—appeared in major Libyan cities during the spring and summer. Qadhafi responded to these protests with arrests, searches, and, in the case of the students, torture.

Dissent this year has also been violent.

Reporting from [redacted]

[redacted] indicates that a car bomb exploded in the Tripoli port area in September in what may have been an attempt to kill Qadhafi. The most recent anti-Qadhafi incident is last month's assassination of Col. Hassan Ashqal, commander of the Central Military District and a relative of Qadhafi.

In addition to local opposition, Qadhafi has encountered growing pressure from Libyan exile opposition groups, particularly the National Front for the Salvation of Libya (NFSL). Despite the loss of its main base in Sudan following the fall of President Nimeiri, the NFSL has continued its activity with Egyptian, Iraqi, and Algerian support. In January the NFSL held its first "National Congress" in two years in Baghdad, and it now broadcasts propaganda from radio facilities in Egypt and Iraq.

[redacted] Libyan authorities believed dissidents were infiltrating into Libya across the Algerian border and by sea. Searches and arrests followed these discoveries.

One of the most ominous developments for Qadhafi this year is rising discontent in the Armed Forces.

[redacted] sabotage may have been the cause of a fire that destroyed a warehouse at an airbase near Banghazi.

Troubles Abroad

Foreign affairs presented Qadhafi with mixed results in 1985. He could point to some successes, the most important being the rapid expansion of Libyan influence in Sudan following a coup that brought down Qadhafi's old nemesis Jaafar Nimeiri. Tripoli also restored relations with another former enemy, Somalia, and reopened a People's Bureau (Embassy) in Niger. But, on the whole, Qadhafi has not enjoyed the same level of success this year that he did the previous year when he signed a union with Morocco, negotiated the French out of Chad at no cost to himself, and mined the Red Sea with impunity.

Qadhafi was frustrated most of the year in his attempts to translate his support for foreign regimes into real influence. In May, relations with Syria approached the breaking point when Qadhafi could not dissuade Assad from supporting the Lebanese Shia Amal militia against the Palestinians in the "War of the Camps."

[redacted] Qadhafi was reduced to withdrawing some of his diplomatic and military personnel from Damascus in protest. Feelings were so high that Qadhafi's envoy, Armed Forces Commander in Chief Abu Bakr Yunis, had a brief fistfight with Syrian Vice President Khaddam. Last summer, Qadhafi boycotted an Arab summit meeting convened by his treaty partner King Hassan of Morocco because Libyan items were not included in the agenda.

Qadhafi's most serious foreign policy miscalculation, however, was the expulsion in August of about 30,000 Tunisian and 10,000 Egyptian workers from Libya. The move was in part an effort to stem the drain on

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foreign exchange caused by workers' remittances. Qadhafi, in our judgment, also saw an opportunity to destabilize the already uncertain domestic situation in Tunisia and to punish Egypt for its ties to the United States and Israel. Qadhafi probably did not anticipate the willingness of Algeria and other Arab governments to come to Tunisia's aid. Most worrisome from Qadhafi's point of view was significantly closer cooperation among Tunis, Algiers, Cairo, and Baghdad. [redacted]

Qadhafi Circles the Wagons

For the most part, Qadhafi is a judicious political calculator who is capable of patient waiting. He has often been able to respond flexibly to his political troubles, tactically changing course without losing sight of his long-held revolutionary goals. But when he is feeling under siege or experiencing a heightened sensitivity that his revolution is failing, Qadhafi's usually pragmatic decisionmaking can falter. We judge that Qadhafi is now in such a strained period, and Qadhafi's flawed decisionmaking could well compound his political problems. [redacted]

In dealing with his rising domestic problems and increased foreign pressures, Qadhafi has chosen to repress dissent at home and resist pressure from his neighbors rather than reverse or moderate his unpopular policies. [redacted] Qadhafi's deepening anxiety over his personal security has isolated him from the Libyan public and even from important officials upon whose support he depends. In our view, this reduces the likelihood that the regime will address the fundamental problems that threaten it. [redacted]

Qadhafi has increasingly surrounded himself with people whom he believes he can trust—relatives, fellow tribesmen, or young radicals committed to his ideology. [redacted]

[redacted] professional officials in key positions—particularly the security services—are being replaced by young extremists who have come of age under Qadhafi and are considered ideologically sound. Qadhafi also has staged rallies in tribal areas—including the restive Berbers and Magharba tribe—to convince both internal and external opponents (and perhaps himself) that he continues to enjoy popular

support. This year, for the first time, Qadhafi celebrated the anniversary of his coup in the relatively secure city of Sebha. Instead of the usual displays of military units, he featured parades of Revolutionary Committee cadre. In our view, this reflects Qadhafi's distrust of the Army's loyalty and was intended to demonstrate to his adversaries that the Libyan revolution would continue even if he were personally eliminated. [redacted]

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In a narrow tactical sense Qadhafi may have improved his security. His personnel changes probably have increased the ability of his supporters to thwart nascent coup plotting or other antiregime activity. In our view, however, Qadhafi's increasing reliance on extremists indicates how deeply eroded his support has become. In addition, as Qadhafi becomes more dependent on radicals for support, he risks losing the loyalty of the armed forces, the one institution capable of removing him. [redacted]

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Another effect of Qadhafi's siege mentality has been increased infighting among senior officials as they prepare themselves for the inevitable succession struggle. [redacted]

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[redacted] In our view, this jockeying for political position reflects a lack of confidence in Qadhafi's viability and threatens the unity of the regime. [redacted]

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[redacted] real or perceived threats to Qadhafi's power are reaching the highest levels of the regime. [redacted]

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Prospects

Qadhafi's popular base will continue to erode as long as he responds to the challenges to his regime by closeting himself with a diminishing circle of loyal revolutionaries in Azziziya Barracks. Qadhafi is almost entirely dependent on the continued loyalty

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and competence of the Revolutionary Committees and the security services to preserve his position. At present, these institutions appear capable of protecting him. Nonetheless, the political and economic trends in Libya are running against Qadhafi, and we assess his chances of surviving until the end of 1986 as little better than even. [redacted]

A popular revolt against Qadhafi is unlikely, even with a significant increase in popular discontent. Such discontent, however, increases the risk of assassination. In addition, the NFSL almost certainly will attempt to exploit this discontent, possibly by launching another commando raid on a Libyan installation. Qadhafi probably could survive such an attack, but, if NFSL operatives struck without suffering substantial losses—by no means a certainty—it would aggravate his insecurity, diminish his prestige, and probably attract greater foreign and internal support for the dissidents. [redacted]

