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# Near East and South Asia Review



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10 October 1986

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**Near East and  
South Asia Review**

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*Page***Articles****Libya: The Impact of Austerity**

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Rising popular dissatisfaction with shortages of consumer goods and deterioration in social services brought about by sharply lower oil revenues is spreading as economic hardships hit all levels of Libyan society. Without support from the military, this disgruntlement will remain only an indirect threat to the regime.

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**The Maghreb: After Oujda**

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King Hassan's decision to unilaterally abrogate Morocco's political union with Libya—the treaty of Oujda—will not significantly alter relations among the states of the Maghreb. The most likely outcome will be Libyan sponsorship of terrorism against Moroccan interests and renewed Libyan support for the Polisario.

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**The Maghreb: Population Problems and Political Stability**

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Tension between a large, rapidly growing population and the meager financial resources available to meet basic human needs is producing serious social problems throughout the Maghreb. These problems almost certainly will lead to major political challenges in Algeria, Morocco, and Tunisia over the next decade.

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**The Food Gap in the Middle East—A Growing Problem**

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The Middle East will remain one of the world's largest markets for imported food for the rest of this century. Although the food gap between demand and domestic supplies will continue to widen, the US share of the Middle East market will not increase because of competition from other exporters.

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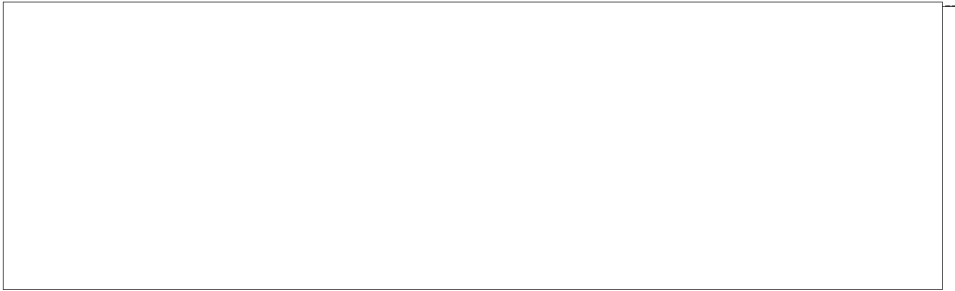
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**Bahraini-Saudi Causeway: The Road to Better Relations?** [redacted] 29

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The opening of the Bahraini-Saudi Causeway in November will provide another avenue for Riyadh and Manama to repair the strains in their relationship that developed during Bahrain's dispute with Qatar last April. The causeway also will increase trade and probably raise property values and lower consumer prices in Bahrain. [redacted]

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**Iran's Urban Working Class: Pillar of the Regime** [redacted] 33

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The urban working class is the most important pillar of support for Iran's clerical regime. Although no significant change in this support is likely in the near term, urban workers could play an important role in a violent post-Khomeini power struggle, with radical clerics enlisting the urban masses on their side. [redacted]

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**India's Ties to Radical Middle Eastern States and the PLO** [redacted] 37

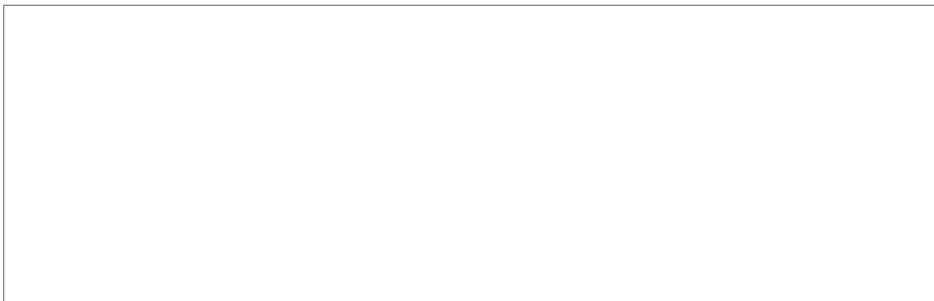
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The recent terrorist hijacking in Karachi involving Indian citizens may cause India to reexamine its relations with radical Middle Eastern states and the PLO. Its most important relationships are with Iraq, Iran, and Libya, while its ties to Syria and the PLO are negligible. [redacted]

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**Nepal: Living With India** [Redacted]  
[Redacted]

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Relations between India and Nepal have improved somewhat in the two years since Indian Prime Minister Rajiv Gandhi came to power. Nepalese leaders believe Rajiv may be more willing than his mother to consider their concerns. [Redacted]

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[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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**Near East and South Asia Review** [redacted]

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**Articles**

**Libya: The Impact of Austerity** [redacted]

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Rising popular dissatisfaction with shortages of consumer goods and deterioration in social services brought about by sharply lower oil revenues is spreading as economic hardships hit all levels of Libyan society. Disgruntlement has even spread to the military, which has suffered an erosion of its perquisites. [redacted] graffiti, pamphlets, and even protests against Qadhafi's economic policies are on the rise, especially in urban areas and on college campuses. Nevertheless, without support from the military, disgruntlement over deteriorating living standards probably will remain only an indirect threat to the regime because of Qadhafi's pervasive and effective security forces.

[redacted]

**Living With Less**

The Qadhafi regime has progressively implemented a series of harsh austerity measures since 1980 to deal with the 78-percent drop in oil revenues and the accompanying 27-percent drop in real GDP. All categories of imports have been slashed, economic development is at a standstill, and severe restrictions have been placed on travel abroad—previously a release valve from austerity and a source of luxury goods. Even Libyan participation in the hajj in Saudi Arabia has become a luxury—Libyan attendance was off by 50 percent this year—a situation that rankles many devout Muslims. [redacted]

Living standards have fallen off dramatically as Tripoli has attempted to curtail domestic consumption. Overall, net salaries may be down by 50 percent. [redacted] many taxes have been raised; housing and food subsidies reduced; and a freeze placed on wages, fringe benefits, and employment. [redacted] a \$675 deduction in 10 monthly installments is planned

from the wages of every gainfully employed adult to purchase Kalashnikov rifles that the government will store for the owner. [redacted] civilian and military salaries are now directly deposited in government banks to control withdrawals. Moreover, Tripoli may have issued a new payment calendar reducing the number of pay periods to trim salary costs and clear up arrears on civil servant salaries. [redacted]

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Decreased purchasing power is matched by the reduced availability and quality of goods for sale. Dealing with shortages of most goods has become a way of life for most, and waiting lines are growing longer and consumers more contentious. [redacted]

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[redacted] Although starvation is not a problem, [redacted] ration books have been issued to control the distribution of basic commodities in short supply. The need for such measures is supported by trade statistics that show food imports last year were at a seven-year low, while imports of consumer goods fell to one-tenth the 1981 level. In particular, imports of luxury items such as chocolate, sugar, fresh meat, and apparel have all but dried up. Meanwhile, since 1982, prices for these items are up as much as 300 percent when available in government stores, and prices of many basic commodities are up over 100 percent. [redacted]

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Growing shortages have spawned a thriving black market. [redacted] obtaining goods and services depends on who you know, how much you are willing to pay, and how long you will stand in line. Most products are not available from government-run stores, and store managers hoard goods for friends or

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**Secret****Table 1**  
**Libya: Direction of Imports, F.O.B.<sup>a b c</sup>***Million US \$*

	1980	1981	1982	1983	1984	1985	First Quarter 1986	Second Quarter 1986
<b>Total</b>	<b>8,402</b>	<b>13,429</b>	<b>6,927</b>	<b>6,215</b>	<b>5,545</b>	<b>4,278</b>	<b>873</b>	<b>761</b>
United States	509	813	301	191	200	311	32	14
Japan	527	1,059	285	363	414	255	62	57
West Germany	1,251	1,486	1,173	841	804	516	121	111
France	671	907	428	334	212	244	59	57
United Kingdom	670	1,067	460	417	328	308	104	79
Italy	2,545	4,297	2,141	2,104	1,660	1,255	250	186
Canada	61	93	96	62	60	70	16	9
Spain	358	427	267	276	267	172	32	40
Australia	37	48	29	17	23	17	0	0
Netherlands	166	267	192	246	185	136	47	38
Sweden	76	177	94	76	71	50	8	22
Belgium/Luxembourg	279	383	108	81	104	70	28	13
Switzerland	86	99	86	99	100	71	17	15
Austria	122	149	121	107	97	65	18	9
Denmark	31	55	33	51	27	22	5	8
Norway	10	7	9	7	3	4	1	0
Finland	54	65	49	30	28	14	4	5
Greece	168	220	113	102	89	48	11	0
Ireland	138	100	57	61	41	27	11	12
Turkey	60	442	235	184	142	NA	NA	NA
South Korea	174	587	176	132	252	348	25	64
Other	409	681	474	433	440	276	21	21

<sup>a</sup> Excludes military and commercial trade with the USSR and Eastern Europe.

<sup>b</sup> Includes military imports from selected West European countries.

<sup>c</sup> Because of rounding, the components may not add to the totals shown.

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those willing to pay nearly double the official price. So far the government has tolerated such activity, and, in some cases, local police and military personnel are involved. Moreover, a true black market has evolved to satisfy a growing demand for drugs, alcohol, foreign currency, auto spare parts, and cigarettes. Although less open and subject to harsher penalties,  traffic in such goods is

widespread, and most neighborhoods have an established drug dealer. Without this market, virtually no luxury goods and many basic commodities would be unavailable, and few automobiles in operation.

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**Table 2**  
**Libya: Composition of Imports, F.O.B.** <sup>a b c</sup>

Million US \$

	1980	1981	1982	1983	1984	1985
<b>Total</b>	<b>8,311</b>	<b>13,344</b>	<b>6,661</b>	<b>6,058</b>	<b>5,353</b>	<b>3,777</b>
Foodstuffs	966	1,256	600	652	605	468
Grains	300	395	271	214	262	218
Fresh meat	225	316	130	112	84	59
Fruits and vegetables	83	143	30	39	38	22
Dairy	104	116	71	125	114	84
Coffee and chocolate	36	38	2	2	5	1
Sugar	19	62	13	1	1	10
Vegetable oil	107	67	28	87	59	49
Other food	91	120	54	72	42	25
Raw materials	91	141	76	73	74	36
Fuels	256	672	573	678	434	283
Manufactures	6,660	10,998	5,173	4,479	4,027	2,881
Chemicals	379	537	230	413	414	413
Semi-finished goods	1,867	2,924	1,589	1,255	1,095	696
Machinery	2,141	3,082	1,812	1,595	1,284	1,133
Transport	1,151	2,167	1,030	724	677	390
Consumer goods	1,122	2,287	512	491	556	250
Consumer electronics	204	195	11	22	21	6
Apparel	391	1,007	149	144	181	34
Leisure goods	66	114	110	73	70	37
Art, jewelry	62	71	54	60	76	71
Miscellaneous	399	901	188	192	208	102
Other	338	278	238	177	213	110

<sup>a</sup> Excludes all military imports and trade with the USSR and Eastern Europe.

<sup>b</sup> Excludes military imports from West European countries.

<sup>c</sup> Because of rounding, the components may not add to the totals shown.



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Other social services also have declined as government revenues have dwindled. Urban residents are often required to dispose of their own garbage and to clean streets because of large reductions in the foreign work force. In some cases the popular disdain for such work and Libya's already poor sanitation system have compounded trash problems and hastened the spread of plague in coastal cities. Water and power shortages

occur randomly and are met with suggestions by Qadhafi that Libyans return to using oil lamps. Health care in Libya is still good by regional standards, but the system is heavily dependent on high-cost foreign doctors. In addition,



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**Secret****Table 3***Million US \$***Libya: Sources of Imports—1985, F.O.B. <sup>a b c</sup>**

	Total Trade	Foodstuffs	Raw Materials	Fuels	Manufactures	Other
<b>Total</b>	<b>3,777</b>	<b>468</b>	<b>36</b>	<b>283</b>	<b>2,881</b>	<b>110</b>
United States	311	6	1	0	299	5
Japan	253	1	0	0	251	1
West Germany	516	23	3	1	398	91
France	244	23	1	13	207	0
United Kingdom	305	27	1	2	269	6
Italy	1,266	110	16	213	928	0
Canada	70	36	0	0	32	1
Spain	179	47	1	51	79	1
Australia	16	14	0	0	1	0
Sweden	50	0	3	0	45	2
Belgium/Luxembourg	71	24	3	1	42	1
Switzerland	70	9	0	0	61	0
Austria	66	3	1	0	61	0
Denmark	21	4	0	0	18	0
Finland	14	1	1	0	12	0
Greece	47	25	2	0	20	0
Ireland	29	24	0	0	4	0
Other	248	91	3	2	151	1

<sup>a</sup> Excludes all military imports and trade with the USSR and Eastern Europe.

<sup>b</sup> Excludes military imports from West European countries.

<sup>c</sup> Because of rounding, the components may not add to the totals shown.

