



Directorate of  
Intelligence

~~Secret~~

25X1

# Near East and South Asia Review

25X1

9 October 1987

RECEIVED 26 OCT 87

~~Secret~~

NESA NESAR 87-023  
9 October 1987

Copy 320

**Page Denied**

Secret

25X1

**Near East and  
South Asia Review**

25X1

9 October 1987

Page

**Articles****Middle East: Economic Relief Despite Long-Term Problems**

1

25X1

25X1

The short-term economic outlook for most countries in the Middle East has brightened as a result of government austerity measures and the increase in earnings for oil exporters. Basic problems facing the economies—including a large debt burden and high unemployment—have not been resolved, however, posing a longer term challenge.

25X1

**The Impact of Canceling the Lavi on Israel's Aircraft Industry**

9

25X1

25X1

Israel's decision to kill the Lavi fighter aircraft program will force the country's largest defense firm—Israel Aircraft Industries—to restructure itself. Despite government efforts to minimize the impact of the cancellation, Likud politicians will seek to keep the issue alive in anticipation of next year's national election.

25X1

**Lebanon: Junblatt's Motives for Sending Fighters to Libya**

13

25X1

25X1

Druze leader Walid Junblatt's decision to send fighters to Libya in its war against Chad is motivated largely by economic factors. Political concerns also played a significant part, however, because the request from Libya provided Junblatt with a means of ridding himself of political opponents within his militia.

25X1

**Lebanon's Communist Party**

15

25X1

25X1

The increased interest of the Soviet Union in Lebanon, combined with the failures of Western-inspired solutions for peace in the area, have laid the groundwork for an increased role for the Lebanese Communist Party. Nevertheless, the party is hindered by the growth of Islamic fundamentalism in Lebanon and recurring Syrian animosity.

25X1

Secret

NESA NESAR 87-023  
9 October 1987

Secret

[Redacted]

25X1

**Sudan's Economy: Is Reform Possible?**

[Redacted]

17

25X1  
25X1

Khartoum and the International Monetary Fund have worked out a reform package that is scheduled to be implemented sometime this fall, but much more will be necessary before sustained economic recovery can begin. In the interim, the economy will remain a source of vulnerability to whatever Sudanese Government is in power.

[Redacted]

25X1

**Egyptian Counterterrorist Units: Limited Capabilities**

[Redacted]

21

25X1  
25X1

Cairo's efforts to develop counterterrorist forces have intensified during the past few years, but progress toward this goal has been slow and hindered by economic constraints. As a result, Egypt's dedicated counterterrorist units remain largely incapable of fulfilling their missions.

[Redacted]

25X1

**Iraq's Security Services: Saddam's Ruthless Octopus**

[Redacted]

27

25X1  
25X1

President Saddam Husayn's pervasive and ruthless security services have thwarted coup attempts by the Iraqi Army, Ba'th Party, and Iraqi dissidents. The effectiveness of the services has helped Saddam to prosecute the war with Iran as he sees fit and will help fend off challenges to his rule after the war's end.

[Redacted]

25X1

**United Arab Emirates: Economic Disparities Test the Federation**

[Redacted]

31

25X1  
25X1

Economic growth in the United Arab Emirates in the next several years probably will be insufficient to provide adequate jobs for the growing number of well-educated youth and will further frustrate federal efforts to deal with regional economic disparities.

[Redacted]

25X1

**The Impact of Corruption on Stability: A Look at Oman**

[Redacted]

35

25X1  
25X1

Government graft has been linked to Sultan Qaboos's reign since he seized power from his father in 1970. Most Omanis do not perceive this as drastically deviating from accepted norms or tangibly damaging Oman's prosperity,

[Redacted]

25X6  
25X1

Secret

Secret

[Redacted] 25X1

**Brief** Syria: Construction Projects in South Lebanon [Redacted] 41 25X1

[Redacted] 25X1

*Some articles in the Near East and South Asia Review 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 view of a single analyst; an item like this will be designated as a noncoordinated view.*

[Redacted] 25X1  
[Redacted] 25X1

Secret

Secret

[Redacted]

25X1

**Near East and South Asia Review**

[Redacted]

25X1

**Articles**

**Middle East: Economic Relief Despite Long-Term Problems**

[Redacted]

25X1

The short-term economic outlook for most countries in the Middle East has brightened. We believe that government austerity measures and the increase in earnings for oil exporters have laid much of the groundwork for a slow economic recovery. GDP growth of 2 percent is likely in the region in 1988 if, as we estimate, oil prices average \$18 to \$21 per barrel. Real economic activity probably will contract 0.5 percent in 1987 as compared with 4.6 percent in 1986 and 1.6 percent in 1985. The combined Middle Eastern current account and budget deficits for 1987 probably will be about 25 and 10 percent lower, respectively, than their 1986 levels. With a few exceptions—Lebanon, Syria, and Libya—economies in the region seem to have adjusted to the regional recession and austerity measures of the last two years. Despite the evidence of an upturn, basic problems facing the economies—including a large debt burden and high unemployment—have not been resolved. They will continue to test government efforts to modernize and maintain political support in the long run. [Redacted]