Grumbling in the military is likely to continue. The arrests and personnel changes made this year probably have disrupted coup plotting for at least the next several months. Nonetheless, we expect to see more evidence of antiregime activity by dissatisfied officers over the next year, and a move against Qadhafi by the armed forces cannot be ruled out. If the officer corps coordinates a coup attempt with dissident attacks and/or foreign intervention, we believe the chances for toppling Qadhafi are better than even. [redacted]

Qadhafi will try to repress dissent and ride out the storm. At the same time, he may try to recapture international attention and burnish his prestige through sudden, bold foreign policy maneuvers. He almost certainly will continue current efforts to break up the cooperation against him between Algeria, Tunisia, and Egypt. Although Libyan relations with Morocco and Iran appear sound, we cannot rule out a sudden policy change by Qadhafi to improve relations with Algiers or Baghdad. Qadhafi, however, probably will continue his confrontational tactics with Egypt and may try to strike indirectly at Egypt by expanding the Libyan presence in Sudan. Renewed Libyan aggression in Chad may be in the offing, although French resolve to support N'Djamena would

probably be tested with small-scale probes by Chadian dissidents rather than an overt Libyan attempt to seize large swaths of territory. [redacted]

Domestically, Qadhafi might attempt to purchase support by reordering economic priorities, delaying some military purchases, and channeling savings into the consumer sector. He also might step up oil production. An increase of 100,000 b/d in oil exports at current price levels would boost revenues by about \$1 billion annually. Such an increase, however, would be difficult to sustain under current market conditions without some price adjustments. Nonetheless, the likely improvement in revenues would ease mounting tensions over living standards. [redacted]

Qadhafi is least likely to reverse his unpopular policies and curb the power of the Revolutionary Committees to shore up support for his regime. Such a reversal would be an admission that his revolution had failed, and, in our view, Qadhafi will not—and possibly psychologically cannot—make such an admission. Moreover, even if he reined in the Revolutionary Committees, Qadhafi might not be able to count on greater support among alienated military officers. Such a move might instead be interpreted as a sign of weakness and encourage coup plotting. [redacted]

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Morocco: Growing Challenges

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The moderate pro-Western government of King Hassan II is secure for at least the next year. Nonetheless, deteriorating economic conditions coupled with rising expectations among the burgeoning youthful population are potential sources of discontent. Of particular concern to Hassan is pressure from international creditors to tackle his financial difficulties by reducing consumer subsidies and other government services. In addition, restiveness among students, the labor movement, and Islamic fundamentalists will challenge the political acumen of the King and may over time destabilize the regime. Morocco is likely to retain its generally pro-US policy over the near term. At the same time, Hassan will look to the United States for economic and military support.

was the focus of major food riots in January 1984. The US Embassy reports that an increasing exodus from rural areas into overcrowded urban slums has occurred in the wake of the recent drought. The overwhelming share of these migrants are the more productive young farmers. Their departure plus the drought has boosted food imports to 50 percent of the domestic demand. Only timely food aid from France averted a major food shortage earlier this year.

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The Troubled Economy

Morocco's principal problem is the economy, which cannot meet the needs of the rapidly growing population. Overly ambitious development spending in the mid-1970s, the collapse of the world phosphate market, the drain of the prolonged Western Sahara conflict, and persistent drought since 1979 have stifled economic growth. At the same time, near double-digit inflation is eroding living standards and reducing the real level of spending on public services. We estimate that real GDP growth probably will not exceed 3.5 percent this year. This compares with World Bank estimates that the urban labor force is increasing by 6.6 percent annually.

The nation's financial crunch has required Rabat to request massive additional debt relief. The government's refusal to guarantee rescheduled debt payments has resulted in a protracted series of meetings with foreign lenders and generated considerable ill will toward Morocco. Moreover, relations with Paris and London Clubs creditors have been tarnished by payment delays, which Rabat claims have been necessitated by unexpected cash shortages. Failure to cover arrears on US commodity credits forced the termination of US grain shipments in 1985, which may contribute to serious food shortfalls early next year.

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Significant demographic changes are a crucial factor retarding Morocco's social and economic development. The burgeoning population of nearly 25 million—more than half of which is under age 20—has already produced severe strains in health, education, employment, food, and housing. Moreover, many of these young people possess few, if any, of the skills needed for industrial and other technical jobs and only contribute to urban unemployment, which already approaches 30 percent. Overcrowding is particularly acute in Rabat and Casablanca; the latter

In addition to problems with Western governments and banks, the government has had difficulty coming to grips with IMF domestic spending targets under a proposed \$315 million standby loan. Rabat is attempting in large part to avoid major changes in politically sensitive parts of the budget, according to the US Embassy. The IMF estimates that trimming public-sector spending will require additional cuts in food, fuel, and education subsidies as well as payrolls. The Fund also is likely to question Rabat's costly military modernization program to replace rapidly deteriorating equipment, particularly aircraft, heavy artillery, and armor. IMF officials will cite maintenance of existing inventory as a more cost-effective program. We doubt that Morocco can

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NESA NESAR 85-026
6 December 1985

Morocco: Balance of Payments

Million US \$

	1981	1982	1983	1984	1985 ^a	1986 ^a
Merchandise trade balance	-1,557	-1,773	-1,215	-1,377	-1,035	-1,000
Exports, f.o.b.	2,283	2,042	2,085	2,158	2,085	2,200
Phosphates and derivatives	1,080	874	924	1,000	1,050	1,080
Imports, f.o.b.	3,840	3,815	3,300	3,535	3,120	3,200
Fuel and lubricants	1,200	1,168	984	1,015	720	865
Foodstuffs	789	578	530	657	650	600
Services (net)	-361	-216	155	400	527	749
Receipts from tourism	338	340	372	413	460	500
Worker remittances	963	992	907	625	950	1,050
Interest payments	-634	-740	-805	-926	-700	-600
Private transfers (net)	25	28	26	28	26	28
Current account balance	-1,893	-1,961	-1,034	-949	-482	-223
Capital account balance	1,724	1,949	949	889	919	350
Public debt (net)	1,200	932	385	715	320	380

^a Projected (includes debt rescheduling and \$400 million oil grant from Saudi Arabia).