[REDACTED]

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[REDACTED] many prescription drugs are in short supply in Libya, and, because of unpaid bills to many European hospitals and restrictions on exit visas, virtually no medical emergencies are being sent abroad for treatment. [REDACTED]

have been militarized, with both sexes expected to undergo military indoctrination. As a result, Libya's education system is in a shambles. Chaotic reforms in university curriculums have left students demoralized and concerned about their future. [REDACTED]

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Education has been an indirect target of Qadhafi's austerity program. [REDACTED]

[REDACTED] the starting age for school children is being gradually increased in line with budget cuts and Qadhafi's view that parents should bear a greater share of the burden of educating their children. [REDACTED]

Not even the military is beyond the reach of austerity. Although imports of military hardware have been maintained—25 percent of total imports this year—concessionary stores used by the military have been closed. In the past, such stores supplied goods

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[REDACTED] all preschools and primary schools already have been closed. Moreover, Libyan schools

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generally unavailable on the open market at reduced prices and were considered an important military perquisite. In addition, [redacted] since mid-July 1985, the military has been unable to provide daily meat rations to many of its personnel because of nationwide shortages. Moreover, the military's poor performance against US airstrikes in April and the threat of additional attacks has sapped morale. These conditions, coupled with the undesirable prospect of service in northern Chad, probably partly explain the rise in military desertions in recent months. [redacted]

#### Political Dimensions of Austerity

Soft oil market conditions since 1980 have eroded a primary pillar of the Qadhafi regime—a strong and growing economy. The equitable distribution of Libya's oil wealth has been a hallmark of Qadhafi's revolution and a source of his popular appeal, especially among the young and the lower classes. The sharp contraction in living standards over the past five years, however, has created a sense of doubt in a growing segment of the population about the future of the economy and Qadhafi's revolution. The impact of austerity is compounded by the relative youth of the population, 60 percent of which is under 20 and does not remember the widespread poverty before Qadhafi came to power in 1969. As a result, widening austerity probably has had the greatest impact on the segment of Libyan society that has been one of the Libyan leader's strongest constituencies. [redacted]

Qadhafi almost certainly views economic stringency as a useful tool to reshape Libyan society. The regime has done little more than offer revolutionary platitudes to soften the effects of economic adversity. Qadhafi has repeatedly admonished the population to consume less and work harder to achieve the goals of his revolution. At the same time, the Libyan leader extols the virtues of national self-sufficiency and the need for higher taxes to raise domestic production and aid revolutionary causes worldwide. [redacted]

Protest against the regime's economic policies appears to be taking a more demonstrative form in recent months. [redacted] since the US airstrikes, there has been a growing incidence of antiregime graffiti and leaflets appearing

throughout Libya, especially on university campuses. Much of the criticism focuses on the failure of the military to defend the country against US attacks despite the large military budget and sacrifices of the populace. Popular grievances are even causing a resurgence in intertribal tensions as each group scrambles to preserve its share of the shrinking economic pie. Moreover, [redacted] Qadhafi has come under increasing pressure, both from military officers and from high-level government officials, to renounce publicly some of the more controversial aspects of Libya's revolutionary policies and to promote economic liberalization in order to win back popular support for the regime. [redacted]

#### Outlook

It is unlikely, even with the recent \$2.6 billion windfall from the sale of Tripoli's equity share in Fiat, that Qadhafi will significantly change course and ease up on austerity. Despite growing disgruntlement, Qadhafi probably retains a residual appeal among a wide segment of Libya's population, especially among the lower classes and bedouin who have benefited most under his regime. At the same time, Qadhafi probably will not be deterred by domestic grumbling about his continuing to support radical Palestinian groups and dissidents in northern Chad and the building up of his military arsenal. Although growing popular disgruntlement may increase the appeal of anti-Qadhafi dissidents and the occurrence of civil disobedience, the Libyan leader's still strong security forces probably will prevent the development of serious organized and popular opposition to the regime in the near term. [redacted]

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**The Maghreb: After Oujda** [redacted]

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King Hassan's decision to unilaterally abrogate Morocco's political union with Libya—the Treaty of Oujda—will not significantly alter relations among the states of the Maghreb. The most likely outcome will be Libyan sponsorship of terrorism against Moroccan interests and eventual renewal of Libyan support for the Polisario. The rupture between Rabat and Tripoli, however, is a boon to US interests. It removes a sore spot in Washington's ties to its closest ally in the Maghreb and reinforces US claims that Qadhafi is isolated in the Arab world. [redacted]

growing economic woes probably have destroyed any hope the King may have had of achieving further economic benefit from the pact. [redacted]

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**Domestic Implications for Morocco**

There has been little domestic reaction to the King's announcement. Nevertheless, King Hassan almost certainly expects Qadhafi to try to cause trouble for Rabat. We believe Tripoli never ceased its machinations against Morocco during the life of the treaty [redacted]

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**Background**

King Hassan announced the end of the Moroccan-Libyan union in a nationwide television address on 29 August. He stated that his decision was in response to Libyan and Syrian condemnation of the visit to Morocco last July by Israeli Prime Minister Peres. We believe, however, that Hassan was looking for a pretext to end a relationship that had been under strain since its inception two years ago. For Morocco, the primary reason for the union was no longer valid. King Hassan initiated the union because he wanted assurances that Qadhafi would abide by a 1983 agreement with Morocco to curtail support for the Polisario guerrillas fighting Morocco for control of Western Sahara. By August 1986, Hassan saw Qadhafi as increasingly weak at home and a diplomatic liability for Rabat. Morocco is winning the war with the Polisario and is probably less worried about a resumption of Libyan support to the guerrillas. [redacted]

[redacted] For example, [redacted]

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[redacted] the number of Libyan visitors to Morocco, [redacted] increased dramatically after the conclusion of the Oujda accord. [redacted]

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[redacted] Tripoli also may decide to deport the nearly 18,000 Moroccan workers in Libya, as it did the Tunisian workers last year. Such a move would compound problems for a government already grappling with severe unemployment and under pressure from foreign donors to implement additional austerity measures. [redacted]

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As a precaution, Moroccan security services are on the alert for terrorism. [redacted]

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[redacted] The police have adopted aggressive and highly visible measures, including tighter security at airports and borders. [redacted]

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Moroccan press reports that the government has apprehended four foreign nationals, allegedly members of the Palestinian Fifteen May Organization, who were planning acts of subversion. Hassan could restrict the entry of Libyans, expel Libyan residents, or impose restrictions on Libyan diplomats. These actions would hamper Libyan intelligence and terrorist operations in Morocco and elsewhere, since Libyan intelligence operatives use Morocco as a convenient point of transit. [redacted]

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There also were secondary considerations for the decision by Hassan. He may have detected Libyan plans to retaliate against Morocco through terrorism following the Peres trip. The bad feeling between the United States and Libya also made Qadhafi a liability to Hassan, who wants to improve ties to Washington—especially whenever he detects a warming in Algerian-US relations. Finally, Qadhafi's

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**Effect on the Saharan War**

Algeria's reaction to the King's announcement has been muted, but the government almost certainly is relieved that its two neighbors are no longer allied. Nonetheless, relations between Rabat and Algiers are not likely to undergo much change. Both sides are concerned about stability and economic problems in the Maghreb, but the Polisario question stands in the way of significant cooperation and threatens peace between the two countries. Algerian aid to the Polisario could lead to a resumption of the limited border skirmishes that characterized Moroccan-Algerian relations in the past. We do not expect progress in the diplomatic arena in settling bilateral differences or the Western Sahara dispute. [redacted]

There is a strong possibility that Qadhafi will resume military support for the Polisario. [redacted]

[redacted]

[redacted] the Algerians might approve renewed Libyan aid to the Polisario, since it would reduce the burden of economic support for the Polisario's Saharan Arab Democratic Republic. The major constraint on Qadhafi is that supporting the Polisario would prompt Moroccan countermeasures, including a renewal of Moroccan support for Chadian President Habre and Libyan dissidents and possibly a break in diplomatic ties. In any case, since the Polisario already has more equipment than it can effectively use, additional Libyan shipments are not likely to affect significantly the military situation. [redacted]

Several conceivable but unlikely developments could produce an escalation of the Western Sahara conflict. Algerian President Bendjedid is firmly in control of his government, but his policies are being challenged by radical hardliners. This opposition backs the regime's overall stance toward Morocco, but it supports a more aggressive military strategy for the Polisario—including terrorism within Morocco—and apparently is less sensitive to the risks of conflict with

Morocco. We doubt that the opposition is strong enough to overturn Bendjedid's cautious policy on the war, but the President may decide to accommodate the hardliners and allow the Polisario to pursue more aggressive tactics. These might include land or sea commando raids deep inside Western Sahara or in Morocco. [redacted]

In addition, Qadhafi eventually may try to expand his influence with the Polisario, exploiting the dissatisfaction of some insurgent leaders over Algeria's conservative strategy in the conflict. Qadhafi would hope that his deliveries of weapons would strengthen the Algerian hardliners. Algiers, however, would not relinquish its control over the Polisario because of the risks that such a development might pose for Algerian-Moroccan relations. The Algerians provide the Polisario with the bulk of the movement's military and economic resources and haven for the Polisario refugee population. [redacted]

**The Fallout for Algeria, Libya, and Tunisia**

During the past two years, Algeria's policy toward Libya has gone from hostility to a more ambivalent stance. The breakup of the Moroccan-Libyan union, a key goal of Algiers, diminishes Algeria's fear of the possibility of joint Libyan-Moroccan actions against Algeria. Bendjedid thus has greater flexibility in dealing with Qadhafi, especially because of the Libyan leader's isolation. [redacted]

[redacted] President Bendjedid believes that the possibility of increased Israeli and US support for Morocco will require Algeria to improve ties to Libya. He probably believes that closer military cooperation between Morocco and the United States and Israel will further strengthen the King's position in Western Sahara. [redacted] Bendjedid, encouraged by hardliners, has agreed in principle to attend a summit meeting with Qadhafi and Syrian President Assad in which the Algerians would give rhetorical support to Qadhafi in return for increased Libyan aid to the Polisario. [redacted]

In our judgment, Bendjedid will be reluctant to meet with the Libyan leader any time soon because of his concern over Algeria's image in the Arab world and in

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the West. The Algerians deeply distrust Qadhafi and differ with him on a range of issues such as Chad and Tunisia. Even though Algiers will try to reach an accommodation with Qadhafi, President Bendjedid will not go so far as to sign a political accord—as some Algerian hardliners recommend—except in the unlikely event that Qadhafi makes substantial concessions on issues of bilateral interest. [redacted]

Qadhafi, for his part, is eager to strengthen ties to Algiers and to seek a rapprochement with Tunis because of his international isolation since the US airstrike last April. His principal interest is to prevent Algeria from expanding relations with the United States and to minimize Algerian support for exiled Libyan dissidents. To achieve this, he may give the appearance of greater receptivity to Algerian conditions for reconciliation, including demarcation of their common border, cessation of support for Algerian and other dissidents, and settlement of Tunisian claims against Libya. Qadhafi may also respond favorably to a direct Algerian call for assistance for the Polisario, even though he regards such a posture as extremely risky. Unless Algeria agrees to some form of union with Libya—a highly unlikely development at this juncture—Qadhafi will avoid commitments and do no more than necessary to placate Algeria. [redacted]

Tunisia will be the least affected by developments between Morocco and Libya. The Bourguiba government probably believes that Qadhafi's growing problems and need for better ties to his neighbors will strengthen Tunisia's hand in bilateral relations. Since the rupture of diplomatic ties last year, Tunisia has been seeking financial compensation for Libya's abrupt expulsion of Tunisian expatriate workers, and recent press reports indicate that Qadhafi is meeting some of these Tunisian demands. Tunis probably will be most concerned about signs of rapprochement between Algeria and Libya, since closer ties between these powerful neighbors might limit its own diplomatic options. As long as Algeria maintains its distance from Libya, Bourguiba can afford to adopt a hardline position toward Qadhafi. A settlement of differences between Libya and Tunisia would help ease tensions between Algeria and Libya and reduce somewhat the threat of overt Libyan aggression

against Tunisia. We doubt, however, that peace between Tunisia and Libya would remove the danger of Libyan subversion against the Bourguiba regime. [redacted]

**Implications for the United States**

Hassan's move draws Morocco closer to the United States and helps to isolate Libya. The King not only hopes that the United States will reward him with economic and military aid, but also that Morocco's overall image in the West will improve, paving the way for expanded financial credits from Western governments and banks. His most important objective probably is obtaining sophisticated military equipment to replace Morocco's aging inventory of weapons. [redacted]

Bilateral relations probably will cool only moderately if the King concludes that Washington is unwilling to reward him sufficiently for his meeting with Peres and the breakup of the Oujda accord. Hassan would be tempted to broaden further Morocco's ties to Western Europe—in particular France, Spain, and Italy—and to expand contacts with the Soviet Union. Since the abrogation of the Oujda accord, Moroccan officials have held discussions with Italy's Defense Minister Spadolini on military and security cooperation. [redacted]

[redacted] the Moroccans have allowed two Soviet naval combatants to visit Casablanca—the first Soviet combatant port call in a decade. [redacted]

The principal concern for the United States would be closer relations between Algeria and Libya. Such a development would erode Tunisia's national security, reduce Washington's access to Algeria, undermine Algeria's willingness to maintain ties to Libyan

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dissidents, and make it more difficult for the United States to help Algeria and Morocco achieve a peaceful settlement of the Western Sahara dispute. Closer US-Moroccan ties, and especially a decision by the United States to increase military assistance to Morocco, would give impetus to Algerian-Libyan relations.