**Background**

Hard currency earnings plummeted during 1985 and 1986 in the Middle East because of lower oil demand and prices, reduced tourism receipts, and the lower value of the dollar. In addition, remittances to labor-exporting countries such as Jordan, North Yemen, and Sudan fell significantly as thousands of workers returned home because of fewer job opportunities in the Gulf states. Only a few non-oil-producing countries in the region—Israel, Jordan, Mauritania, and Morocco—increased growth in 1986, helped by a combination of lower oil prices and good harvests. [Redacted]

Virtually all of the governments in the region implemented austerity measures to cope with the recession. They voluntarily cut development expenditures, reduced wages and benefits, slashed imports, and increased taxes to reduce budget and current account deficits, according to press and US Embassy reporting. Mauritania, Morocco, and Tunisia were willing to reform their economies along International Monetary Fund (IMF) guidelines—for example, increasing prices of some goods such as bread and gasoline, controlling money supply growth, and devaluing their currencies. Austerity measures further dampened or reversed growth, especially in sectors heavily dependent on government spending, such as construction and trade. We believe that tight budgets forced the richer Arab states to more carefully consider their foreign aid policies. For example, the Saudi Government more closely reviews the intended uses of, and potential returns from, its aid commitments, according to the US Embassy in Riyadh. [Redacted]

25X1  
25X1

As a result of OPEC compliance with the 1986 production quota agreement, average crude oil prices rose from a low of \$12.80 per barrel in the third quarter of 1986 to about \$17.60 per barrel in the second quarter of 1987. Oil revenues of Gulf Cooperation Council members, which declined by 32 percent in 1986, rose over 6 percent during the first seven months in 1987, according to reliable economic press. OPEC members led by Iraq, Kuwait, and the UAE have recently exceeded their 16.6 million barrels per day production quota by over 2 million barrels per day, but oil prices have not fallen significantly primarily because of the risk premium

25X1

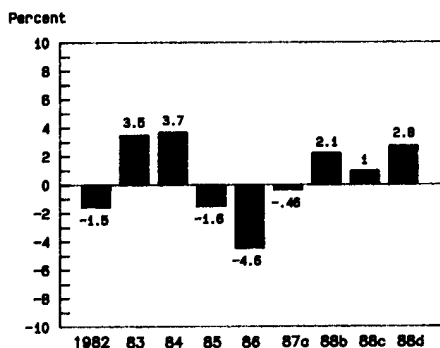
Secret

NESA NESAR 87-023  
9 October 1987

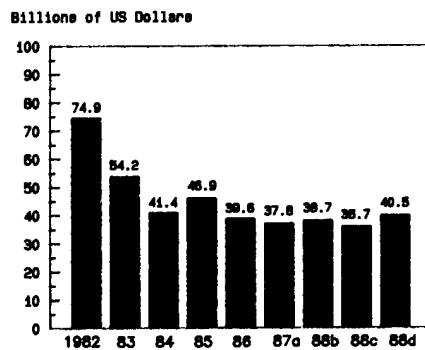
Secret

## MIDDLE EAST & NORTH AFRICA

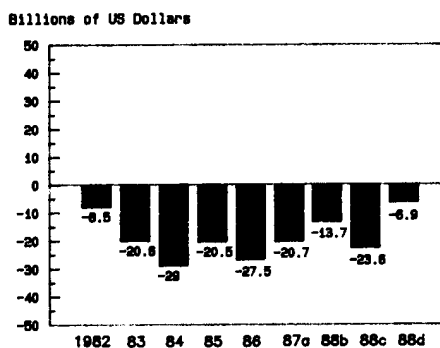
**REAL GDP GROWTH RATE <sup>e</sup>**



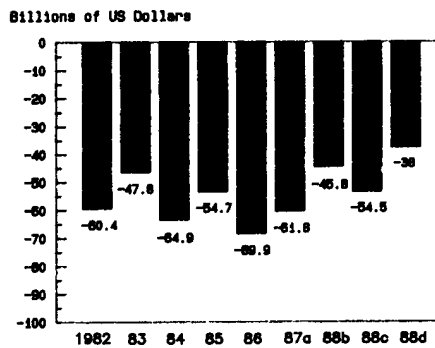
**FOREIGN EXCHANGE RESERVES <sup>f</sup>**