[Redacted]

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maintain its IMF program, which is necessary to its financial stabilization plan and its retention of the confidence of foreign lenders. [Redacted]

the campaign or settled the dispute by making major concessions to the guerrillas. [Redacted]

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Foreign Policy Concerns

The King has been reluctant to focus on the economy and continues his longstanding preoccupation with foreign policy issues. Although the acquisition of Western Sahara remains a popular cause among Moroccans, the cost of the war is being questioned by some and may eventually cause trouble for the King. Nevertheless, we expect Hassan to persist in his attempts to acquire the territory and to use the war to divert popular attention from social and economic problems. In our view, military morale would be badly shaken if Rabat sharply reduced defense spending for

Hassan claims the year-old union between Morocco and Libya is a means to eliminate Tripoli's support for the Polisario Front, offset Algeria's expanding regional influence, and ease Morocco's economic problems. Since the union, Rabat has received about \$150 million in aid from Qadhafi as well as established a growing, but still small market for

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**King Hassan II
of Morocco**

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King Hassan II, 56, assumed the throne in February 1961. A master of subtlety, drama, and pomp, Hassan II dominates Moroccan life. He is a member of the Alaouite dynasty, which claims descent from the Prophet Muhammad and has ruled Morocco since 1649. Hassan's political behavior, according to diplomatic observers [redacted] is primarily directed toward perpetuating the monarchy. Since two unsuccessful coup attempts by members of the armed forces in 1971 and 1972, Hassan has served as de facto Minister of Defense and assumed direct control of the military as Supreme Commander and Chief of the General Staff.

[redacted]

Moroccan agricultural exports and jobs for Moroccan workers—8,000 jobs have already been provided. At a minimum the union has bought some time for the government by raising popular expectations about financial aid. The assistance, however, is not likely to be sufficient to head off Morocco's domestic difficulties. [redacted]

Complaints From Key Groups

Students. We believe the regime is incapable of satisfying the economic expectations of youth, and

[redacted]

this is a major source of concern to the government. Students are better educated than their parents and view the monarchy with less awe than their elders. Spending cuts have forced reductions in the number of pupils admitted to secondary and university programs—widely viewed as the key to well-paying jobs. Makeshift vocational training programs are an unpopular substitute because most youths want a general education and believe they have the right to it. Moreover, university graduates expect the government to provide them with jobs if they cannot find suitable employment themselves. We believe that students and unemployed youths will be increasingly willing to express their grievances through violence. An additional worry for Hassan is that Moroccans traditionally place great importance on education and that raising tuition or other fees to help finance education could be the catalyst for demonstrations.

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Islamic Fundamentalists. According to the US Embassy, the poor, the young, the intellectuals, and the urban professionals have increasingly turned to Islamic fundamentalism as a means of expressing discontent with the regime. We believe the willingness of fundamentalist leaders to target Hassan's mishandling of social and economic problems ultimately may erode the King's status as defender of the Islamic faith—a key element in his claim to legitimacy. During widespread riots in January 1984, for example, fundamentalists helped foment unrest by distributing tracts attacking the King's economic mismanagement. More recently, Hassan's decision to enlarge the Royal Palace by demolishing adjacent neighborhoods in Casablanca set off demonstrations. Incidents of this sort reinforce the complaint of the more radical militants that the King is not a good Muslim and is indifferent to the deteriorating economic plight of his fellow countrymen. [redacted]

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Organized Labor. Organized labor is a weak element in Morocco's political system. Although labor's rank and file is restive over poor economic conditions, senior leaders of major unions, who have been co-opted by the regime, are reluctant to press for

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significant reforms. Nevertheless, growing unemployment and a declining standard of living, in our view, would allow union militants to gain increased influence in formulating union policies, including strikes and other antigovernment activities.

[redacted]

Military and Security Forces. We expect that Hassan will have to rely more heavily on his fairly effective security and military forces to suppress discontent. We believe that Hassan is aware of the problems that confront him and Morocco, but that he lacks the expertise to deal with complex economic and social issues. Morocco's armed forces appear loyal, but some dissatisfaction exists among younger officers over the poor quality of senior leaders. In addition, [redacted]

[redacted] are concerned about basic problems such as low pay and poor housing. In our view, economic problems slowing the flow of materiel or reducing living standards, or political or military setbacks in the Western Sahara war, could weaken support for Hassan among the military and security forces. In such circumstances we believe that the possibility of a coup attempt, such as occurred in the early 1970s, cannot be ruled out. [redacted]

Outlook

We believe Hassan's principal challenge for the foreseeable future will be coping with his country's financial crisis. Only a major surge in world phosphate prices will spare him continued slow economic growth and a large pool of urban unemployed. The IMF estimates that in 1986 Morocco's debt service ratio will reach 38 percent, even with the recent rescheduling agreements. Additional debt rescheduling will be required for the next several years. We believe lenders will take an increasingly tough stand in assessing Morocco's creditworthiness. Additional closings of credit lines will reduce Rabat's ability to provide essential consumer goods—including foodstuffs—on a timely basis. [redacted]

Foreign assistance from traditional sources will remain tight. France has turned down Moroccan requests for new military purchases until Rabat clears up large arrears and probably will not be willing to repeat last summer's provision of emergency grain shipments. Even Rabat's traditional Arab backers,

such as Saudi Arabia, will be unlikely to provide more than emergency assistance because of their own financial pinch resulting from declining oil prices.

[redacted]

Continued economic and financial problems, coupled with overpopulation and the rising expectations of youth, provide conditions conducive to more frequent outbursts of popular discontent. Rising prices and cuts in social services, especially in education, are potential flashpoints for demonstrations. [redacted]

We believe that radical Islamic fundamentalists, exploited by Iran and others, will use every opportunity to criticize the King's ostentatious lifestyle and blame the United States for the country's ills. These issues will have particular appeal among the poor, who will be under increasing pressure to make ends meet. [redacted]

The King's style of rule is based on the manipulation of competing interest groups through divide-and-rule tactics. Although we believe these skills will help, we expect him to have to rely more heavily on the country's security and military forces to suppress popular outbursts as he did during the food price riots in January 1984. [redacted]

Despite strains in relations with the United States over his union with Libya, Hassan wants to retain close ties to Washington. At the same time, the union provides economic benefits to Rabat in addition to keeping Libyan military aid from the Polisario Front. As long as Hassan believes that Morocco is gaining from the Libyan connection, he will resist pressure from Washington to abrogate the compact. Moreover, he believes that the United States needs Morocco for strategic reasons and that US use of Moroccan military facilities entitles Rabat to economic and military aid far above current levels. If US assistance does not meet Rabat's expectations or becomes a focus of concern among dissatisfied elements—including the military—Hassan might bring the Soviets in, as he did during the 1960s. [redacted]

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Algeria: Bendjedid Politics Take Hold

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At mid-decade all indications are that President Chadli Bendjedid, who assumed his post in 1979, is consolidating his position and continuing to put his mark on the country. The focus of politics in 1985 has been a Bendjedid-initiated debate on the "enrichment" of the National Charter, a document promulgated by former President Boumedienne in 1976, which sets forth the country's socialist ideology modeled on Soviet lines. Reconsideration of the Charter, which may be concluded by the end of December, appears to be part of the government's efforts to adopt a less dogmatic brand of socialism mainly through a shift toward private initiative in the marketplace and decentralization of the government bureaucracy.