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### The Maghreb: Population Problems and Political Stability

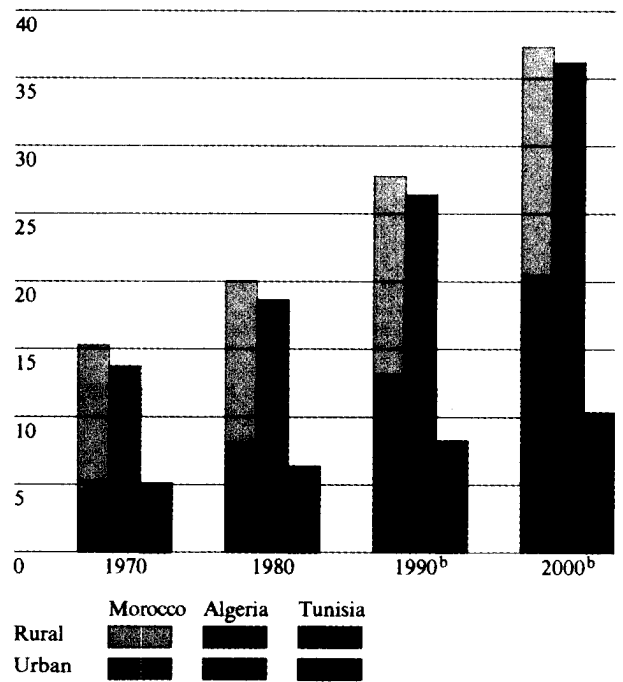
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Tension between a large, rapidly growing population and the meager financial resources available to meet basic human needs is producing serious social problems throughout the Maghreb.<sup>1</sup> These problems are as apparent in leftist Algeria as in moderate Morocco and Tunisia. In each country rapid population growth undermines governmental efforts to maintain social stability, equity, and living standards for the population and limits further social and economic development.<sup>2</sup> These problems almost certainly will lead to major political challenges in these countries over the next decade.

#### The Demographic Millstone

The Maghreb's explosive population growth of 2.8 percent annually is expected to continue with only slight abatement well into the next century. High population growth over the last 30 years has been largely a result of a steady decline in mortality with no comparable change in the birthrate. As a result, about 1.5 million people were added to the population in the past year alone. The United Nations projects only a slight decline in the annual growth rate, to 2.4 percent in the year 2000, when the projected population will be about 84 million—almost triple the total during the late 1950s when these countries achieved independence. We estimate that, even with population growth held to only 2 percent annually—an optimistic assumption—projected population in the region would reach 71 million by the end of the next decade.

Maghreb: Population Dynamics, 1970-2000<sup>a</sup> Million persons



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<sup>a</sup>CIA data. <sup>b</sup>Projected.

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<sup>1</sup> This article defines the Maghreb—Arabic for west—as Morocco, Algeria, and Tunisia. These three countries have the same colonial heritage and similar demographic problems. The article does not include Libya because its small population and relative wealth make it atypical in the region.

<sup>2</sup> A demographer under contract to the CIA provided unclassified population data and projections that served as the basis for the judgments in this article. The contractor's estimates for population in 1985 are based on UN adjustments to the Moroccan census of 1982, the Algerian census of 1977, and the Tunisian census of 1984. The contractor also used fertility and mortality trends to make population projections for the years after 1985. Unless otherwise stated, all population data are from the contract.

Fertility control programs are not expected to significantly alter these projections, since it would take two decades under the best of circumstances to stabilize lower birthrates. Moreover, the segment of the population that will exert the greatest demand for jobs and resources over the next 15 years is now in the 1 to 15 age group. The governments of the Maghreb have all begun to recognize the need for population

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**Maghreb: Demographic Statistics, 1985 and 2000**

	1985			2000 <sup>a</sup>		
	Morocco	Algeria	Tunisia	Morocco	Algeria	Tunisia
Population ( <i>millions</i> )	23.64	22.28	7.29	37.26	36.21	10.38
Annual population growth rate ( <i>percent</i> )	3.0	2.8	2.3	2.8	2.5	2.0
Urban population ( <i>millions</i> )	10.38	14.11	3.81	20.51	27.67	7.03
Annual urbanization rate ( <i>percent</i> )	4.3	5.2	3.7	4.2	4.0	2.8
Urban population as a percentage of total population	44	67	57	55	76	68
Life expectancy ( <i>years</i> )	59	60	62	66	66	69
Percentage under 20 years old	56	57	51	50	55	47
Unemployment and underemployment ( <i>percent</i> )	25	25	22	NA	NA	NA
Demand for physicians <sup>b</sup> ( <i>number of physicians</i> )	2,130	3,986	1,518	3,365	6,478	2,162
Literacy ( <i>percent</i> )	28	35	62	58	65	79
Per capita GDP ( <i>US \$</i> )	490	2,230	1,136	NA	NA	NA
Average annual GDP growth, 1981-85 ( <i>percent</i> )	2.5	4.3	3.9	NA	NA	NA

<sup>a</sup> Projected.<sup>b</sup> Holding the patient-to-physician ratio constant—11,100 patients per physician in Morocco, 5,590 patients per physician in Algeria, and 4,800 patients per physician in Tunisia.

control, but only Tunisia has allocated more than 1 or 2 percent of its health budget to family planning programs. Indeed, a wide gap exists between the stated goals of the regimes and their implementation of such programs. According to the respective US Embassies, Moroccan and Algerian officials have publicly stated that their national economies can accommodate twice the current population, but they privately admit that rapid population growth is one of their most urgent problems.

**Jobs and Unemployment.** The rapid surge in population has contributed to increasing unemployment. Since 1980, poor economic performance has added to the problem. Regional GDP growth of 3.6 percent over the past five years was only marginally ahead of population growth and down by almost half from the previous five-year period, according to the International Monetary Fund (IMF). As a result, unemployment and

underemployment have risen steadily, to an estimated 25 percent of the labor force. Even during the 1970s, a period of strong economic growth, the Maghreb states could not provide jobs for all new entrants to their labor pool. We estimate that, to accommodate the swelling number of entrants into the job market, regional GDP would have to grow at an unrealistically high average rate of over 9 percent annually. Such a high level of growth would be needed because the increasingly capital-intensive economies of the future will create fewer jobs for a given increase in GDP:

- Morocco will need to provide 320,000 jobs per year for new entrants over the next 15 years.
- Algeria will have to provide 275,000 new jobs annually.

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- Tunisia will need to find positions for as many as 80,000 new job seekers each year.

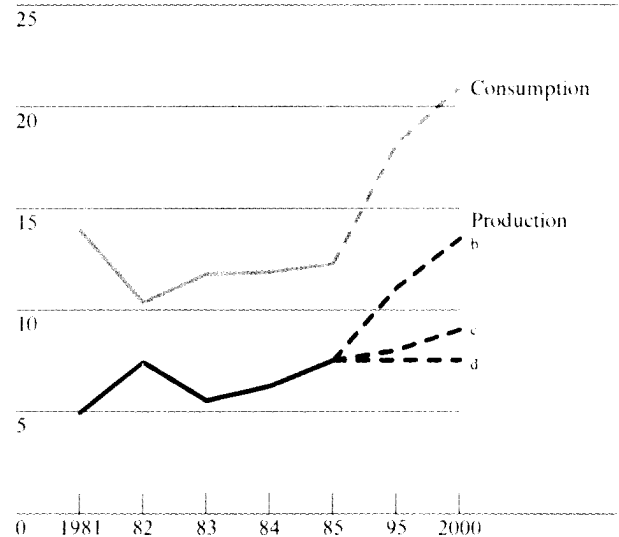
**Rising Urbanization.** The rapid increase in population and the limited job opportunities in rural areas, along with improved education and broadening horizons for youth, have fueled an enormous increase in urbanization. Over 53 percent of the Maghreb's population is already concentrated in urban areas. Over the years, city residents have become a key constituency for political leaders who have consequently invested heavily in urban improvements. Investment in urban food subsidies, piped water, social services, and the protection of urban wages further encourages rural-to-urban migration and has led to a vicious cycle where each new increase in urban population produces pressure for further investments.

**Constraints on Water, Land, and Food Supplies.** We believe that demands for water, land, and food—commensurate with population pressures—will become major political issues for the Maghreb before the end of the century. Demand for water, already in short supply, will probably double by the year 2000, with limited options for expanding supplies, according to the World Bank. We expect that urban areas will especially feel the pinch as delivery systems are already inadequate. In addition, the pressure for government policies favoring irrigated agriculture will intensify competition between rural and urban areas.

Land usage is a serious issue in the Maghreb because less than 10 percent of the land is under cultivation. As a result, the Maghreb is experiencing a growing gulf between food production and demand, with limited prospects for closing the gap. Roughly self-sufficient in food at independence, IMF estimates show that the region now imports over half of its food. According to Moroccan and Tunisian Government statistics, agricultural productivity has increased at barely half the rate of population growth for the last 20 years. Poor government management, low farm prices, and inadequate agricultural extension services share much of the blame.

agricultural imports already account for 20 percent of total imports and are a significant drain on foreign

**Maghreb: Cereal Production Gap, 1981-2000<sup>a</sup>** Million metric tons



<sup>a</sup>CIA data. The data for 1986-2000 are projections.

<sup>b</sup>Assumes 4-percent average annual growth.

<sup>c</sup>Assumes 1.3-percent average annual growth.

<sup>d</sup>No growth.

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exchange. We estimate that the cost of annual food imports will grow by at least 40 percent—\$1 billion—by the year 2000 if agricultural productivity is not improved.

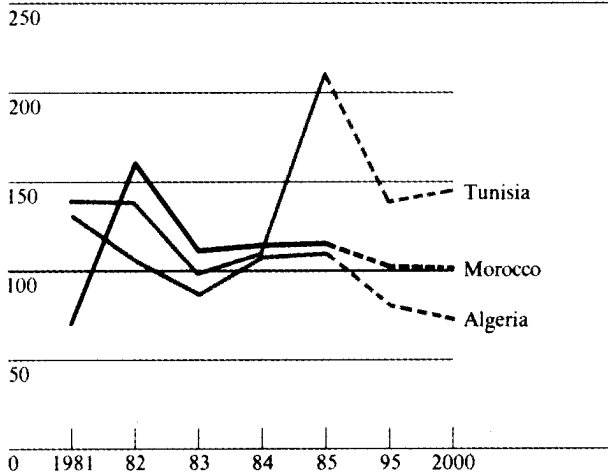
#### Political Strains in Maghreb Societies

Rapid population growth has eroded the old land-based, family-oriented, traditional Islamic society of the Maghreb faster than governments in the area have been able to promote development of economically advanced and urban-based societies. The popular unrest fueled by this circumstance has been aggravated by the economic slump of the past several years. Public disturbances occasionally have

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**Maghreb: Per Capita Cereal Production, 1981-2000<sup>a</sup>** Index: 1974-76 average=100



<sup>a</sup>CIA data. The average annual growth in production for each country during 1981-85 is maintained for the projection in 1986-2000.

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occurred since 1980 in Morocco, Algeria, and Tunisia as a result of discontent with austerity, and significant restiveness exists among students, the unemployed, and some religious fundamentalists. Islamic fundamentalism and leftist philosophies probably will have increasing appeal under conditions of growing social adversity. We believe that managing these challenges will tax already strained budgets and the will of each country's political elite.

**Youth and Students.** In all three countries, unmet rising expectations among the burgeoning, better educated youthful population are becoming a major source of discontent, according to US Embassy reporting. Social scientists of the region say that young people are increasingly blaming their governments for mismanagement of the economy and are refusing to make sacrifices. The US Embassy in Rabat says that crime in urban slums is rising at an alarming rate as a result of the growing number of unemployed youths.

\_\_\_\_\_ Morocco's educational system is not geared to providing the skills needed for technical and industrial jobs and contributes instead to urban unemployment—a condition that we believe also prevails in Algeria and Tunisia. Student strikes protesting shortages in educational services have led to violence, especially in Morocco and Tunisia. Such protests have increased over the past several years, despite the governments' stationing of police on campuses. The US Embassies in Rabat and Tunis report that the police presence has increased unrest among most students.

Some socially and intellectually uprooted young people are starting to turn their backs on modernization and, as a corollary, to reject the United States and other Western countries that they see as principal agents of change. This impulse has been the driving force behind the recent spread of Islamic fundamentalism in the region, according to regional scholars. On the other hand, others—we believe a smaller number—are discontented that their governments are not doing more to promote change, and this group is the recruiting ground for radical leftists.

**Islamic Fundamentalism.** Rapid population growth and related social change are contributing to the appeal of militant fundamentalism, which calls for a return to Islamic principles. The movement extends well beyond the youth and consists of two principal currents.