**CURRENT ACCOUNT BALANCES <sup>f</sup>**



**BUDGET DEFICIT <sup>f</sup>**



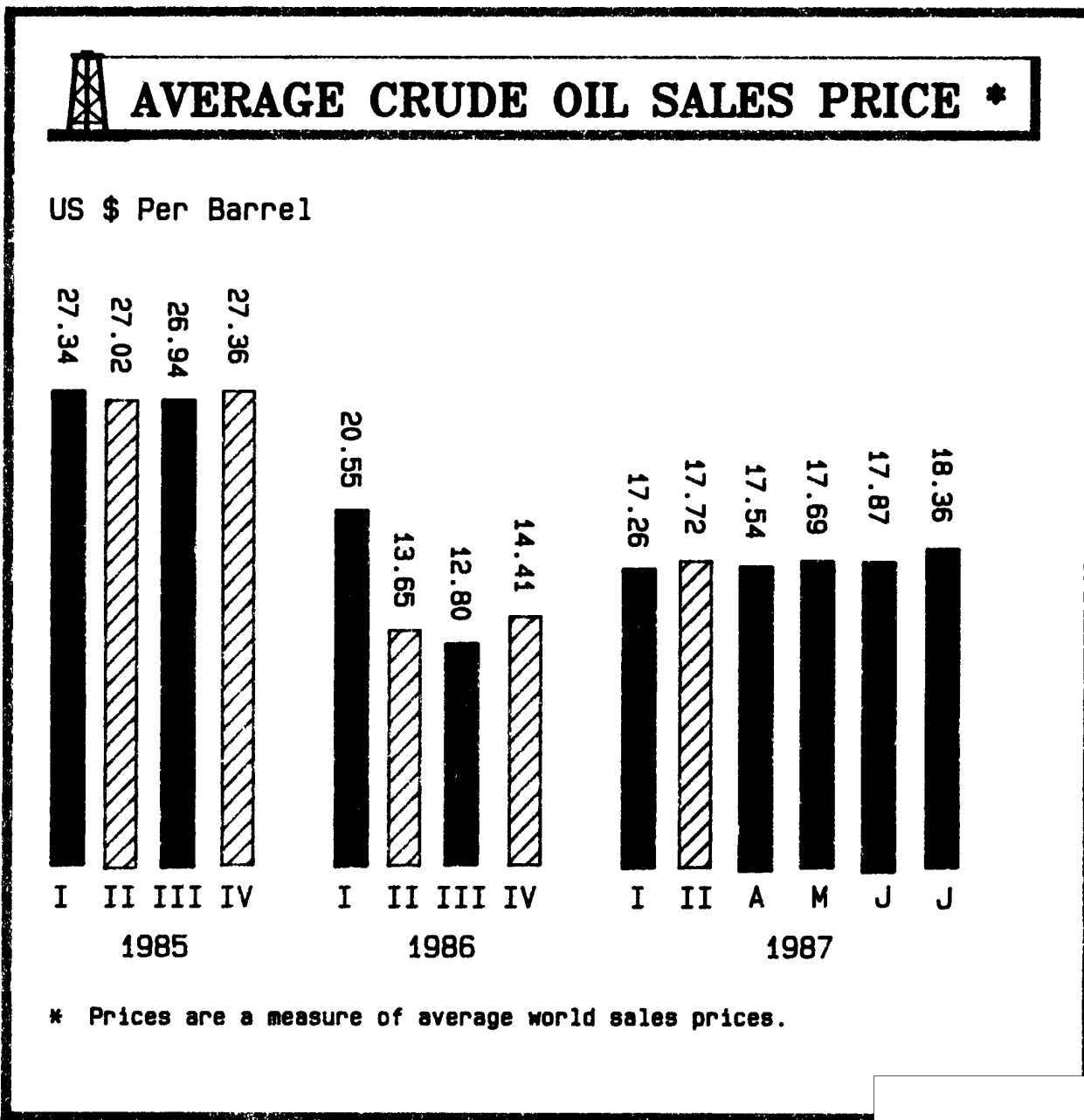
- a: Oil prices at \$18-19/barrel
- b: Oil prices at \$18-21/barrel, most likely scenario
- c: Oil prices at \$15-18/barrel, less likely scenario
- d: Oil prices at \$21/barrel or above, least likely scenario
- e: Weighted average, estimated
- f: Estimated



25X1

Secret

Secret



25X1

Secret



Secret

**Egypt: Case Study in Local Business Expansion**

*Many Egyptian businessmen have begun to manufacture consumer goods locally, particularly finished textiles and processed foods, rather than becoming importers, according to US press reports. As a result of the devaluation of the Egyptian pound by almost 60 percent in May 1987, Egyptian demand for locally produced clothing soared in preference to more expensive European clothing. In addition, factories are beginning to sell their products abroad. The government would like to expand private-sector industrial production—currently one-third of total industrial production—because it believes that the private sector is more efficient than the public sector. The government is offering new incentives to local manufacturers—a 10-year tax exemption for new factories, customs exemptions for machinery imports, and the elimination of some of the bureaucratic red tape involved in exporting.* [redacted]

associated with increased tensions in the Persian Gulf. Most private-sector oil market analysts expect prices to remain in the \$18 to \$19 range for the remainder of the year, a view that we support. [redacted]

**Some Positive Signs for 1987**

A more optimistic atmosphere prevails throughout the region:

- According to press and US Embassy reporting, domestic shortages of consumer goods have eased in Iran and Sudan. Payments to suppliers have become more punctual in Algeria, Egypt, and Sudan.
- Industrial and agricultural sectors in countries such as Iraq and Morocco are likely to perform better following government reforms aimed at reducing bureaucratic delays and expanding production.
- Tunisia has met the targets presented in the 1986 IMF standby agreement for reducing current account and budget deficits.
- Saudi businessmen have begun to restock inventories and report renewed confidence in the economy, according to the US Embassy in Riyadh.
- Banks in Kuwait are cautiously resuming lending to local businesses, according to press reports. [redacted]