Bendjedid's orientation strikes a responsive chord in a population that is weary of economic austerity and inefficient public administration is ready for comprehensive change. It is unlikely, however, that the debate or its results will spark much optimism among the public. Reforms espoused by the government—although headed in the right direction—represent little more than tinkering with the economic and political system. Dim economic prospects and demographic pressures demand more concerted action by Algerian leaders, especially because they can no longer rely on rising petroleum-generated revenues to fund rapid development.

National Charter: Institutionalizing "Bendjedidism"

In our view, Bendjedid's decision to revise the National Charter stems from the same political motivation that led Boumedienne to adopt the Charter: to formalize his own version of the country's ideology. Boumedienne could institute Soviet-style socialism in Algeria only after a 10-year battle with conservative opponents and other rivals, who were finally overcome in the mid-1970s. Bendjedid's attempt to revise the Charter signals his success in pushing aside Boumedienne's leftist stalwarts and replacing them with military officers and technocrats who share his pragmatic political and economic orientation.

For the most part, the current debate and its results are preordained. Most observers believe the findings will reflect government policy. According to the US Embassy, the debate has been closely supervised by the ruling National Liberation Party (FLN), the only legal party, as it progressed from the local to the national level. FLN commissions tasked with supervising the debate restricted discussions to three areas—state institutions, economic development, and political ideology—while skirting more controversial issues such as Islam or the role of the military. Bendjedid, at the initiation of the debate at the 14th FLN Central Committee meeting last spring, promised a national referendum on the revised National Charter. The vote could take place by the end of the year following the FLN Congress in mid-December. Alternatively, Bendjedid may have the revised Charter ratified by the FLN, because he specified that a referendum would not be necessary if few changes were made.

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Despite the formality of the debate, it symbolizes the profound changes taking place in Algeria. The government, in the face of public disgruntlement with Soviet-style socialism, is groping to institute reforms, largely along Western lines, to cope with a major population surge, falling hydrocarbon revenues, and low agricultural productivity. Bendjedid also hopes to modernize military, educational, and governmental organizations. At the same time, Bendjedid and his colleagues do not want to abandon the revolutionary heritage that has marked Algeria from independence.

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The Economy: An Opening Toward Capitalism

At the heart of Bendjedid's espousal of a larger role for private enterprise is the apparent failure of centralized planning to promote economic development and satisfy consumer demand. Although

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Algeria has the strongest economy in the region and a reputation for careful financial management, we believe Bendjedid realizes the country no longer has the financial resources to squander on economically questionable heavy industrial projects at the expense of other economic sectors, especially agriculture. Oil and gas exports, the mainstays of the economy, show little growth in terms of value. In addition, the country is becoming more dependent upon food imports, in part because of a burgeoning 3-percent annual growth in population and almost no growth in domestic food production. Algeria also must renegotiate gas contracts with its key West European customers next year. Downward pressure on gas prices and the availability in Western Europe of Soviet gas from the trans-European pipeline will make it difficult for Algiers to maintain above-market prices for its gas. [redacted]

The government hopes to encourage private initiative primarily in agriculture and in nonstrategic light industries and services. Algeria's current five-year development plan is geared toward agriculture and the offer of free state lands to farmers. Private-sector farms already account for the bulk of the country's cereal and meat production. Officials hope to implement Western management techniques in the state sector and allow entrepreneurs greater freedom of action. [redacted]

The benefits of these economic reforms probably will be long in coming, however, as long as the government controls the principal sources of economic activity. For example, there are no indications that Bendjedid will reduce redundant manpower in state-owned factories, despite the implementation of more rational management programs. The government also seems inclined to retain control over the selection of crops and the marketing mechanism for all farms. Businessmen will be prohibited from investing in heavy industry, in the all-important petroleum sector, and in the manufacture of consumer goods. [redacted]

The Military: From Revolutionary to Professional Corps

In a less visible manner, the government is embarking on a program to transform into professional armed services a military still imbued with the ethics of

guerrilla warfare. Algiers has adopted two courses to achieve this goal: diversification of its military equipment, and reorganization of the Ministry of Defense and the officer corps. [redacted]

Within a year of signing its last major arms contract with the Soviet Union in 1980, Algiers approached major Western arms manufacturers including the United States, Great Britain, France, and West Germany to solicit bids on a variety of new military projects. Since then, the Bendjedid government has asked Western suppliers to coproduce various armaments in Algeria as another means of breaking the country's dependence on Moscow. Weapons diversification will be a time-consuming process, given the country's restricted finances and continuing need for close ties to the Soviets to assure access to spare parts. [redacted]

More progress is likely in reorganizing the Armed Forces. Late last year, President Bendjedid promoted eight colonels to general officer rank, reinstated the office of chief of staff, and appointed a new senior military adviser. The government approved a second round of senior officer promotions in July, while creating new directorates and reorganizing existing ones. Still unclear is how the reorganization will affect lower level tactical units in terms of their training and fighting doctrine. [redacted]

The psychological implications of these decisions on the military hierarchy and public will be far reaching. Never before has the military had generals. Moreover, there are no separate armies for generals to command. Finally, four of the six new generals were given jobs related to intelligence and internal military security. These changes will allow for more efficient management as well as closer supervision of the newly redesignated Air Force, Navy, and air defense commands. The creation of general officers also will provide greater headroom. Lack of promotion opportunities has been a longstanding complaint among junior officers. At the same time, there is some skepticism in the military and among the public over

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the need for general officers, and some view such positions as nothing more than high-paying jobs for Bendjedid's cronies. [redacted]