The first, "fundamentalists of conviction," is composed of fairly well-off intellectuals. They are generally dissatisfied with what they consider to be social and economic injustices, and they see that ruling cliques are running the North African countries on the basis of favoritism and corruption. This group agrees that the path of reform lies in strict adherence to the *Koran*, and some share the widespread fundamentalist belief that the West must be rejected because of its association with Israel.

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The second group, "fundamentalists from frustration," is made up of unemployed or underemployed urban residents who are denied access to wealth or positions in society. A group of Moroccan scholars has recently argued that rapid population growth has aggravated this problem. Frustrated individuals of this sort frequently do not have an intellectual appreciation of Islam but hope that fundamentalism will improve their bleak prospects. To date, class and education differences have kept the two groups from cooperating. [redacted]

Although fundamentalism and leftist agitation have been fed by rapid population growth, they have not reached dangerous proportions. There are clear signs, however, that these movements pose a potential threat:

- *Morocco* experienced violent outbursts in Casablanca in 1981 and nationwide rioting in 1984 over reduced food subsidies. This violence resulted in several hundred deaths after the military was called in to restore order. During the riots in 1984, Islamic fundamentalists helped foment unrest by distributing tracts attacking the King's economic mismanagement. Last fall the US Embassy in Rabat reported that King Hassan's decision to enlarge the royal palace by demolishing adjacent neighborhoods in Casablanca set off new demonstrations. In our view, harsher austerity mandated under Morocco's next IMF and debt rescheduling programs will increase discontent. With limited economic options, we believe the King will be forced to be more repressive, calling on his security and military forces more frequently and quickly to quell dissent.
- *Algeria's* inability to meet the demand for basic social services in urban areas—primarily housing—caused riots in the Casbah last summer. Violence also erupted in several rural communities last year as farmers clashed with local authorities over land and water reforms, according to the US Embassy in Algiers. We estimate that the sharp drop in oil prices threatens to halve foreign exchange earnings this year and to undermine Bendjedid's program of economic liberalization. Despite its pervasive

security apparatus, the regime will have to move cautiously to avoid further unrest and criticism by remaining hardliners opposed to President Bendjedid's reforms, in our view.

- *Tunisia* also was rocked by riots in 1984 that were brought on by a sharp hike in the price of bread. Islamic fundamentalist agitators helped to fan the protests of disadvantaged workers in poorer rural areas, which spread to urban centers, according to the US Embassy in Tunis. In our view, falling prices for Tunisia's chief exports—oil, phosphates, and agricultural products—and a rising debt service burden will continue to limit the government's ability to deal with unemployment and the needs of a rapidly urbanizing society. We believe President Bourguiba and his successor will become even more repressive as economic options diminish. [redacted]

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**Obstacles to Improvement.** We believe that Maghreb leaders will face growing difficulty mobilizing the financial resources needed to tackle the social and economic problems resulting from population growth. An inadequate fiscal base will make it especially hard to revitalize food production. Most farmers cannot afford needed investments in agricultural technology and expertise, and government budget deficits will continue to curtail subsidies for new equipment. We believe, moreover, that leaders will be reluctant to dismantle inefficient government organizations that control food production, prices, and distribution because they provide an important source of patronage and political control. Leaders also recognize that eliminating the current system of subsidizing urban consumers would produce unrest in the cities. [redacted]

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Water will remain a key constraint to infrastructure development. According to social scientists, many existing sources of water are already overused, leading to salt water encroachment, pollution of aquifers, and reduced supplies. Improving the efficiency of current water resources—through methods such as emphasizing drip irrigation and water-efficient crops—will require a significant

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improvement in education and changes in traditional farming methods. Development of new water resources will entail even greater expense and require significant foreign expertise to achieve. [redacted]

The Maghreb region's harsh environment is likely to increase the impact of these shortcomings. Much of the remaining uncultivated land is in semidesert zones that receive barely sufficient rainfall even in good years. If the population projection of 84 million in the Maghreb by the turn of the century is correct, regional agricultural productivity would have to increase by an average of 8.2 percent annually—6.3 percent in Morocco, 11.2 percent in Algeria, and 7.1 percent in Tunisia—to achieve a balance between cereal production and demand. [redacted]

#### **Outlook**

We believe that, regardless of their different political complexions, the Maghreb governments are committed to reducing population growth, and we expect them to try to develop more successful family planning programs. At the same time, Moroccan and Algerian leaders in particular, and even Tunisian leaders to a lesser extent, will continue to worry that promoting population control aggressively could offend the traditional values of many of their citizens. The governments' concerns with minimizing that potential source of political unrest are likely to hinder their population control programs for some years to come. [redacted]

These governments, moreover, have only limited resources at their disposal. Regional leaders are already well aware that demographic problems do not yield to quick fixes and that the payoff from expensive and socially sensitive programs to lower population growth rates will not be apparent for a decade or more. They are also likely to continue to believe that their most immediate and overriding concern must be to ensure political stability and their continuance in power. That concern is likely to exert sustained pressure on them to divert attention and scarce resources from treatment of the root cause of their demographic crisis—rapid population growth—to treatment of its more politically pressing symptoms, such as unemployment and urban slums. [redacted]

In the meantime, the demographic crisis and the increased social and economic problems flowing from it almost certainly will continue to grow and to fuel Islamic fundamentalist and leftist unrest. Political leaders who fail to accommodate or co-opt either fundamentalist or leftist aspirations are likely to have increasing difficulty governing. Those leaders who lean too far toward either fundamentalism or leftist radicalism, however, will probably stir up opposition from the other quarter. We doubt that any Maghreb leader can arrive at a fully satisfactory resolution of these challenges. Fundamentalism and leftist radicalism point ultimately in very different political directions, and the underlying conflict between them means that politics in the Maghreb countries will become increasingly turbulent. [redacted]

#### **Implications for the United States**

We believe that Morocco, Tunisia, and possibly Algeria will try to exploit that fact by making increased demands for financial assistance from the United States over the next 15 years. As the Maghreb governments struggle with the economic and political consequences of rapid urban growth, they are likely to call upon the United States to provide more financial aid for the cities and assistance in urban policy formation. [redacted]

In addition, the United States may be asked to help governments improve agricultural yields and alleviate food crises. US assistance in establishing agricultural extension networks, introducing more productive crop and livestock varieties, and cooperating in the management of intermittent food shortages could reach a broad segment of society. Maghreb leaders would press for such aid on concessional terms. In general, although US aid could win some good will, highly visible US aid will increase the risk that Washington will be blamed either for failing to provide sufficient assistance to solve immense problems or for exerting too much influence over domestic policies. [redacted]

Maghreb governments almost certainly will view Washington's response to requests for assistance as a measure of US commitment to their needs and—in

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the case of Morocco and Tunisia—an indication of Washington's reliability as an ally. We believe that the Soviet Union could benefit from a perceived shortfall in US assistance, especially if growing disgruntlement or unrest undermine vulnerable pro-Western regimes. The Soviet Union most likely will continue to play a lesser role than the United States in Morocco and Tunisia, however, since Moscow—because of its own economic problems—probably will be unwilling or unable to fill any gap left by the United States.

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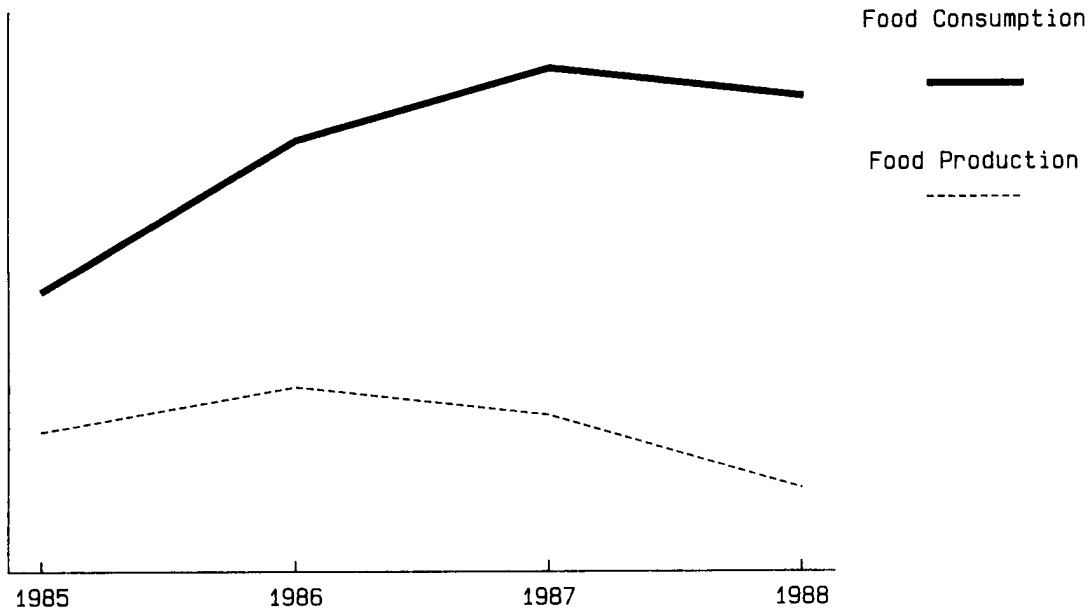
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### REPRESENTATIVE CASE OF A MIDDLE EASTERN FOOD IMPORTER

Annual Food Calories Per Capita



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## The Food Gap in the Middle East—A Growing Problem

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The Middle East will remain one of the world's largest markets for imported food for the rest of this century. A food gap—an excess of demand over domestic supplies—appeared in the 1970s and has widened greatly. We believe the gap will continue to widen and that nearly all countries in the region will be further from self-sufficiency in food in 1988 than they were in 1985. Imports will be readily available because there are large stockpiles of many of the most frequently traded food items. Although the market will remain large, the United States will probably not regain the share it had five years ago because there are more exporters and they are competing vigorously for sales.

### Demand for Imports

The Middle East is the least food self-sufficient region of the world. Every country of the region was a net food importer in 1985, according to the US Department of Agriculture. Food imports make up 60 percent or more of total food consumption in at least eight countries of the region.

Middle Eastern food imports were worth about \$30 billion in 1985, a slight decrease from 1984. For many Middle Eastern countries, the quantity of imports increased in 1985, but precipitously falling food prices more than offset this increase. We believe that quantities of food imports may well increase for the foreseeable future; values will depend upon prices—which are falling rapidly.

We believe that demand for food in the Middle East will continue to surpass the region's ability to supply it. Demand increased rapidly during the 1970s because of increased oil revenues, worker remittances, and economic aid. Rapid population growth—averaging about 3 percent per year—will add to the demand for food. Moreover, virtually every Middle Eastern country heavily subsidizes food consumption, adding to the quantity demanded. Governments will be reluctant to reduce these subsidies for fear of touching off unrest. Riots occurred in Tunisia,

Algeria, Morocco, and Egypt when the government tried to reduce food subsidies. We believe that similar riots might occur in these or other countries if subsidies were reduced.

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### Domestic Production

The Middle East's production of food is slipping. Regionwide per capita production in 1985 was 96 percent of the level of 1976-78, according to the US Department of Agriculture. Only Saudi Arabia, which has used its vast oil revenues to provide grossly inefficient farm subsidies, has achieved significant increases in production. Physical constraints will limit supplies of food. Lack of water is—and will remain—the most important constraint. Rainfall is inadequate—often less than 100 mm per year—throughout the region, which is one of the most arid in the world. Much of the limited water is lost to evaporation before it can be used for irrigation.

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Limitations imposed by the lack of water will become increasingly severe in the near future, according to most assessments by geographers. Much of the water used in agriculture is being drawn from nonrenewable pools. There is evidence that in some countries the water table is falling significantly. Salty sea water, unsuitable for agriculture, is intruding into water tables in such countries as the United Arab Emirates.

