



DEPARTMENT OF STATE

BRIEFING MEMORANDUM

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To : The Secretary  
From: NEA - Harold H. Saunders  
INR - William G. Bowdler

Analysis of Arab-Israeli Developments  
No. 488, June 23, 1978

Sadat is facing severe problems in three principal policy areas -- liberalization, economic reform, and his peace initiative.

His liberalization program has included the ending of the police state atmosphere which had prevailed in Egypt under Nasser. He has trimmed the wings of the secret police, permitted much greater freedom of expression; allowed the formation of opposition parties, and held the only free elections since independence.

Nevertheless, recent events have led Sadat to reconsider some of these actions. He seems most disturbed by:

- sharp criticism of him and his family by the opposition and the press, and even by members of the People's Assembly;
- the rise of the New Wafd Party, which is viewed as a direct challenge to the domination of the electoral middle ground by the government's Arab Socialist Union Party;
- the haunting memory of the January 1977 riots which severely shook his regime;
- the growth of rightwing extremist groups, which have created several incidents including the kidnapping and murder of a former minister; and

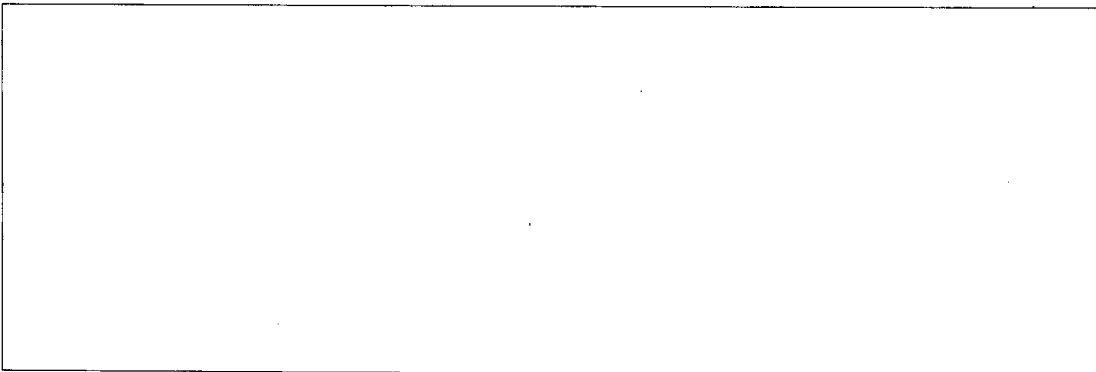
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--his feeling of being threatened by the Soviet Union and its agents.

While still committed to the democratization of Egypt in a theoretical sense, Sadat now apparently believes that the Egyptians need firmer control and are not yet prepared for West European-style democracy. We do not have a clear picture of how far he will step back from his liberalization program, but there is little doubt that he has determined that some freedoms must be curtailed to prevent abuses. Much of the program which he has instituted is likely to be retained, however.

Sadat also seems to have stepped back from his economic reforms. The "new rich" class, which has made huge fortunes since Sadat lifted many government controls, has become a political liability in a country as poor as Egypt. Greater economic freedom has led to profiteering and other abuses by a few, while most Egyptians perceive their standard of living as having declined. In order to improve his government's image in this sphere, Sadat has moved against some of the highly publicized "development" schemes that have enriched the new elite. We believe that he may even reinstitute some of the former economic controls to protect the poor and to restrict the reemergence of a new pasha class.

The apparent failure of his peace initiative has compounded his problems in the other two spheres. While Sadat continues to assert publicly that he will press on with his efforts despite the refusal of the Israelis to be more forthcoming, we have indications that he may be rethinking his current course of action.



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