Foreign Policy: Putting National Interests Above Idealism

Parallel with the government's attempts to adopt Western practices in economic and bureaucratic management is its shift toward closer relations with Western nations. Another theme is Algeria's concentration on regional politics and issues that touch directly on national interests, rather than on more visionary international issues such as the Algerian-sponsored "new economic order" and North-South economic dialogue of previous years. Even though the majority of Algeria's diplomatic contacts are—and probably will continue to be—with Communist and Third World radical states, relations with Western states are increasingly important to Algiers. Algeria needs Western markets for its natural gas exports and wants access to Western capital, food, and military hardware. [redacted]

In 1985, Algeria began to shift its attention from Morocco, the country's traditional adversary, to Libya as a threat to national security. We believe that Algerian leaders now view Libya as a menace at least as dangerous as Morocco. The manifestations of this concern are Algeria's steady shift of military forces eastward, its budding economic and military cooperation with Tunisia, its willingness to patch up differences with Egypt, and its collaboration with both Tunis and Cairo on ways to undermine Libya's influence in Arab and regional politics. [redacted]

Algeria's relations with Morocco have deteriorated since Rabat's "union" with Libya in August 1984. Earlier this year, Bendjedid presented King Hassan with a plan that would allow the Western Sahara to be linked to Morocco much like the relationship between the United Kingdom and the Commonwealth nations. Relations between Algiers and Rabat in the past year have been marked by the destruction of a Moroccan reconnaissance aircraft by Polisario guerrillas with an Algerian-provided missile, Morocco's capture of Islamic dissidents based in Algeria, and another Moroccan-Algerian stalemate in the United Nations over measures to end the conflict in the Western Sahara. [redacted]

Other elements of Algeria's diplomacy have followed patterns established in recent years. Algeria continues to keep the radical Arab "rejectionist" states at arm's length, while probing for ways to bridge the differences between radical and moderate Arab states. Algeria's activist diplomacy in Sub-Saharan Africa appears designed to blunt Moroccan diplomacy and Libyan machinations. Relations with France remain strained in large part because of what Algiers views to be Paris's inclination to appease Qadhafi and side with Morocco in the region. [redacted]

Domestic Crosscurrents

Bendjedid's efforts to change course have not been without cost. Programs to modernize the country through the promotion of Western managerial techniques and a modest degree of local initiative on the administrative level have produced some tensions within the government. [redacted] the modification of the National Charter is being resisted by leftist stalwarts in the FLN, who fear that liberalization will undermine the regime. Such opposition does not present an immediate danger to Bendjedid, given his firm control over the government apparatus. Nevertheless, differences could become more intense and widespread if the government's liberalization of society encourages open dissent or the economy does not rebound. [redacted]

Some of these pressures may be coming to the surface in the guise of ethnic and religious dissidence. Both the Berbers, a non-Arab ethnic group that comprises about 25 percent of the population, and Islamic fundamentalists have been increasingly active during the past year. Recently, for example, Berber activists clashed with police in Tizi Ouzou—the Berber capital 100 kilometers east of Algiers—following the conviction of a popular Berber singer for antiregime activities associated with the alleged Berber-dominated "Algerian League for Human Rights." A widely publicized raid by putative Islamic fundamentalists on a police armory last summer was the boldest action to date by religious dissidents. Government concern about the threat from this quarter was reflected in the pervasive security roadblocks around the capital during the late summer

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and fall and a massive two-month dragnet by security forces that netted 17 fundamentalists. In October gendarmes used helicopters and armor to quash one of the more dangerous groups based in Larba, 40 kilometers south of Algiers. [redacted]

Prospects for 1986

In our view, the Bendjedid government does not face a serious threat either from ethnic or religious dissidents or from other opposition groups. Berber activists are better organized than the fundamentalists and probably more numerous. Their demands, however, are principally social, particularly the protection of the Berber language, rather than political. The fundamentalists hope to foment a popular revolution, but they are fragmented. [redacted]

While the Bendjedid government is not in immediate danger, we believe it will face more open challenges as it attempts to move the country away from the revolutionary legacy of previous leaders. Most Algerians did not witness the revolution or experience the early years of nation building, and they are less inclined to make sacrifices for the sake of socialism and national development. Both the Berber and Islamic activists seem less inhibited in confronting the government, and both groups appear to have enough support to sustain their activities. Tough security measures alone will prove ineffective in quashing dissent from these quarters, in our judgment. At the same time, Bendjedid probably will attempt to find ways to co-opt or accommodate dissidents without relinquishing any of his prerogatives. [redacted]

Algeria's economic fortunes will be tied to world oil and gas markets for the foreseeable future, despite Bendjedid's efforts to restructure the economy. We do not expect a significant decline in the demand or prices for Algeria's hydrocarbon exports next year—which probably will allow Algiers sufficient financial leeway to move ahead with essential development plans. A marked deterioration in the oil or gas markets, however, would severely hinder government plans to redress social needs and implement economic reforms. For example, the government loses \$340

million annually in export receipts for each \$1 decline in oil prices at current production levels. Moreover, every 100,000-barrels-per-day drop in hydrocarbon exports costs the regime almost \$1 billion at present price levels. [redacted]

In its foreign policy, the Bendjedid government probably will unveil few surprises next year. Algiers will continue its hardline stance toward Morocco and Libya and its balanced position between the radical and moderate groups of Arab states. Relations with Western Europe show promise, but they will hinge to some extent on developments in trade talks over gas pricing. Algerian relations with the USSR and its allies probably will continue to mark time because of Algeria's more important regional concerns and interest in expanding trade contacts with the West. The possible exceptions to continuity are further rapprochement with Egypt and possibly Libya, especially if Algiers detected a loosening of the Moroccan-Libyan political union. Renewal of formal ties to Cairo, however, probably will come only after other Arab states have done so. [redacted]

Algiers will remain keenly interested in further trade and political openings toward Washington. Most key Algerian officials appear committed to securing US technology and expertise to revitalize the country's industrial plants and military establishment. Common trade interests aside, political relations probably will develop more slowly, given the divergence in political viewpoints in both capitals on Middle Eastern issues. Algiers probably will want to move carefully in developing bilateral ties on the political level because of what it views to be Washington's continuing military and diplomatic support for Morocco, as well as Algeria's own interests in maintaining ties to radical Arab states. [redacted]

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Tunisia: Foreign Crises and Political Immobilism

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This year has been one of unprecedented challenges for the moderate pro-Western government of President Habib Bourguiba and Prime Minister Mohamed Mzali. Libya's expulsion of about 30,000 Tunisian workers beginning last summer, and the resulting threat of military conflict, were followed by the surprise Israeli airstrike on PLO facilities in Tunisia. More recently, the government clashed with the principal labor union—the largest organization in the country—over wages. These challenges revealed the weaknesses of the regime and its inability to come to grips with festering social and economic problems. In our view, political maneuvering in anticipation of Bourguiba's death will sharply limit the government's ability to move quickly and decisively in the coming year.