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### Ample Foreign Supplies

Middle Eastern countries will find large amounts of food available for import because, worldwide, there are large—and increasing—stockpiles of many food items. The US Department of Agriculture forecasts that the worldwide wheat crop for 1986/87 will be 510 million metric tons. Despite a record utilization of wheat, much of the new crop will be added to stockpiles. By the end of the current season, wheat stockpiles will contain more than 130 million metric tons, more than has ever been traded by the entire

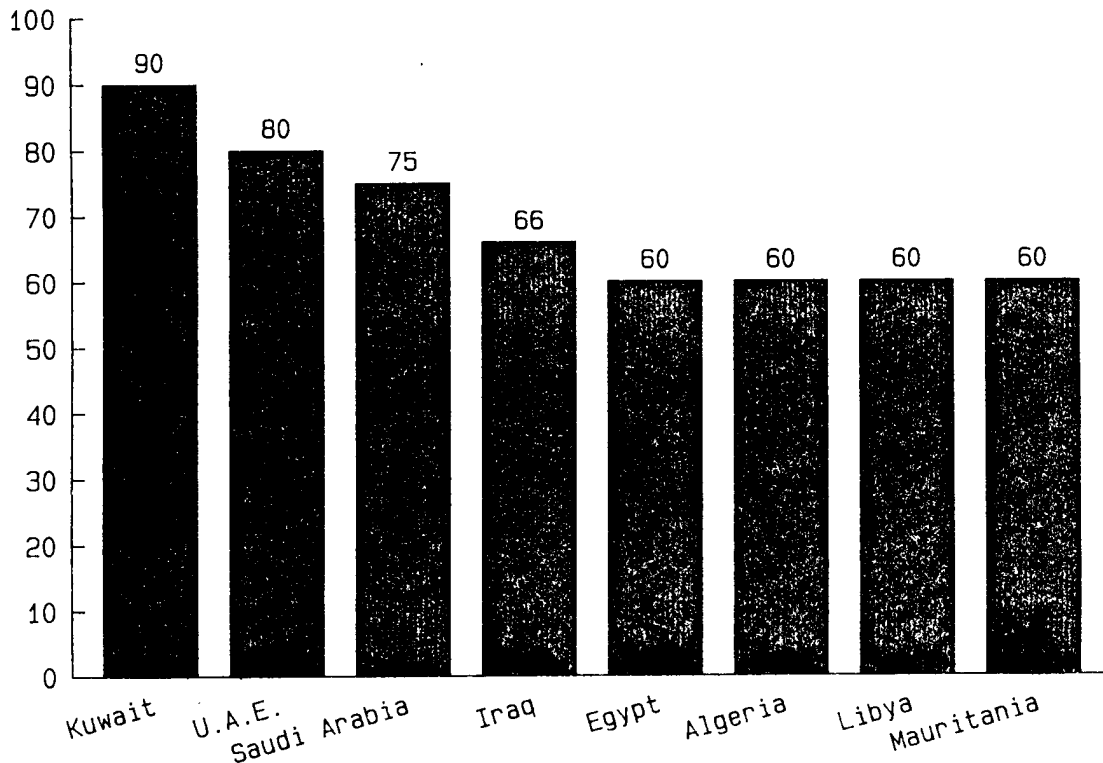
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10 October 1986

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## FOOD IMPORTS AS A SHARE OF TOTAL CONSUMPTION IN SELECTED COUNTRIES 1986



world in a single year and equal to about five years of total imports by the Middle East. Although the amounts involved are not as great as with wheat, there were also large stockpiles of corn and soybeans even before this year's harvest, which will probably be at or near record levels, according to press reports.

The food market is—and will remain—a buyer's market in many cases. Importers are in a position to play off one exporter against another to get more favorable prices. We share the view, expressed in reliable economic press reports, that buyers are deferring purchases because they are confident they will be able to secure better deals in the future.

### Implications for the United States

Although food imports by Middle Eastern countries will remain high, the US share of the market is decreasing, according to the US Department of Agriculture. We believe there is little chance that the United States can regain the share it had five years ago. The value of US food sales to the Middle East fell about 14 percent, or by about \$429 million, between 1983 and 1985, while EC sales increased about 14 percent, or about \$824 million. The trend toward an increasing EC share may continue because

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**Food Imports in the Middle East***Million US \$*  
(except where noted)

	From US			From EC			Total		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
<b>Total</b>	<b>3,059</b>	<b>3,422</b>	<b>2,630</b>	<b>5,981</b>	<b>6,611</b>	<b>6,805</b>	<b>29,015</b>	<b>30,387</b>	<b>29,916</b>
Algeria	211	199	228	858	854	880	2,509	2,570	2,790
Bahrain	11	8	7	55	66	64	242	224	208
Egypt	970	909	891	745	981	1,021	3,387	4,084	4,257
Iran	1	2	0	519	488	500	3,440	3,670	3,490
Iraq	342	535	326	273	375	390	2,857	3,085	3,040
Israel	306	334	277	153	153	165	924	981	920
Jordan	79	98	48	109	152	170	668	700	685
Kuwait	69	52	41	196	215	205	1,510	1,440	1,285
Lebanon	55	29	18	194	213	220	573	601	640
Libya	6	16	5	429	419	414	1,515	1,525	1,495
Mauritania	9	17	21	42	50	26	51	102	73
Morocco	208	396	100	190	133	210	1,096	1,300	1,230
North Yemen	73	36	15	182	217	225	803	809	775
Oman	10	8	8	77	85	87	381	435	485
Qatar	7	8	4	53	52	55	224	227	218
Saudi Arabia	485	482	351	1,121	1,379	1,400	5,182	5,351	4,900
South Yemen	1	0	0	77	81	83	285	240	280
Sudan	59	61	170	68	78	35	174	162	226
Syria	19	38	45	183	193	220	878	905	942
Tunisia	114	154	31	201	175	195	516	596	520
United Arab Emirates	58	40	44	256	252	240	1,300	1,380	1,240
Share of market ( <i>percent</i> )	10.5	11.3	8.8	20.6	21.8	22.7	NA	NA	NA

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of the Europeans' aggressive marketing techniques and heavy subsidization of agricultural exports. The appearance of new sellers such as Argentina and even India and Saudi Arabia in some Middle Eastern markets may also erode the US share. [redacted]

Washington's attempts to make high-priced US food exports competitive with those of subsidized rivals have been highly controversial with other producers. Bilateral relations with allies such as Australia, which does not subsidize exports and has lost shares of some

Middle Eastern markets, have been adversely affected. Nonsubsidizers have recently banded together to lobby for an end to US and EC subsidies. We believe the subsidy issue will contribute to tensions between the United States and nonsubsidizing states so long as producers are faced with unloading large stockpiles of food items. [redacted]

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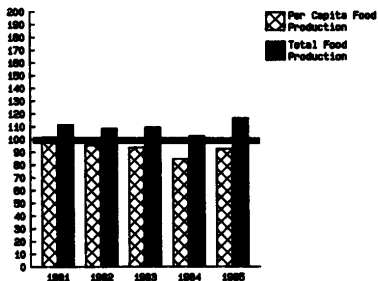
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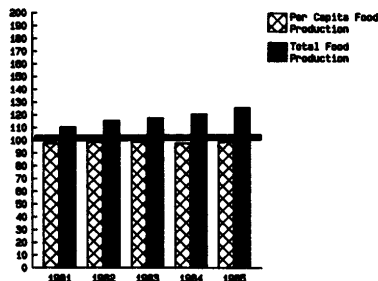
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### MIDDLE EAST FOOD PRODUCTION (1976/1978 = 100)

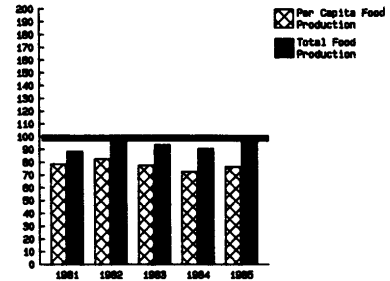
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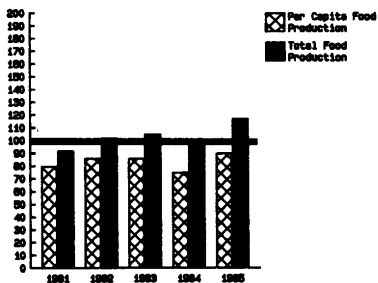


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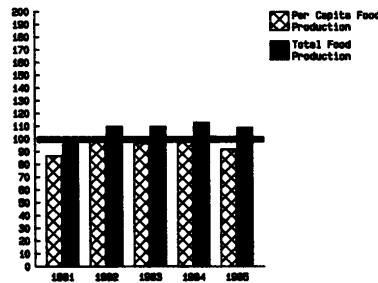


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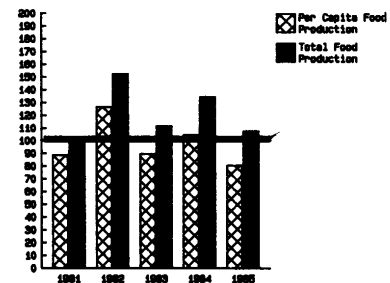
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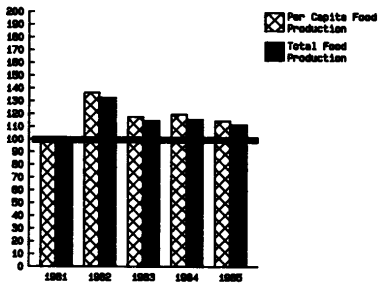
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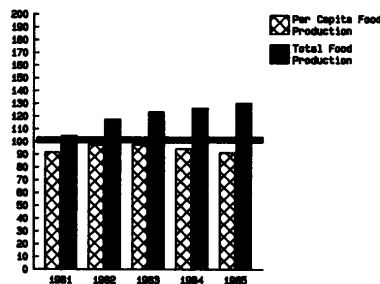
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### MIDDLE EAST FOOD PRODUCTION (1976/1978 = 100)

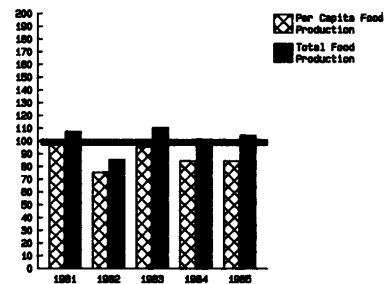
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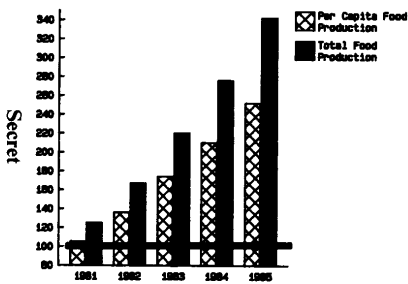
LIBYA



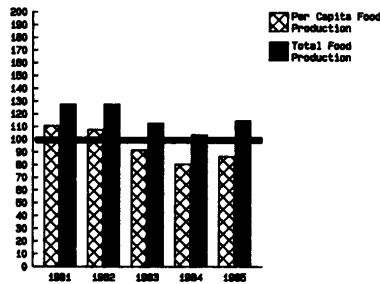
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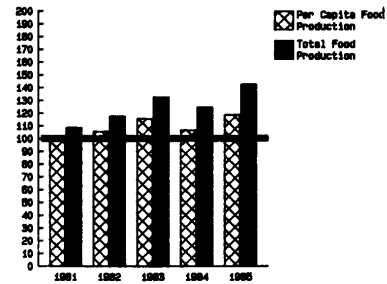
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# Note Change of Base



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Low food prices have relieved—and will continue to relieve—pressure on Middle Eastern leaders who might otherwise feel compelled to reduce popular subsidy programs to relieve budget deficits. Regimes both friendly and hostile to the United States have benefited from being able to avoid the unrest that would probably occur if subsidies were reduced. Low food prices, however, have allowed some of these leaders to postpone budget cuts and economic reforms that would contribute to brighter economic prospects in the long run.

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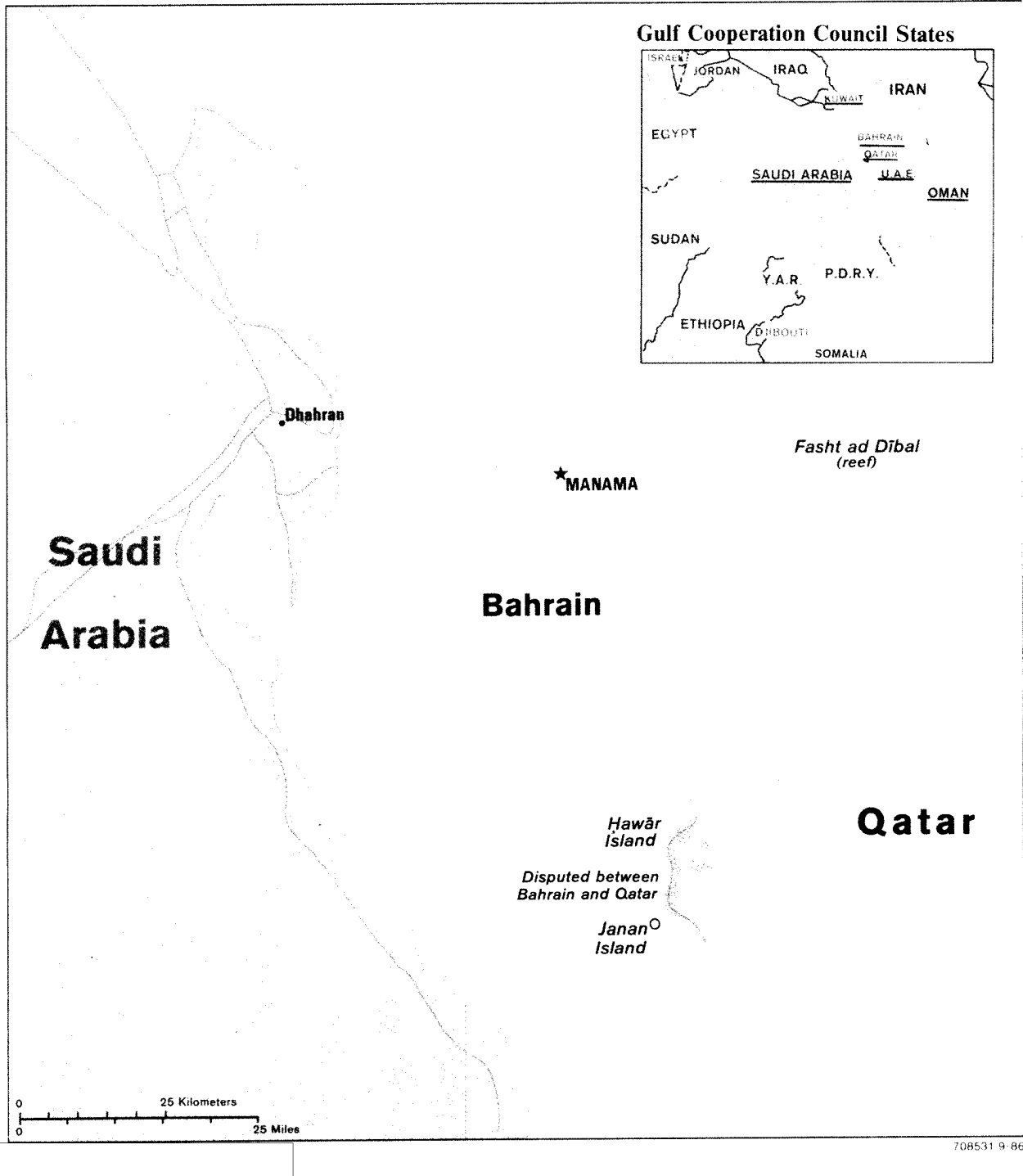
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**Bahraini-Saudi Causeway:  
The Road to Better  
Relations?** [redacted]