Higher oil prices have enabled the oil producers to recover more quickly from slow economic growth than nonoil states. Construction firms that remained in business despite the recession have already benefited from higher levels of government spending. So far in 1987, Saudi Arabia and Kuwait have significantly increased awards for housing and small development projects. The US Embassy in Riyadh indicates that the Saudi economy has begun to expand again. The Omani Government has issued a scaled-down version of the five-year development plan that it originally shelved in 1986, according to the US Embassy in Muscat. Spending under the new plan probably will begin in late 1987, and more than half the outlays will focus on completing old projects. [redacted]

Remittances to some labor-sending Arab countries began to increase slightly in 1987. The oil-rich Gulf states—short on domestic technical, construction, and management manpower—have slowly resumed their hiring of foreign Arab labor. Workers from labor-sending countries also increasingly are seeking employment in Western Europe and North America. [redacted]

Tourism in countries such as Egypt, Jordan, and Tunisia has recovered strongly after the slump of late 1985 and early 1986, according to press and US Embassy reporting. Arab and Western tourists are returning in greater numbers, largely because of improved facilities, fewer terrorist incidents in the area, and more favorable exchange rates. [redacted]

In contrast to other developing nations, most Middle Eastern countries have relatively low inflation. Cuts in government expenditures and freezes on public-sector wages have helped to control inflation. Annual rates range from 2 percent in Jordan and Tunisia to about 20 percent in Egypt, Israel, and North Yemen—as compared with 35 percent in Latin American developing nations. Syria and Lebanon are exceptions, with annual inflation of about 100 and 200 percent, respectively—mainly the result of large military expenditures and overvalued currencies. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

**Lessons Learned From the Recession**

We believe the recession has led some governments to take a more pragmatic approach to economic decision making. It remains to be seen how lasting this approach will be, but positive changes include:

- The governments in Tunisia, Morocco, and Jordan have increasingly pursued economic diversification, stressing light industries—without heavy capital outlays—to increase foreign exchange earnings and job opportunities. According to the US Embassy, Tunisia will encourage labor-intensive rather than capital-intensive investment—an appropriate choice for countries with high birth and unemployment rates.
- Some countries are trying harder to promote exports. Morocco is marketing its phosphate products more aggressively even though prices remain depressed. Jordan probably will expand agricultural exports as much as 5 percent in 1988, as a result of the government’s attempt to encourage farmers to grow crops in demand in other Arab countries. Devaluations in Egypt and Tunisia have boosted textile, leather, and food product exports.
- Some countries are attempting to offer more incentives for private investment and capital formation. Saudi Arabia, for instance, has decided to transfer jurisdiction over bank loan disputes from the courts to the Saudi Arabia Monetary Agency, which probably will rule more fairly and quickly,

**Lingering Strains**

Although austerity measures and higher oil revenues have removed some difficulties created by the 1985-86 recession, fundamental problems persist and will plague government efforts to increase economic development and maintain political stability.

**Debt.** The region’s combined nonmilitary debt is over \$140 billion, with annual debt service payments of about \$30 billion, according to our estimates. The North African countries, except for Libya, have been the heaviest borrowers. Iraq also has increased its borrowing substantially since 1983 to cover deficits and is continually trying to reschedule its debts. Borrowing by Egypt and Algeria has increased their

already high debt service ratios to over 50 percent each. International financial institutions consider a 25 percent ratio to be dangerous.

25X1

The IMF and other international lending organizations have played an important role in negotiating bilateral debt agreements in some cases, according to US Embassies in the region. For example, the IMF has helped Tunisia obtain additional aid. The Paris Club—a group of international creditors—has provided Egypt and Morocco some short-term relief by allowing them to reschedule \$12 billion and \$900 million, respectively, of debt service payments as a result of IMF approval of the governments’ economic reform programs. The IMF and other international institutions, however, have been forced to put pressure on some debtors, such as Sudan and Syria, to meet their commitments.

25X1

**Unemployment.** Many Middle Eastern states—especially Algeria, Bahrain, Egypt, and Tunisia—continue to face severe unemployment problems that contribute to social unrest. Rapid population growth, increasing female participation rates, and growing urbanization throughout the area feed the problem and hamper government attempts to meet the growing demand for jobs. As a result of budget cuts throughout the region, college graduates are no longer assured employment in desired government positions.

25X1

Unemployment estimates range from 18 to 25 percent in North Africa. Maghreb countries have had to lay off workers in the automobile, cement, and phosphate industries, according to US Embassy reporting. Tunisia’s 1987 budget calls for the creation of 40,000 jobs, but 69,000 young Tunisians will enter the labor market this year.