A State Adrift

At yearend, the traditional mainstays of Tunisia's foreign policy are badly eroded. France and to a lesser extent the United States, the principal allies of Tunisia since independence, have been found wanting, according to Tunisian leaders. In their eyes, both countries have been reluctant to respond to urgent requests for military assistance to deter military threats from Libya. The Israeli airstrike, which produced a consensus that the United States was at least negligent in not warning or protecting Tunis, compounded these misgivings. Although Tunis undoubtedly will want to strengthen its ties to Washington and Paris, it will do so with less confidence that its Western partners are committed to helping Tunisia deal with foreign subversion or aggression.

To compensate for French and US dilatoriness, Tunisia has sought military and political support from Iraq and Egypt. Its major diplomatic effort, however, has been in courting Algeria. Tunisia has undertaken an unprecedented expansion of military and economic cooperation with that country. Algerian leaders, for their part, have been eager to accommodate Tunis, given their own concerns about Libya and longstanding pretensions to regional leadership.

This courtship, however, has not been completely palatable for Tunisians. Government leaders and much of the public share misgivings about Algerian motives and intentions. Most officials probably believe that the United States and France would come to the country's support solely out of concern for stability in North Africa and to check the advance of Libya. Algeria's motives, however, are perceived differently. As the most powerful country in the region and a neighbor with a radically different ideology, Algeria is suspected by Tunisians of having political and even territorial designs on their country.

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Mutiny in the Body Politic

Libya's expulsion of Tunisian workers and its blatant attempts to undermine the government through press attacks and letter bombs have not been sufficiently threatening to quell public discontent with the government and curtail infighting between political groups and individuals. Prime Minister Mzali, who appears to have taken advantage of Bourguiba's declining faculties to strengthen his own position, has, however, attempted to exploit Libyan machinations to undermine opponents. His principal target is Habib Achour, leader of the politically powerful, 350,000-member General Union of Tunisian Workers (UGTT). Achour during the past year called on Mzali to end the wage freeze and link wages to inflation. To back up his demand, Achour threatened nationwide strikes to paralyze the government.

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The relaxation of tensions between Tunisia and Libya in late October allowed Mzali to launch a full-scale attack on Achour. Probably aware of infighting between Achour and other UGTT executives who support a softer line toward the government, Mzali initiated an intense press campaign against Achour, accusing him of mismanagement. Mzali followed up with harsher action, using police units and union militants associated with the ruling Destourian

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Socialist Party (PSD) to raid UGTT offices. About 450 union leaders were temporarily detained, and Achour was placed under house arrest. UGTT members supporting Achour staged several strikes in response and, in some instances, clashed with police.

[redacted]

Following a two-week interlude, Mzali renewed his offensive against the UGTT leadership. The most ominous move was a government proposal for an extraordinary UGTT congress to remove Achour's associates, who control the national headquarters of the UGTT. Any attempt to further weaken Achour could unify the opposition and prompt more widespread violence. Opposition parties, which had been discreet in their support for the UGTT leadership, are openly supporting Achour.

[redacted]

At this juncture, Mzali has won a fragile victory over the UGTT. Progovernment workers have gained control over most UGTT offices, and most of the strikes called by Achour supporters have failed because of the threat of government sanctions. The reconstituted leadership of the UGTT appears sufficiently cowed to refrain from leading antigovernment actions. Mzali also has been able to avoid the serious economic-related disturbances that rocked the country early last year, when Tunisians rioted following the announcement of a 100-percent rise in the price of bread.

[redacted]

In its geographic dimensions, the government-UGTT clash reveals a clear distinction in regional support for each side. The first UGTT locals to openly criticize Achour's leadership last summer were located in President Bourguiba's home base in the northern town of Monastir and in other cities of the Sahel. UGTT branches in the southern cities of Gabes, Gafsa, and Sfax resisted the takeover of union offices by the PSD-controlled militia. These affiliates also have been able to organize successful strikes. Government control over southern Tunisia traditionally has been weak, given the concentration of political power in clans from the north and ethnic ties of southern Tunisians to tribes in Libya.

[redacted]

At the senior levels of the government, longstanding infighting within the political elite over Bourguiba's mantle appears to have abated because of the

imperative for unity. We believe, however, that political maneuvering will continue and that Mzali's ability to hold onto power is not assured. He is unpopular because of his strong support for increased bread prices that prompted last year's riots.

Influential rivals such as Minister of Public Works Sayah, Foreign Minister Caid Essebsi, or Bourguiba's son Habib and wife Wassila pose a threat as long as Bourguiba lives. Nevertheless, Mzali has adroitly used the country's crises to strengthen his position as Bourguiba's designated successor.

[redacted]

The military, traditionally apolitical, is increasingly concerned about the government's ability to restore the country's economic health. Younger officers also are inclining toward Islam and nonalignment as an alternative to the current socialist, Western-oriented political and economic structures. Mzali has attempted to improve his popular standing among the military's lower ranks, but we doubt that he can rely on military support in the event of widespread antigovernment demonstrations.

[redacted]

Economic Shoals

Internal disorder and foreign policy problems have distracted the government from the country's economic difficulties. At the heart of Tunisia's poor financial outlook are dwindling petroleum resources, which will make the country a net importer by the next decade, and reduced prices in the international market for phosphates, long a key export commodity. These shortcomings are compounded by high population growth, dismal performance in the agricultural sector, and a drop in remittances from workers in Western Europe and Libya.