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The opening of the Bahraini-Saudi causeway in November will provide another avenue for Riyadh and Manama to repair the strains in their relationship that developed during Bahrain's dispute with Qatar over Fasht ad Dibal last April. The causeway symbolizes Riyadh's military and political commitment to Bahrain and the Al Khalifa regime, although Manama is not certain that Saudi support is reliable. Improved relations between Manama and Riyadh would enhance US interests in the Gulf by strengthening the Gulf Cooperation Council (GCC) against potential Iranian aggression. The causeway also will increase trade between Bahrain and Saudi Arabia and probably raise property values and lower consumer prices in Bahrain. [redacted]

**Uneasy Street**

Riyadh views the causeway as a symbol of its commitment to Bahraini security. The Saudis first proposed the causeway in 1981 following a coup attempt against the Amir of Bahrain. The Saudis probably believe that a land link to the island will facilitate any military action Riyadh might be forced to take to bolster the Al Khalifa—Bahrain's Sunni ruling family—in the event of serious domestic unrest or external aggression. The Saudis would view the overthrow of the Al Khalifa by radical Shias as a serious threat to Saudi oil production in fields that lie just 30 kilometers from Manama. [redacted]

Bahrain has long viewed Saudi Arabia as the ultimate guarantor of its security, but Manama's belief that the Saudis failed to support its position during the Fasht ad Dibal dispute caused the Bahrainis to seek increased purchases of US weapons to reduce their dependence on Riyadh. According to US Embassy reporting, however, Manama's reliance on Saudi largess for budgetary support and military purchases hinders Bahrain's ability to pursue this strategy. Although Saudi aid to Bahrain declined to \$900 million last year, down more than 20 percent since 1984, Manama relies heavily on this assistance as other sources of revenue have declined. [redacted]

**End of an Island**

Riyadh hopes the causeway will help ease tensions with Manama, but the Saudis are worried about the security implications of the new roadway. A primary concern is that the causeway will allow the better organized Bahraini Shias greater access to the 400,000 Saudi Shias in the kingdom's Eastern Province, increasing the threat of subversion. The public corporation in charge of the causeway includes the Saudi and Bahraini Ministers of Interior, who are also responsible for their respective security services. The Saudis probably will control customs and immigration because the Bahrainis have no experience with land borders. [redacted]

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Manama shares Riyadh's security concerns but probably is more worried about the effect the causeway will have on the island's character. The US Embassy reports that Bahrain fears that Saudi cultural and economic influence will threaten its distinct national identity. Bahrainis also are concerned that increased Saudi tourism will lead to an increase in drunk driving as some Saudis take advantage of the relaxed social atmosphere in Manama. Others fear the land link will encourage the Saudis to press Manama to ban alcohol. [redacted]

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**A Street Paved With Gold**

The average Bahraini probably is most worried about the economic ramifications of the causeway. Some Bahraini merchants are afraid they will be unable to compete against Saudi firms with larger volumes and lower profit margins, according to the US Embassy. They have become accustomed to large markups and fear that the causeway will enable Bahrainis to shop more cheaply in Saudi Arabia, particularly for consumer durables and products such as gasoline that are heavily subsidized in Saudi Arabia but not in Bahrain. [redacted]

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*The Causeway*



*A hydraulic engineering project—all work is carried out in the open sea.*

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*The artificial island built to serve as the border/customs checkpoint*

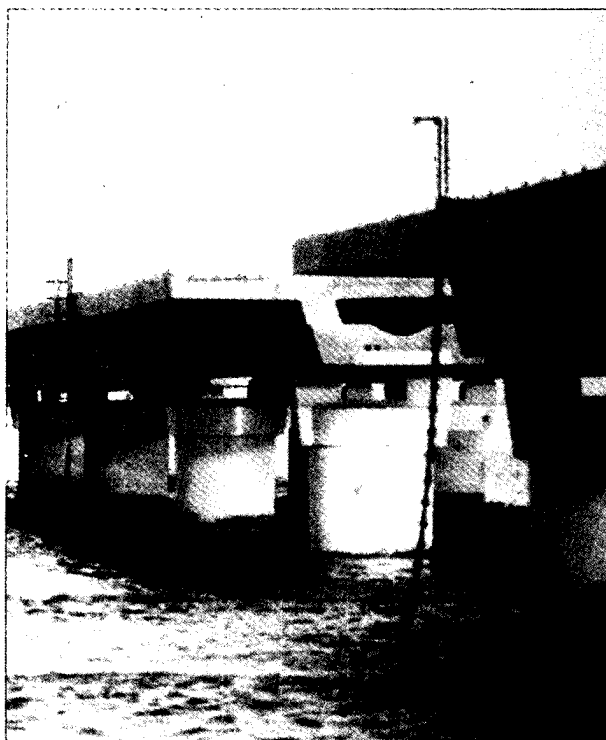
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Some of the 552 piles that support the causeway

tollway runs from Bahrain's west coast to Al Khobar on the Eastern Province coastline of Saudi Arabia, just south of Dhahran.

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The first job of the contractors—Ballast Nedam of the Netherlands—was to construct an extension to an island located off the coast of Bahrain. The extension serves as the site of camps for the 1,500-man work force, workshops, offices, and plants needed to make the necessary 325,000 cubic meters of concrete. Next, they built a second, larger island by dumping rocks in a ring and then filling the circle with sand sucked up from the seabed by dredgers. This island, located at the midpoint of the causeway, will serve as a checkpoint for immigration and customs officials.

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The final section of the Bahraini-Saudi causeway was anchored in April 1985, and Bahrain—at least in theory—was no longer an island. When the causeway opens for commercial use in mid-November, commuters will be traveling over a remarkable piece of engineering.

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The 25-kilometer causeway was agreed to in mid-1981, and construction began later that year. Although the project was originally estimated to cost \$600 million, over \$1.2 billion has been spent. The causeway consists of alternating sections of bridge and embankment—five bridges and seven embankments—plus two artificial islands. The four-lane

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Nonetheless, the new causeway already has had some positive economic effects in certain sectors. There are signs that the depressed real estate market in Bahrain has improved because many Saudis have rented office space and apartments there. Sales of luxury items probably will increase as wealthy Saudis furnish their weekend retreats. Bahraini merchants may see profits reduced marginally, but this should be alleviated in part by greater access to Saudi markets. [redacted]

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**Implications for the United States**

The commercial opening of the causeway in November will promote increased dialogue between Manama and Riyadh, which will be favorable for US interests in the region. We believe Manama will not allow its displeasure with Saudi handling of the Fasht ad Dibal dispute to interfere with efforts to reestablish a close political, economic, and military relationship with Riyadh. This should help ease Saudi concern over the expanding US-Bahraini relationship. Improving relations also indicate that Manama and Riyadh are committed to a united front— under the GCC umbrella—against Iranian aggression in the Gulf. [redacted]

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### Iran's Urban Working Class: Pillar of the Regime

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The urban working class is the most important pillar of support for Iran's clerical regime. The urban poor, the so-called disinherited, were clear losers under the Shah and have gained considerable political and social status since the revolution. Despite the substantial decline in Iran's overall economic activity, most of the urban working class have experienced only a relatively small decline in their standard of living. Only a minority of workers employed in the modern industrial and construction sectors have suffered a large setback in their economic welfare. We do not expect significant change in working-class support for the war or the government unless the regime suffers a severe military defeat or there is no progress in the war over the next year. Nonetheless, occasional strikes and the concentration of industrial workers indicate they are a potential threat to the clerical regime. Moreover, urban workers could play an important role if a post-Khomeini power struggle turns violent and radical clerics bring urban masses into the streets on their side.

#### Background

Workers in the modern industrial and construction sectors played a pivotal role in the Shah's overthrow. The urban labor force had grown rapidly in the oil boom years after 1973 as rural dwellers flocked to large cities in search of jobs created by the Shah's industrialization drive. Despite increased benefits and wages, many urban workers had become disenchanted with their lot by the beginning of 1978. Rising expectations were being stifled by the economic downturn, increased unemployment, and the deterioration of living conditions in overcrowded cities. As the anti-Shah movement built up steam in the second half of 1978, workers in government ministries, factories, and the vital oil sector walked off their jobs. The government's weakness in the face of worker protests encouraged additional strikes.

The foot soldiers of the revolution were the masses of the poor and workers in traditional trades inhabiting urban ghettos, especially in southern Tehran.

Continuing rural migration and rising unemployment just before the revolution expanded the numbers of the disinherited. The Shah generally ignored their problems and even tried to remove them by eradicating squatter settlements. The urban poor were offended by the government's secularism and by ostentatious displays of wealth by industrialists and high government officials. They responded enthusiastically to Khomeini's call for revolution, which included a pledge to redistribute the nation's oil wealth.

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#### Working Class Gains and Losses

Most of the urban labor force strongly supports the regime. Despite severe economic problems, urban workers have experienced little decline in their standard of living. Indeed, the majority of city dwellers are immigrants from poor rural areas, many of whom probably have seen some improvement in their lifestyles. The poor are favored over the wealthy in education, housing, and public services. The clerical regime, moreover, provides hitherto unattainable economic mobility to the illiterate and unskilled poor. The urban poor's fervent devotion to Islam, support for the war, and fealty to Khomeini allow the regime to ask great sacrifices of them. The poor believe they are the "winners" of the revolution and readily accept propaganda blaming their ills on the war, agents of the former Shah, and foreign—especially US—meddling.

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The clerical regime has maintained this support by redistributive economic programs and a strong mosque network that reaches down to the block level. Food is provided through local mosques, and other goods and services are subsidized by the government. The Foundation for the Oppressed, which took over assets from the former Shah and his supporters, sells discounted items to the poor. The Foundation's properties initially were worth \$8 billion, and it controls at least 900 companies and agribusinesses,

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Government make-work programs and the operation of many nationalized firms even at a loss helps limit unemployment. Former Plan and Budget Minister Taqi complained in April 1986 that "false employment"—make-work projects—and unemployment together account for 39 percent of Iran's 12.3-million person work force, according to the Iranian press. [redacted] many workers laid off from nationalized firms continue to draw salaries. According to official figures, unemployment in Iran is running at 19 percent. [redacted]

Under the Shah many of the urban poor with no skills or education saw few opportunities for advancement, but the current regime rewards the loyal and the religiously devout. [redacted] hundreds of thousands of civil service jobs have been created for the lower classes. The lower ranks have also found substantial opportunities in the myriad revolutionary committees controlled by clerics. These auxiliary religious police have proved useful to radicals in eliminating leftwing opponents and, in our judgment, are used to intimidate conservative religious and political leaders. Many who hold important positions had nothing before the revolution and thus have a large stake in the Islamic republic's survival. [redacted]

The zeal of the disinherited to serve and martyr themselves in the war with Iraq is cemented by largess on the home front. [redacted] war "volunteers" are recruited through promises of gifts (promotions, raises, or other financial incentives) and threats to take away jobs or be subjected to clerical harangues. Wives or parents of the war dead receive \$280 a month plus \$56 per child, and \$118 per month is set aside for each child until it turns 18. Families of the war dead and disabled veterans get preference in obtaining goods, jobs, education, and travel discounts. Workers with six months or more of war experience get preference in promotions. [redacted]

Despite the urban poor's support for the regime, we believe that the clerics face a serious long-term problem of overcrowding in the cities because of rural migration. The population of all major cities has risen dramatically faster than birthrates, according to