25X1

25X1  
25X1

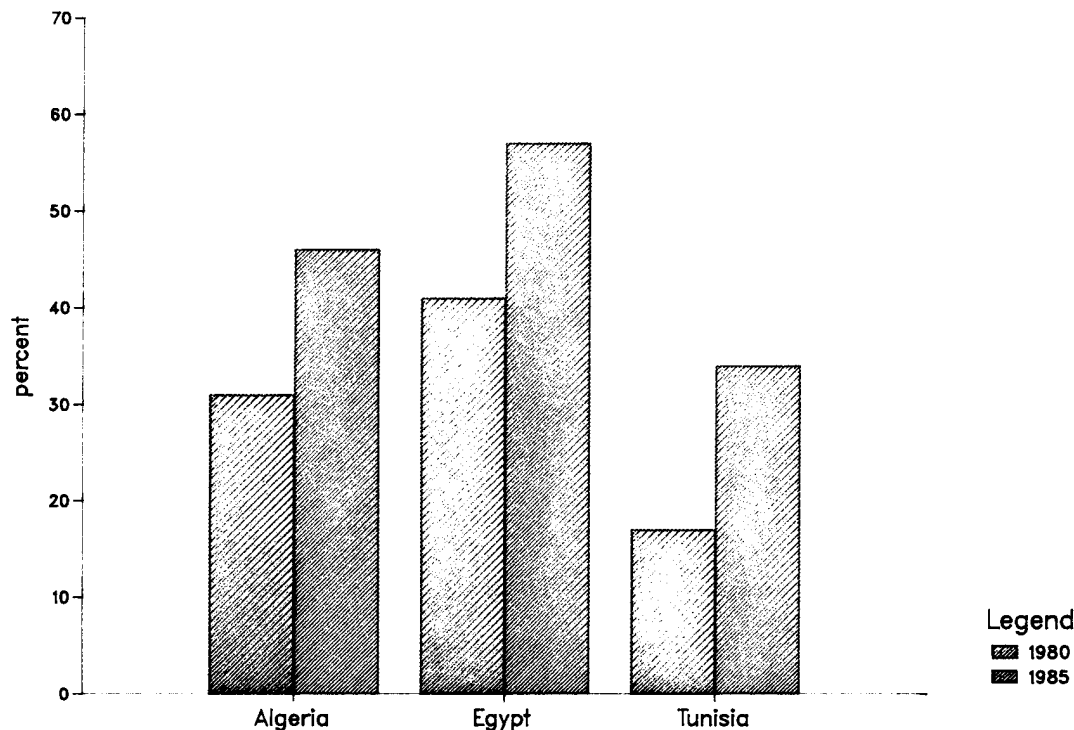
Bahrain was particularly hard hit by the recession and was forced to lay off a large number of workers. According to US Government officials, 15 percent of the population is unemployed, with the majority of these Shias. We believe further large layoffs will occur to avoid bankruptcies in major Bahraini industries.

25X1

Secret

Secret

### SELECTED DEBT SERVICE RATIOS 1980-1985



25X1

**Structural Inefficiencies.** We believe that too often governments in the region have pinned their hopes for the future on the continued strength of some sectors of the economy—such as hydrocarbons, phosphates, and remittances by expatriate labor—rather than diversifying economic activity. In addition, political expediency—rather than market processes—has played a major role in the course of economic growth. The Persian Gulf states have not sufficiently diversified their economies—resulting in the potential for “feast or famine,” given oil market conditions. Countries such as Algeria, Syria, and Iraq invested heavily in public-sector industry in the 1970s and early 1980s, but the returns have been poor and there have been chronic shortages of raw materials and

spare parts because of foreign exchange shortages. Nationalized industrial sectors throughout the region are not competitive in international markets for manufactured products. The Egyptian labor force has experienced a serious decline in productivity, according to the US Embassy in Cairo. Managers blame low productivity on labor laws that protect unproductive workers, while workers blame low wages and poor working conditions.

25X1

**Defense.** Libya, Syria, Iran, and Iraq suffer the distorting and inflationary effects of heavy defense spending. The Iran-Iraq war continues to be a

Secret

Secret

financial burden to the two antagonists, with each spending about 40 percent of its budget on military expenditures. [redacted]

**Food.** The Middle East constitutes the fastest growing food deficit region in the world. Self-sufficiency in food production is an aim of Middle Eastern and North African governments, but few are likely to achieve the goal because of soil deficiencies, water scarcities, and the harsh climate. Several countries in the region—including Egypt, Iraq, Kuwait, Saudi Arabia, and the UAE—import at least 60 percent of their food requirements. [redacted]

**Prospects Linked to Oil Prices**

The economic outlook for the Middle East will continue to depend largely on the vagaries of the world oil market, which in turn will depend on tensions in the Persian Gulf and the intensity of disagreements among OPEC members over oil prices and production levels. In all of the scenarios that follow, there will be some short-term improvements—such as higher remittances and tourism receipts. In addition, recent devaluations in some countries probably will continue to help boost nonoil exports. Recent optimism, however, probably would evaporate if the Iran-Iraq conflict widens. [redacted]