[redacted]

A recent study of the Tunisian economy by the World Bank outlined the more obvious manifestations of the country's financial decline. These include a near doubling of the current account deficit and debt service ratio between 1981 and 1984, a steady widening of the balance-of-payments deficit, a 4-percent-per-year increase in the labor force despite a persistent 20-percent unemployment rate, and foreign exchange reserves covering only two or three weeks of

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imports. The Bank's proposed remedies involve politically risky initiatives in both government spending and allocation of foreign exchange:

- Devaluing the Tunisian dinar in 1986 by 15 to 20 percent.
- Reducing price controls and subsidies (the latter by 2.5 percent per year).
- Limiting wage increases to 2 percent per year in the public sector.
- Instituting a progressive cut in the budget deficit from the current level of about 10 percent of GDP to 1.6 percent by 1991 through lower expenditures instead of through a tax increase. [redacted]

Government leaders claim to recognize the need for action. Tunis's willingness to let the value of the dinar depreciate against major West European currencies during the past six weeks is a step in the right direction. The commitment to major reductions in government spending, however, is likely to be far more tenuous because of the impact on prices of subsidized consumer goods and on already uncomfortably high unemployment. The World Bank, nonetheless, believes—and we agree—that Tunis has little time left to avert a financial crisis and a loss of needed foreign credits. The Bank projects the crunch could come as soon as 1988. [redacted]

Forecast: Stormy Seas Ahead

Tunisia's troubles almost certainly will persist beyond 1986, even with Bourguiba on the scene. Tunis cannot be assured that the UGTT will remain passive, despite its emasculation. Reports from the Embassy that the government may propose another year of wage freezes could spark a fresh round of demonstrations and violence, especially if officials simultaneously reduce subsidies for bread or other basic commodities. In any event, the ruling PSD will remain tied to Bourguiba's socialist policies and increasingly concerned with its own survival. This inaction will only benefit government opposition groups. For example, all indications are that Islamic fundamentalists are enjoying a resurgence throughout Tunisian society, especially among youths who perceive the current regime as out of touch with popular concerns. [redacted]

Internal strains also will encourage unwanted foreign meddling. Libyan leader Qadhafi almost certainly hoped that his unceremonious dumping of Tunisian

workers would both unsettle the Bourguiba regime and provide an opportunity to introduce agents of influence. He could at any time decide to repatriate additional Tunisian workers, back a commando operation by Tunisian dissidents, or launch terrorist operations against Tunisia. Press and Embassy reports during the past year cite arrests of foreign agents associated with Iraq and Syria. In our view, Algerian assistance, although potentially helpful in preempting political or military action in Tunisia by other Arab states, could be used to influence future Tunisian leaders. [redacted]

Tunis probably will continue to explore further military and economic cooperation with Algeria and friendly Arab neighbors. The government, however, will stop short of permitting a sizable Algerian military presence unless it perceives an imminent threat from Libya. The Tunisians could attempt to secure weapons from Italy or West Germany if France continues to procrastinate in supplying military aid. Tunis may also expand contacts with the Soviet Union and discuss weapons purchases, if only to gain leverage to extract greater security assistance from France and the United States. [redacted]

Mzali's ability to appear as a decisive leader will be a key to Tunisia's internal stability in the near term. Bourguiba's declining faculties will provide further opportunities for the Prime Minister to place his mark on the bureaucracy and policies of the country. Nevertheless, Mzali cannot be assured of complete freedom of action until Bourguiba's death. He also will have to contend with powerful opponents within the political elite, who almost certainly will intensify their efforts to discredit Mzali as Bourguiba's demise becomes imminent. We believe that Mzali will continue to take tough action against real or imagined opponents. There is little evidence that he will ever fulfill earlier promises to allow greater political participation by opposition movements. In our judgment, he is more likely to move firmly to protect the regime, even if harsh measures tarnish the country's record as a relatively moderate and tolerant Arab state in terms of its domestic politics. [redacted]

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Bourguiba's death during the next year would be a catalyst for more instability in Tunisia. Mzali is Bourguiba's successor under the constitution, but he would immediately face challenges from leading political figures within the government and from opposition groups during elections scheduled for late 1986. Under these circumstances, the chances of military intervention, either in cooperation with Mzali or against him, would increase dramatically.

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Mauritania: Taya Under Fire

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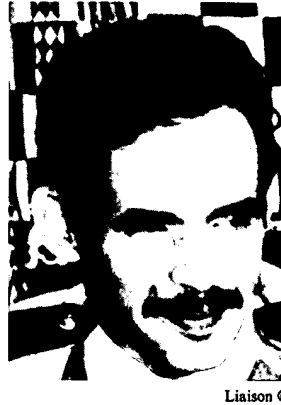
After 11 months in office, Mauritania's President Taya appears weak and vacillating in tackling his country's severe economic and political problems. Nouakchott's limited resource base has been further weakened by drought, corruption, and managerial ineptitude. The government depends on foreign largess for survival. Taya's ability to cope with these issues is complicated by external pressures to take sides on the Western Sahara dispute. He cites his predecessor's pro-Algerian stance as instrumental in last December's coup. Taya knows he must avoid being sucked into the fray because of the risks of reopening the ethnic split between Arab officers and black Africans—who dominate the military's enlisted ranks and have previously refused to fight against the Polisario.

During the next year, Taya will be under increased pressure to take a more active role in managing the economy. This will be a formidable task, as there are no prospects for a dramatic turnaround in iron ore and fish prices, Nouakchott's principal sources of revenue. Diversion from this task by foreign policy concerns will only complicate Taya's already daunting problems in getting Mauritania back on its feet.

A New Start

When Chief of Staff of the Armed Forces Maaouiya Ould Sid Ahmed Taya replaced Mohamed Khouna Ould Haidalla in a bloodless coup last December, he pledged to end corruption and economic mismanagement and to deal with the effects of the drought. In a recent speech, Taya catalogued his predecessor's faults but offered almost no evidence that his regime was coping with the country's problems.

Taya's government is composed primarily of Haidalla holdovers and new individuals with no demonstrated competence. Contrary to initial pledges to improve government efficiency, Taya has not abolished the state-run companies or curbed official corruption. Refugee camps continue to grow—Mauritania has



*President Maaouiya
Ould Sid Ahmed
Taya of Mauritania*

Maaouiya Taya was named President following the ouster of Mohamed Ould Haidalla. He had earlier served as Prime Minister and Minister of Defense from April 1981 until March 1984, when Haidalla removed him in a dispute over recognizing the Saharan Arab Democratic Republic as the legitimate government of the Western Sahara. Haidalla subsequently appointed Taya Chief of Staff of the Armed Forces, a position he held until the coup.

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one of the highest rates of urbanization in the world—and the construction of villas in Nouakchott's new northwest residential quarter are prompting queries about corruption. Crime—always low by Western standards—is increasing at a sufficiently high rate to catch the attention of the government-controlled media.