Iranian Government figures. Between 1979 and 1986, Tehran's population has more than doubled, to at least 9 million—one-fifth of Iran's population. We believe that programs favoring the urban poor are responsible for the increased rate of rural migration since the revolution. Government efforts to stem the flood of rural immigrants have foundered because of the large gap between rural and urban incomes and the political necessity of maintaining urban welfare programs. Rapid urbanization and its consequent social and economic difficulties were major factors in the Shah's downfall. [redacted]

Overpopulation is straining public services and increasing social problems such as crime and drug abuse. The Iranian press reports that traffic problems and air pollution in Tehran are becoming intolerable. Gridlock is a common feature of Tehran's rush hour, and Revolutionary Guards describe their traffic duties in the capital as nearly as dangerous as fighting at the front. The shortage of adequate housing in major cities is acute, causing rents and property values to soar. Regulations on land use, construction, and sales have only hampered private-sector home construction and spawned tremendous corruption. [redacted]

**Modern Industrial Sector**

We believe that industrial workers generally support the regime but represent a potential threat because they are more dissatisfied with the economy than the rest of the working class. Although workers in large industrial workshops—those employing more than 10 workers—represent only about 10 percent of the urban work force, they command greater political importance because large modern factories make it easier to organize workers and concentrate economic power. [redacted]

The industrial sector has been harder hit by import cuts than most other sectors of the economy, idling workers and ending many of the benefits enjoyed under the Shah. Iran depends on imports for about 95 percent of its machine spare parts and 75 percent of its raw materials. In 1985, war expenditures combined with a weak oil market limited industrial

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imports to about one-third of those needed to maintain production at prerevolutionary levels,

[redacted] The large fall in oil prices at the beginning of this year forced large-scale factory closures and layoffs. Most workers' salaries have increased little since the revolution, despite high inflation. In many factories, deteriorating equipment is allowed to wear out or is operated without proper maintenance, making working conditions dangerous and uncomfortable. [redacted]

The war almost certainly has added to worker resentment. [redacted] unions and employers must provide quotas of *basij*—irregular militia—for duty at the front. Employees refusing to go lose their jobs. [redacted] a majority of workers resent “volunteering” one day of work each month without pay for the war effort. [redacted]

#### Labor Unrest and Government Response

Dissatisfaction over eroding wages and working conditions has led to strikes in large factories throughout Iran, particularly in late 1984 and early 1985. In November 1984 the largest strike since the revolution occurred when at least 18,000 workers struck at the Esfahan steel works—the largest industrial complex in Iran—to protest working conditions and threatened layoffs, [redacted]

[redacted] Sympathy strikes followed in factories throughout Iran. [redacted]

[redacted] strikes over the past two years in most major cities including Tehran, Tabriz, and Shiraz, and unrest in virtually every industry, including the critical oil sector. [redacted]

[redacted] disgruntled workers have committed acts of sabotage. [redacted]

Some activists have tried with little success to use labor unrest to create independent unions or a national opposition movement. [redacted]

[redacted] clear indications that some strikes in various locations have been coordinated. [redacted]

[redacted] the exile opposition press report that the Solidarity Committee of Iranian Workers was involved in the Esfahan steel strike and that a principal demand—unmet by the government—was

recognition for their union. Nonetheless, no large independent unions or national workers' organizations have emerged, and most strikes have focused on specific work-related issues. This is the result, in part, of the Shah's strong repression of unions that left little tradition on which organized labor could build. [redacted]

The government has been able to control workers through a combination of intimidation and conciliation. Strikes have frequently been met with violence and arrests, and [redacted] this has frightened many into forgoing open protests. For example, Revolutionary Guards killed 10 demonstrators at a rally for striking cement workers in Shiraz in early 1985. Leftist political parties that hope to organize workers—principally the Mojahedin, Fedayeen, and Tudeh—have been brutally suppressed. Moreover, the regime plays on widespread religious devotion and its ability to provide promotions and other rewards to cultivate loyalty in workshops. [redacted]

In selected cases the government has at least partly capitulated to striking workers. The Esfahan steel strike ended with some compromise by the regime after violence and arrests failed to end the work stoppage. In January 1985 the government capitulated to oil-refinery worker demands in the face of widespread demonstrations over shortages of heating fuel. Still, Khomeini and top government officials regard strikes as actions of counterrevolutionaries, and labor leaders have suffered following successful strikes. [redacted]

The regime also has countered independent unions by setting up Islamic societies and work councils run by clerics or loyalists. These organizations ensure participation at prayers, marches, and rallies; identify counterrevolutionaries; and encourage volunteers and contributions for the war, [redacted]

[redacted] Established in late 1985, Islamic work councils are specifically aimed at large units—employing more than 35 workers—to “raise the quality and quantity of production and prevent acts of sabotage by corrupt groups,” according to the Iranian press. Concern that the councils may become

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politicized prompted the Labor Minister to publicly warn the new councils that "storms caused by wrongdoing could endanger them as well." [redacted] describes the worker response to Islamic councils as only lukewarm. [redacted]

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**Outlook**

In our judgment, the regime will be able to provide the food and other basic goods needed to maintain the support of the working class. Although dissatisfaction with the economy is increasing, the war and threats from outside enemies will probably be sufficient to rally the people, especially while Khomeini lives. More important, there remains no opposition group with a significant following among the urban poor. Nevertheless, we believe a military defeat or a lengthy deadlock could eventually turn Iran's working class—which provides the rank and file of the Revolutionary Guard—against the war. If widespread unrest develops, it will probably begin with industrial workers who have a demonstrated potential to mobilize quickly large numbers across the country. Should significant unrest develop among the urban poor, the regime could be forced to shift its focus at least temporarily from the war. [redacted]

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Initially, workers will rally to Khomeini's putative successor, Ayatollah Hosein-Ali Montazeri. With the restraining influence of Khomeini gone, however, economic hardships could turn the working class violently against the bazaar and the middle class. Black-market profits reaped by bazaar merchants make them ready scapegoats for failed economic policies. The higher standard of living and continued rejection of Islamic values by the middle class also make them targets of wrath. Islamic radicals and Communist agitators have already tried to tap working-class resentment for political purposes by attacking the government's removal of urban squatters, hoarding by bazaar merchants, and policies allowing members of the middle class to recoup property lost after the revolution. [redacted]

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### India's Ties to Radical Middle Eastern States and the PLO

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The recent terrorist hijacking in Karachi involving Indian citizens may cause India to reexamine its relations with radical Middle Eastern states and the PLO (Palestine Liberation Organization). New Delhi maintains ties to Iran, Iraq, Libya, Syria, and the PLO to protect its economic interests, to assert its leadership in the Nonaligned Movement, and to assure its 80 million Muslim minority population that it is sensitive to its views. Its most important relationships are with Iraq, Iran, and Libya. New Delhi's relations with Iraq are the most extensive and the least troubled. India buys more oil from Iraq than from any of the other states and maintains its largest overseas military training operation in that country. Relations with more radical Iran and Libya tend to be strained, in part because New Delhi is wary of efforts by these two states to arouse Islamic revivalist sentiments in India. Indian diplomatic, economic, and military ties to Syria and the PLO are negligible.

The Iraqis are disappointed, however, that India has not taken a more pro-Iraq stance on the war. Of the four radical states and the PLO, Iraq has the largest diplomatic staff in India. New Delhi, in turn, maintains an embassy in Baghdad and a consulate in Al Basrah.

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Indian-Iraqi economic relations are based primarily on New Delhi's imports of oil and remittances from Indian workers and contractors in Iraq. India imports about 50,000 barrels of oil per day from Iraq—about 16 percent of its oil imports. Lower oil prices and the prolonged war with Iran have forced Baghdad to slash spending on economic development projects, reducing opportunities for Indian firms and Indian workers in Iraq—there were an estimated 25,000 Indian workers in Iraq in 1985. Iraq owes India \$200 million this year for past services performed by Indian companies. New Delhi recently agreed to accept oil as payment for 60 percent of the debt repayable this year. The balance has been deferred for three years. Because of the agreement, India will pay cash for only half of its oil imports this year. Mirroring the high level of economic activity, Air India has two flights a week to Baghdad, and Iraqi Air flies to India twice a week—one flight to Bombay and one to New Delhi.

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With the possible exception of Libya, New Delhi would probably respond cautiously to a US initiative asking that India publicly denounce any one of these Middle Eastern states for its support of international terrorism. The Indians most likely would assure the United States that they abhor state-sponsored terrorism but would decline to take a public position, saying they have insufficient evidence to link the Middle Eastern states to specific incidents. New Delhi's unhappiness with Qadhafi's harangue against the Nonaligned Movement at the summit meeting in Harare in September and Indian suspicions that Libya may have been involved in the Karachi hijacking, on the other hand, indicate growing Indian impatience with Qadhafi.

India's most extensive overseas military training program is in Iraq. About 70 Indian military instructors provide armor, artillery, and flight training and teach at Iraqi staff colleges. Some have helped with damage assessments and tactics to counter Iranian Scud rocket attacks. An Indian civilian firm is involved in clearing some of the damage caused by these attacks. Other Indian firms have acted as suppliers or brokers in the sale of chemical precursors for the Iraqi production of nerve gas. India probably has also supplied small amounts of conventional munitions to Baghdad.

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**New Delhi's Ties to the Radical States and the PLO Iraq.** Relations with Iraq have been generally free of contention. Baghdad publicly welcomed former Indian Foreign Secretary Bhandari's 1984 shuttle diplomacy in the name of the Nonaligned Movement to secure a negotiated settlement of the Iran-Iraq war.

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**Iran.** India maintains relations with Iran as part of its role as a leader of the Nonaligned Movement and to check Iranian efforts to export Islamic fundamentalism to India. Indian-Iranian diplomacy in recent years has centered on efforts by India, as chairman of the Nonaligned Movement, to sponsor negotiations to end the Iran-Iraq war. Iran has been less receptive than Iraq to Indian attempts to broker a settlement to the war. It has pressed New Delhi to abandon its neutral position in favor of support for Iran. [redacted]

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India, for its part, is wary of Iranian interest in exporting its brand of Islamic fundamentalism. The Indians closely monitor the activities of Iranian nationals in India with an eye to their proselytizing Indian Muslims and promoting conflicts within the Iranian exile community. [redacted]

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India wants to avoid foreclosing future economic opportunities with Tehran. Iran accounts for about 3 percent of India's foreign trade and supplies about 12 percent of India's oil imports. Indian exports to Iran are primarily vehicles and iron ore. New Delhi has been pushing Iran, with little success, to increase imports of Indian goods to offset a major trade deficit. Most of the Indian workers in Iran have settled permanently and probably remit little of their earnings. India owes Iran about \$300 million for past loans, and Iran retains a share of a government-owned oil refinery and fertilizer plant in Madras. Iran Air has two flights per week between Tehran and Bombay. [redacted]

India receives approximately 8 percent of its foreign remittances—totaling some \$2.5 billion—from Indian workers in Libya. About 15 companies have been working on 62 projects in Libya valued at \$1.3 billion, and the 40,000 Indians employed there send home about \$200 million annually. Over 400 Indian technicians and engineers are employed by the International Airport Authority of India on the construction of at least one military airfield. Many Indian workers and companies, particularly those working on engineering and construction projects, probably will be returning soon because low oil

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Military ties between India and Iran are negligible. Fewer than a dozen Iranian military officers receive training in Indian technical and staff colleges. India has provided jeeps and possibly some maintenance for Iran's British-made tanks. [redacted]

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**Libya.** Indian officials [redacted] want to protect India's economic interests in Libya. [redacted]

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**India's Ties to Radical Middle Eastern States and the PLO**

	Iraq	Iran	Libya	PLO	Syria
<b>Diplomatic relations</b>					
Foreign diplomats in India	17-18	10-14	8-13	4	5
Indian diplomats abroad	2-?	2-?	8	NA	11
Foreign students in India	130	600	NEGL	NEGL	130
<b>Economic relations</b>					
India's imports ( <i>million US \$</i> )	530	400	NEGL	NA	Less than 1
Share of total Indian imports ( <i>percent</i> )	4	3	NEGL	NA	NEGL
Share of India's oil imports ( <i>percent</i> )	16	12	NEGL	NA	NEGL
India's exports ( <i>million US \$</i> )	33	108	1	NA	7-8
Share of total Indian exports ( <i>percent</i> )	.04	1	NEGL	NA	NEGL
Indian workers abroad	25,000	21,000	40,000	NA	None
<b>Air transportation links</b>					
Air India flights abroad ( <i>per week</i> )	2	None	None	None	None
Foreign carrier flights to India ( <i>per week</i> )	2	2	None	None	2
<b>Military relations</b>					
Foreigners training in India	1 senior staff school	Fewer than 12 officers	None	None	None
Indians training abroad	70 instructors providing tactical advice	None	400 technicians building airfield	None	None

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revenues have forced Libya to halt most development projects. At the end of the Indo-Libyan Joint Commission meeting in New Delhi in early July, however, the two countries signed a protocol reiterating their commitment to strengthen relations and agreed to cooperate in new areas of industry, trade, and commerce. The commission meeting appears to be an Indian effort to stay in Libya to recover the money it is owed and to protect the limited number of jobs remaining.