Under the most likely scenario of OPEC compliance with production quotas—or even minimal overproduction—oil prices probably will average \$18 to \$21 per barrel in 1988. Given these prices, no significant disruption of exports through the Gulf, and modest improvements in government efficiency, real GDP growth of about 2 percent could be achieved in 1988. The richer oil-producing states probably will have enough revenues to reduce current account and budget deficits and increase aid to poorer Arab neighbors. Most governments in the region probably will proceed gradually with their modernization policies, continuing to restart some development programs that had been postponed and even developing a few new small projects. Poorer oil producers such as Egypt and Tunisia probably will be

able to reduce their large foreign debts. Nonoil states such as Morocco and Sudan almost certainly will request more aid from the United States and the richer Gulf states to help pay for their higher oil import bills. [redacted]

If OPEC significantly overproduces in 1988 and oil prices fall to \$15 to \$18 per barrel, the region probably would record GDP growth of about 1 percent. If the Iran-Iraq war ended, there would also be downward pressure on prices as both countries increased oil production. At the same time, Iran and Iraq almost certainly would request aid from the Persian Gulf states to help fund economic reconstruction. [redacted]

A unified effort by oil producers to reduce output and drive up oil prices to \$21 per barrel or more could push GDP growth above 2.5 percent in the short run if oil exports could be sustained. If oil prices rose because of a spread in the Iran-Iraq conflict, some countries, such as Kuwait and Saudi Arabia, might face damage to their oil export capabilities and decreased economic growth. [redacted]

In the long run, problems such as debt, rising unemployment, and structural inefficiencies will constrain economic growth in the Middle East. Shortages of trained managerial and technical personnel will hinder efforts to improve productivity. Population will continue to increase rapidly, causing continued pressure on social services and food supplies. Cumbersome and cautious decisionmaking processes, as well as regime concerns about political stability in the face of austerity programs, almost certainly will lead to procrastination and loss of critical momentum on economic reform. The outlook is bleakest for countries that lack both resources and a commitment to reform their economies, such as Lebanon, Sudan, and Syria. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

## The Impact of Canceling the Lavi on Israel's Aircraft Industry

25X1

Israel's decision in late August to kill the Lavi fighter aircraft program will force the country's largest defense firm—Israel Aircraft Industries (IAI)—to restructure itself. The state-owned firm will lose more than \$200 million per year in Lavi contracts as a result of the canceling of the plane, and it also faces stiff penalties for terminating Lavi-related contracts with US firms. Moreover, as many as 3,000 skilled IAI workers face layoffs. Some of these workers may be considering job offers outside Israel—such as assisting South Africa to modify Mirage III fighters. Many, however, are likely eventually to be rehired by IAI to work on advanced avionics and alternative airframe programs, and others will be absorbed by private Israeli high-technology firms.

The full impact of scrubbing the Lavi has been minimized and delayed by Israel's decision to allot IAI its full Lavi funding this year, even though the plane is no longer being developed. In addition, the 22,000-strong, politically potent work force of the firm has been promised \$100 million in annual government subsidies to help defray defunct Lavi contracts. Part of these subsidies will go to continued development of the third Lavi prototype, which is to be used as a test bed for Israeli avionics systems, according to [redacted]. This will further soften the impact of the cancellation of the program and will allow Israel Aircraft Industries to retain many of its key aeronautics experts.

### Lavi—Only One of IAI's Problems

According to [redacted] IAI was in serious financial trouble—as are many of Israel's defense firms—even before the Lavi was killed. Cuts in Israel's defense budget have reduced orders by the military for IAI products, forcing the company increasingly to seek overseas markets. Even with their typically aggressive marketing strategies, the Israelis recognized that export sales were unlikely to stave off growing budget deficits. Instead, IAI had formulated plans—before the Lavi program was scrapped—to fire as many as 1,500 employees.

Personnel benefits at IAI are unusually attractive and prohibitively costly for the company. Engineers work only about 32 hours per week and are paid better than the average Israeli worker, who puts in 47 hours per week. Severance benefits, which have become particularly important with the Lavi's termination, are also generous. Each engineer laid off will be paid the equivalent of four years' salary—about \$55,000. In addition, a wasteful 25 percent of IAI's work force are service and administrative employees, some of whom were targeted for layoffs long before Lavi's cancellation.

25X1

### Lavi Termination Forces Restructuring

Lavi contracts accounted for nearly one-fourth of IAI's workload during the past five years. More than 5,000 of IAI's 22,000 workers devoted their efforts to developing the Lavi, and the company received more than \$200 million annually for Lavi contracts. Largely because of money for Lavi development, IAI expanded to an unmanageable size, according to [redacted] and several unprofitable factories have survived only because of infusions of US aid for the Lavi. The Ramta plant in Beersheba, a perennial money-loser for IAI, is a good example. Despite losing money for years, the plant remained open in expectation of fabricating components for the Lavi. The Lavi's scrubbing will allow IAI management to close the plant and cut losses.

25X1

25X1

25X1

25X1

25X1

IAI staked much of its international reputation on developing and manufacturing the Lavi and now must rebuild its image by boosting other less prestigious weapons programs. Although the principal focus of IAI in past years has been on the Lavi, the company produces and is developing a wide variety of products that can employ many, but not all displaced Lavi workers. Some of the more promising projects are:

25X1

- *Phantom 2000 radar.* A new advanced technology radar built by the electronics firm ELTA that IAI hopes to incorporate in F-4E aircraft.