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A Mendicant Nation

Mauritania's small economy is the primary source of national frustration. A per capita GDP of \$450 ranks Mauritania among the poorest nations in the world, a

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situation that is worsened by a sharp disparity in the distribution of wealth. The agricultural sector has been especially hard hit by recurrent drought, managerial ineptitude, and lack of investment. Agriculture employs about 60 percent of the population but produces less than 5 percent of GDP. Grain production of 20,000 tons this year is down by 80 percent from levels in the late 1970s and meets less than 20 percent of domestic demand. GDP growth has averaged only 1 percent annually over the last five years, about half the rate of population increase, prompting a marked decline in living standards. []

Mauritania is in constant need of concessional assistance to keep its economy afloat. Foreign aid accounted for 30 percent of budgetary receipts last year. Moreover, the government has borrowed heavily to support development and, to an increasing extent, food imports. Chronic foreign payments problems and mounting debt service costs on the nation's \$1.4 billion debt have brought the financial system to its knees. The government narrowly averted financial collapse last spring by putting large amounts of scarce foreign exchange into several failing banks. The regime successfully completed a Paris Club debt rescheduling in April, but with only \$64 million remaining in foreign exchange reserves—about three months of import coverage—Nouakchott probably will again fall behind on debt obligations of \$74 million payable next year. []

Mismanagement is manifold throughout the economy. The government continues to move ahead with plans to reopen its long-dormant copper mine with the help of wealthy Arab states—Algeria is a key backer, according to the US Embassy in Nouakchott. The project, however, has no assured market for the ore and is plagued by high mining costs. Moreover, plans to proceed with the \$20 million rehabilitation of the country's only oil refinery is contrary to World Bank recommendations that the refinery remain closed because of high production costs, poor prospects for oil supplies, and a weak domestic demand for oil. []

Fishing is a potential bright spot. A recently signed accord with Moscow provides financing and ships to exploit Mauritania's marine resources. None of the

Mauritania: Current Account Balance *Million US \$*

	1981	1982	1983	1984	1985 ^a
Current account balance	-261	-384	-301	-301	-196
Trade balance	-117	-186	-63	-95	0
Exports, f.o.b.	271	239	315	285	290
Of which:					
Iron ore	169	135	131	150	140
Fish	99	96	161	134	144
Imports, f.o.b.	388	425	378	380	290
Of which:					
Food	113	93	93	65	85
Services (net)	-123	-167	-208	-181	-170
Private transfers	-21	-31	-30	-25	-26

^a Projected.

[]

fish, however, will be processed in Mauritania, and the government has only a limited capability to police the catch. In our view, Moscow will reap the lion's share of the benefits from the accord. []

Foreign Policy Concerns

Coping with economic problems is complicated by foreign policy demands, particularly the Western Sahara issue. Taya cited his predecessor's pro-Algerian stance as a critical reason for his overthrow. Taya has moved to adopt a more balanced posture toward both Algiers and Rabat. Correspondingly, relations have cooled with the Polisario Front, which Haidalla officially recognized in 1984. Relations with Morocco had been strained since the alleged Moroccan-backed coup attempt against Haidalla in March 1981. Taya hoped that by taking a balanced position he would avoid reinvolvement in the Western Sahara. Instead, growing pressure from both Morocco and Algeria to take a side threatens to divide the regime. []

President Taya has told the US Embassy that his government is subject to continued Algerian pressure on behalf of the Polisario at the same time it receives strongly worded messages from Morocco. Rabat has threatened to engage in hot pursuit into Mauritania if Nouakchott cannot control Polisario activity in the border area. In addition, the Polisario has asked for permission to establish an embassy in Mauritania, transit rights for Polisario military units through Mauritania, the right to resettle the Polisario in camps on Mauritanian territory, and access to provisions for military units. [redacted]

We believe Mauritanian military leaders suspect that the shift in fighting southward is part of an attempt by Morocco to move the war to neutral territory. Nouakchott's inability to control Polisario activity could produce severe strains in Taya's military cabinet, particularly if Morocco carries out its threat of hot pursuit. Some officers believe a confrontation with either Morocco or the Polisario guerrillas is necessary to preserve Mauritania's territorial integrity, but the majority of black soldiers view the dispute as an Arab rivalry and would resist renewed involvement. A similar split led to the military coup in 1978 by Taya's predecessor. Moreover, in our view, Taya's policy of neutrality might put Mauritania in the unenviable position of having to face all contenders. [redacted]

Taya also worries about Libyan machinations in his country and remembers Qadhafi's efforts to destabilize previous regimes in Nouakchott.

[redacted] Libyan goals include opening a consulate in Nouadhibou, establishment of a revolutionary committee, installation of a radio transmitter, and landing or overflight rights. In our view, Taya will not grant the first three objectives but may acquiesce on privileges for Libyan aircraft because that would not involve an increased Libyan presence in Mauritania and might result in some aid for Nouakchott. Landing rights at Nouakchott would allow Libyan planes the transit point needed to ship military equipment to Latin America. [redacted]

The Role of the Military

Taya's principal asset is his continued popularity in the military. Taya has been prompt in meeting the needs of the military. The US Embassy reports that salaries are paid on time, living standards are maintained, and modest upgrading of equipment is under way. This policy, however, puts undue stress on the budget and sharply reduces funds available to meet the needs of the country's burgeoning poor. The President—though of Moorish descent—strongly favors increasing the percentage of blacks in the junior officer ranks. Blacks make up the majority of enlisted personnel, and such a move could provide him with broader based support than any other Moor leader since independence. Nevertheless, in our view, this move could backfire by splitting the military along ethnic lines and prompting senior Arab officers to engineer a coup to maintain the status quo. [redacted]

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Outlook

In our view, Taya faces almost insurmountable barriers in solving Mauritania's economic and foreign policy problems. Shortfalls in food and employment are a certainty for the near term. If the drought continues, its effect on agricultural production and rural migration will place increased strain on the government to meet basic human needs. The most crucial factors for overcoming these problems—a massive infusion of money and a guaranteed water supply—are largely beyond Nouakchott's control for the foreseeable future, and it will remain heavily dependent on outside help. [redacted]

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The President's major foreign policy concern almost certainly will be the Western Sahara. Mauritania will be under pressure from all sides in the war, particularly with the extension of Morocco's defensive berm shunting the conflict increasingly into the triborder area. Taya almost certainly will try to forestall entry of Moroccan troops into Mauritania to engage the guerrillas. At the same time, his own

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military is incapable of preventing Polisario forces from using Mauritania as a base to attack Moroccan positions. [redacted]

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If Taya cannot show progress on the economic front or keep the Polisario problem under control, he may not survive next year. In the meantime, Taya's weaknesses will provide openings for Libya, Algeria, and Morocco to compete for a dominant voice in Nouakchott. [redacted]

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