**Palestine Liberation Organization.** India, as a leading member of the Nonaligned Movement, has long given diplomatic support to the Palestinian cause. This position has helped to bolster the government's image at home with the country's Muslim population. India has full diplomatic relations with the PLO; the PLO has a four-person embassy in New Delhi. India's Foreign Secretary has met with

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Arafat during his swings through the Middle East in search of a settlement to the Iran-Iraq war. PLO leader Yasir Arafat addressed a Nonaligned Movement-sponsored student conference in New Delhi in November 1984 and also met with Gandhi and Indian President Zail Singh. India has no economic or military ties to the PLO. [redacted]

**Syria.** New Delhi's ties to Damascus are minimal. Although some Indian Foreign Ministry officials claim that Syria's and India's close defense ties to the Soviet Union draw them together, [redacted]

[redacted] Total commercial trade is probably less than \$10 million annually. Reflecting the paucity of trade, India planned to drop its commercial first secretary from its Embassy staff in Damascus last year. Syrian Arab Airlines operates one flight per week to New Delhi and one to Bombay. [redacted]

Political relations between the two countries are limited. Damascus has five diplomats in New Delhi, while the Indians have 11 representatives in Syria. The Syrians have given only nominal support to India's leadership of the Nonaligned Movement, [redacted] India's support for Arafat probably is an irritant in Indo-Syrian relations. [redacted]

**Can Washington Get New Delhi To Curtail Relations?**

New Delhi may be somewhat more receptive to a request by Washington that India reexamine its links to radical states in the Middle East following the Karachi hijacking and the recent assassination attempt on Gandhi. The Karachi hijacking, involving hundreds of Indian citizens and passengers of Indian origin, has drawn New Delhi further into dealing with the implications of international terrorism. Previously, New Delhi's experience was limited to Sikh extremists' hijackings in South Asia, the bombing of the Air India aircraft that exploded off the coast of Ireland, and several attacks on Indian officials abroad. New Delhi has asked Islamabad for a full report on the hijacking, indicating an interest in the hijackers' ties to the Middle East as well as Pakistan's handling of the threat posed to Indian citizens. [redacted]

Gandhi, in particular, is likely to listen more closely to an approach on Libya. His frustration with Qadhafi at the Nonaligned Movement summit meeting and Indian suspicions, on the basis of press coverage, that Libya may be implicated in the Karachi hijacking indicate growing concern. [redacted]

We believe that evidence of Libyan involvement in the hijacking could prompt the Indians to reevaluate Libyan diplomatic ties with an eye to reducing Libyan representation and activity in India. The Indians, however, probably will be reluctant to curtail their economic relations with Libya, Iran, or Iraq, given their dependence on oil imports, hard currency remittances, and interest in future opportunities. [redacted]

New Delhi is likely to ask Washington for increased intelligence sharing on international terrorism—along the lines of the successful bilateral cooperation on Sikhs. Embassy officials in New Delhi reported such Indian interest last March following a US demarche on Libyan People's Bureau personnel. In view of the recent assassination attempt on Gandhi, New Delhi's critique of Pakistani security procedures during the Karachi hijacking, and chronic Indian concern about its own capabilities, the Indians are likely to take up earlier US offers of enhanced VIP security training. They also may ask for additional airport security equipment and training. [redacted]

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**Nepal: Living With India** [redacted]

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Relations between India and Nepal have improved somewhat in the two years since Indian Prime Minister Rajiv Gandhi came to power. King Birendra's visit to New Delhi in September 1985—the first by a Nepalese monarch since 1977—produced no new policy initiatives but gave both sides a chance to demonstrate a new cordiality in bilateral relations. It also allowed the Nepalese to present their concerns—principally about New Delhi's support for King Birendra's enemies and rivals—directly to Prime Minister Gandhi. Nepalese leaders believe Rajiv may be more willing than his mother to consider their concerns. [redacted]

that accompanied the 1950 bilateral Treaty of Peace and Friendship as giving New Delhi the right to enter Nepal in force without Kathmandu's consent if Indian national security is threatened. [redacted]

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**Areas of Cooperation**

India and Nepal cooperate in a number of defense and national security areas. Also, India has agreed to maintain 100,000 Nepalese Gorkhas in its Army, and Indian Army officers recruit several times a year in Nepal. The remittances sent home by these recruits are an important resource for Nepal's economy. [redacted]

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**Differing Views of Bilateral Relations**

Nepal is sandwiched between two powerful neighbors, India and China, and has historically struggled to balance the regional interests of each while at the same time seeking to affirm its independence. Nepal's most significant ties—geographic, cultural, and economic—have been with India, giving rise to a historic fear of Indian domination. Southern Nepal is part of the Gangetic Plain—open to the Indian heartland—while in the north, the Himalayas divide Nepal from China. [redacted]

The two countries have a Treaty of Trade and Commerce, which allows Nepal to import and export commodities through Indian ports without paying tariffs. India is Nepal's largest trading partner, accounting for almost half of Nepal's trade, according to US Embassy reporting. [redacted]

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New Delhi has provided substantial assistance for Nepalese development projects such as road and factory construction, hydroelectric power plants, and irrigation schemes. Economic relations received a boost earlier this year when India agreed to furnish additional loan and grant assistance during the July visit of Indian President Zail Singh to Kathmandu, [redacted]

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Kathmandu has long tried to assert its independence from India in foreign relations. Since 1974, King Birendra has solicited international support for his efforts to declare Nepal a Zone of Peace—an effort supported by almost 80 countries including China, but not India. Nepal has also taken a high profile in the South Asian Association for Regional Cooperation (SAARC), lobbying successfully to have Kathmandu made the seat of the SAARC Secretariat. [redacted]

Other areas of cooperation include a recent decision by India, Nepal, and Bangladesh to begin water-sharing discussions. Nepal is the source of much of

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New Delhi views Nepal as a strategic buffer on its sensitive northern frontier with China and is less than enthusiastic about Nepalese efforts to chart an independent foreign policy. India has sought to limit Chinese influence and presence in the kingdom, especially in the Terai, Nepal's southernmost region. We believe that India interprets secret agreements

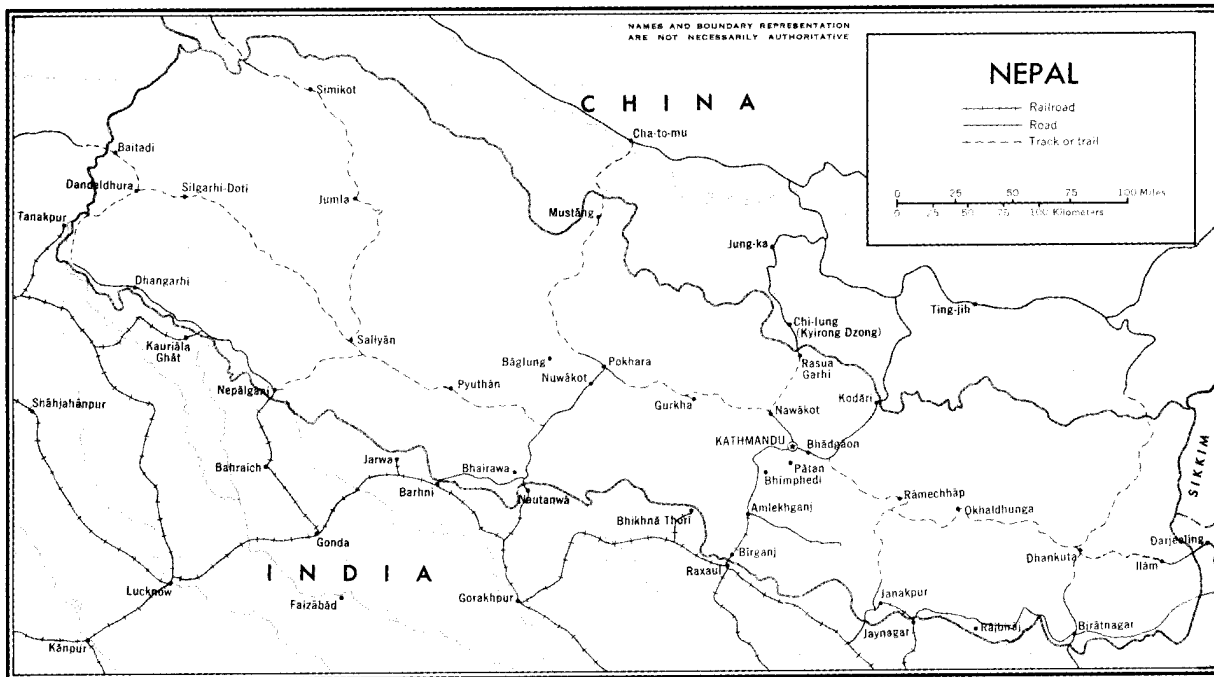
<sup>1</sup> Under the terms of the 1950 Treaty of Peace and Friendship, each country agreed to acknowledge and respect the sovereignty, territorial integrity, and independence of the other; to maintain diplomatic relations; to grant unimpeded migration for citizens of each country to the other; and to grant rights to immigrants equal to those of its own citizens. [redacted]

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the water that flows to Bangladesh and parts of India, and a water-sharing agreement between the countries has been discussed for several years. Additionally, under the auspices of the SAARC, India and Nepal plan to coordinate antiterrorism and antinarcotics programs.

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During the national election in May, [redacted] India withheld substantial last-minute campaign funds, probably because of the impressive countercampaign launched against Indian-backed candidates by promonarchy elements. As a result, fewer Indian-backed candidates were elected than in previous elections. King Birendra then moved quickly to neutralize—at least temporarily—the influence of the pro-Indian camp in the national parliament by securing unanimous parliamentary approval of his nominee for prime minister, a palace loyalist. [redacted]

The King is also concerned over India's strong influence generally in the Terai. Many Indians take advantage of the liberal immigration laws between the two countries to move to the agriculturally productive Terai from economically depressed regions of northern India. This has created fierce competition between native Nepalese and Indian immigrants for land and jobs. [redacted]

The Terai has been the scene of Sino-Indian rivalry at Nepal's expense. In summer 1985, under heavyhanded urging from New Delhi, Kathmandu reneged on an agreement with Beijing to build an important section of Nepal's east-west highway in the Terai. Instead, the Nepalese accepted an Indian offer on less favorable terms. New Delhi had reservations about the prospect of a massive, sustained Chinese presence close to India's border and about possible Chinese espionage activities, according to Embassy reporting. [redacted]

#### Outlook

Nepal has little choice but to remain on good terms with New Delhi while trying cautiously to maintain some independence in its foreign and domestic policies. The King is likely to continue to pursue improving relations with New Delhi while at the same time, in order to balance Delhi's influence, seeking a high profile in SAARC and other nonaligned forums and resorting to traditional courting of Beijing. New Delhi's willingness to meet with Nepal and Bangladesh simultaneously on the water-sharing issue and to allow the SAARC Secretariat to locate in Kathmandu will help to ease Nepalese resentment. The debacle last year over the Chinese roadbuilding

agreement, however, will make the King cautious about taking actions that New Delhi could perceive as directly threatening. [redacted]

Local elections in Nepal early next year will probably spark Nepalese rhetoric over the activities of the Indian-based antimonarchy group and the perennially divisive issues such as cross-border migration. New Delhi might take steps to limit activities of Indian-based Nepalese exile groups to demonstrate its good will toward the kingdom. [redacted]

A possible future irritant between the two countries concerns Delhi's problems with the Gorkha separatist movement in the Indian state of West Bengal on Nepal's eastern border. The Gorkhas—about 500,000 in all, according to Indian Government estimates—are ethnic Nepalese living in the Darjeeling district of West Bengal. Many came to the region in the early 1800s, while some migrated more recently under the terms of the 1950 Peace and Friendship Treaty. Leaders of the Gorkhaland separatist movement argue that the West Bengalis treat all Gorkhas as immigrants, failing to distinguish between those whose families have lived in India for generations—and therefore have the right of Indian citizenship—and those who have migrated in recent times. The separatists have demanded the establishment of a separate state called Gorkhaland as part of the Indian Union, recognition of Nepalese as an official language in India, and revocation of the clause in the 1950 Peace and Friendship Treaty allowing citizens of each country to work and reside in the other without special permits. [redacted]

To date, the Nepalese Government has maintained official silence on the Gorkhaland issue. Allegations of royal palace involvement with the separatists have been made in both the Nepalese and Indian press in recent months, while the ruling Communist government in West Bengal has alternately accused Nepal, China, and the United States of interfering. New Delhi has officially rejected the separatists' demand for abrogation of the 1950 treaty. In West Bengal, eight new checkpoints will be set up on the Indo-Nepalese border to strengthen security. [redacted]

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Although pressure on the Government of Nepal to take a position in the issue is intensifying from Gorkha separatist leaders and the Nepalese press, it is unclear what action, if any, the King is contemplating. The two countries are unlikely to take major steps to limit the large-scale cross-border migration of workers between them, despite demands from Gorkhaland separatists to revise the 1950 Peace and Friendship Treaty. New Delhi views the Gorkha issue as an internal affair, not a matter for discussion between India and Nepal.

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