25X1

Secret

NESA NESAR 87-023  
9 October 1987

Secret

**The Israeli Air Force Reaction**

Israel's air force long opposed the Lavi program on the grounds that the money could be spent more efficiently by buying proven US aircraft, with enough left over to purchase other badly needed weaponry. For years, the air force's plans have been complicated by the Lavi's uncertain future and ravenous funding demands. With the termination of the expensive and controversial fighter, air force planners for the first time in over five years can develop a cohesive long-term force plan and explore alternative projects and weapon systems. [redacted]

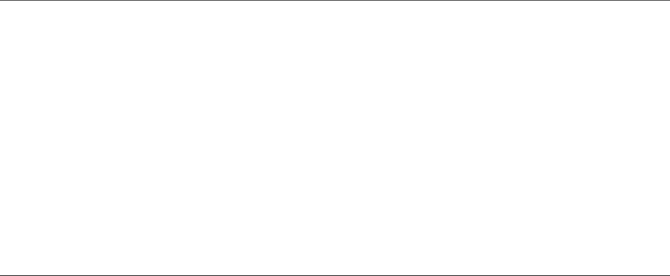


The air force appears to be overestimating the amount of funds likely to be freed by the cancellation of the Lavi. The navy and ground forces also have high-priority procurement and modernization plans and will fight for their share of Lavi money. For its part, the navy is planning to purchase expensive submarines and corvettes, using some of the money the air force hopes to secure. The army wants more money to train its reserve force and is looking to purchase modern antitank missiles, armored reconnaissance vehicles, and a variety of upgrading programs for its existing tank fleet. [redacted]

- **Falcon airborne early warning aircraft.** The future Israeli electronics collector to complement E-2C Hawkeye and Boeing 707s. This Israeli version of AWACS probably will get additional funding with Lavi's demise. A potentially lucrative export product.
- **Kfir and A-4 upgrading programs.** Since the air force will not get Lavis, IAI could modernize these older platforms, modernizing the avionics and airframes to extend their lives to the late 1990s when advanced US fighters will be available.
- **RPVs.** Some of IAI's hottest sellers and a longstanding Israeli strength. An IAI subsidiary is working on the Harpy attack RPV and expects increased air force orders in the wake of the Lavi's cancellation. The US Navy has purchased IAI's Pioneer RPV.
- **Precision-guided weapons.** IAI is developing alternative systems to the successful Popeye guided munition produced by the Israel weapons development authority Rafael and is also working on modification kits for existing unguided weapons.
- **Antitank missile systems.** The Nimrod, a 26-kilometer range missile system that can be mounted on jeeps, aircraft, or tripods, is in production at IAI. During US tests, it was found to be effective, and greater numbers could be purchased by the Israeli artillery corps.

25X1

25X1



25X1

25X1

**Israeli Cabinet Eases Lavi Termination Impact**  
The impact on IAI of canceling the Lavi was substantially reduced by the Israeli Cabinet decision

25X1

Secret

Secret

---

**Israel Aircraft Industries: Organizational Profile**

Israel Aircraft Industries (IAI) was founded in 1953 as a maintenance base for the Israeli air force and El Al Airlines. It has grown from a one hangar operation with 200 employees to an enormous aerospace complex with over 22,000 employees. [redacted]

IAI's work force includes about 4,000 engineers, 4,500 technical engineers, 8,200 production workers, and 5,600 service and administration employees. Of these, about 5,000 were involved in the Lavi's development—including about 1,500 engineers whom IAI officials consider crucial to its future as a high-technology center. [redacted] that research and development alternatives to Lavi within IAI will provide employment for about 3,700 of the 5,000 workers involved in the Lavi program. [redacted]

IAI is organized into five divisions:

- The Aircraft Manufacturing Division produces the Kfir fighter, Arava transport plane, and Westwind business jets, along with jet engine components, machine parts, and mini-RPVs. Scrapped plans for producing Lavi fighters in the 1990s are unlikely to disturb the division, since it had not begun to gear up seriously for the operation.
- The Electronics Division includes four plants—ELTA, TAMAM, MBT, and MLM. ELTA produces radars, computers, and communications

and has done considerable work on Lavi avionics—as much as 60 percent. [redacted] Much of this work is applicable to other programs or is valuable as pure research on future aircraft systems. ELTA views the Lavi's cancellation as only a minor setback.

- The Engineering Division provides support to the manufacturing units and is Israel's center for aircraft design and development—including most of the work on the Lavi airframe. Most of the lost employment will come from this division. Thus, IAI's capability to design future aircraft systems will decline.
- The Technologies Division produces patrol boats, armored cars, artillery, and a wide variety of support systems such as aircraft seats, helicopter rotor blades and parts, tank mine plows, and hydraulic systems for the Merkava tank. The impact of canceling the Lavi will be minor for this division.
- Bedek Aviation Division provides aircraft repair and overhaul services. In addition to maintaining Israeli aircraft, it has subsidiaries in Europe working on NATO aircraft and is negotiating with Turkey to modernize its F-4 fleet. The Lavi decision will not significantly affect Bedek. [redacted]

to allocate IAI its full Lavi funding this year—about \$200 million—even though it is no longer developing the aircraft. This funding will probably be used in large part for termination costs and severance pay for discharged IAI workers and to augment research and development of other programs. In addition, Foreign Minister Peres—a key advocate of an Israeli defense industrial capability—agreed to scrub Lavi only if the Cabinet assured the company \$100 million in subsidies to diminish the impact of losing Lavi funding. [redacted]

Defense Minister Rabin estimates that 3,000 IAI employees will lose their jobs as a result of the Lavi's demise, according to public interviews. But IAI intends to implement the layoffs gradually throughout the remainder of the Israeli fiscal year, which ends on 31 March 1988. The 3,000 layoffs will have only a minimal effect on Israel's overall unemployment rate—now at just over 6 percent—but Israeli officials

Secret

Secret

are deeply concerned that many of the highly skilled workers may leave Israel for better paying jobs elsewhere. [redacted] that as many as 500 Lavi-dedicated engineers have approached the South African company working on the Cheetah—the Israeli adaptation of the Mirage fighter aircraft. Although South Africa probably could not employ all 500 engineers on the relatively simple and small-scale Cheetah modification program, some Israeli engineers probably will take advantage of the close ties between the two countries' defense sectors to take lucrative positions in South Africa. [redacted]

Recent assessments in the Israeli press have minimized the impact on employment of the canceling of the Lavi. Lavi proponents like Minister Without Portfolio Arens initially claimed that over 6,000 high-technology jobs would be permanently lost. Now Israeli assessments estimate that no more than half this number of jobs will be forfeited. Although of concern to IAI officials who worry about morale and image problems, these lower job loss estimates indicate that the Lavi's death will not significantly increase Israel's overall unemployment rate and will not appreciably erode the country's high-technology capability. [redacted]

The most serious impact will be on IAI itself—and particularly on the engineering division, which will be hardest hit by layoffs since much of the work on the Lavi has been research-oriented. To minimize the impact, IAI is attempting to make the transition to new programs as quickly as possible. Many of the workers not absorbed probably will be hired by other high-technology firms in Israel, and others may be hired by the military. [redacted]

**Implications for the United States**

Public opinion polls indicate that most Israelis believe that the Lavi was canceled because of US pressure. As a result, many Israelis believe the United States owes them a debt and expect the United States to help pay for termination penalties, to provide funding for alternative programs, and to increase cooperation and

joint ventures in weapons development. IAI specifically wants US funding for a variety of its programs, including the Arrow antitactical ballistic missile, which it hopes can be funded through the Strategic Defense Initiative program. [redacted]

An Israeli official has requested that the United States increase offshore funding—that portion of Israel's grant aid that can be spent in Israel—from \$300 million to \$400 million per year to help make up the \$200 million annually that was spent on Lavi contracts. In addition, Israel has requested that the United States intercede with some of the more than 100 US companies working on Lavi contracts to seek lower termination costs and has asked the United States to help pay those termination penalties that remain on the books. The official sees the decision to cancel the Lavi as ultimately for the good of Israel, but he also views the decision as a significant concession to the United States and expects defense-related cooperation between the two countries to improve in the wake of the Lavi's termination. (S NF OC)

The domestic political debate has been blistering, but the longterm impact on next year's election will be marginal. Trade Minister Sharon and former Minister Without Portfolio Arens continue, weeks after the program's termination, to attempt to resuscitate it and blame the Labor Party for what they describe as the action most damaging to Israel's national security since the 1973 Arab-Israeli war. They repeatedly have accused Labor—specifically Peres and Rabin—of buckling to US pressure. Although their attempts to save the Lavi almost certainly will fail, Arens and Sharon appear to want to keep the issue alive in anticipation of the national election scheduled for November 1988. [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret



Secret

**Lebanon: Junblatt's Motives for Sending Fighters to Libya** [redacted]

25X1

Druze leader Walid Junblatt's decision to send fighters to Libya in its war against Chad is motivated largely by economic factors. Political concerns also played a significant part, however, because the request from Libya provided Junblatt with a means of ridding himself of political opponents within his militia. Economically, the deal will supply the Druze with hard currency, petroleum, and possibly arms.

[redacted]

Another political advantage of the deal, according to the US Embassy in Beirut, is the potential leverage it could provide Junblatt in his dealings with Damascus. Junblatt and his fighters expect to secure arms and hard currency from Libya, allowing the Druze leader to compensate for any strains between himself and Damascus. Should the relationship with Libya continue, the deal could improve Junblatt's ability to maneuver around Damascus's wishes.

25X1

[redacted] Junblatt has sent 800 to 1,100 Lebanese fighters, 250 to 300 from the Progressive Socialist Party (PSP), to Libya. The rest of the force was made up of fighters from other leftist Lebanese groups including the Lebanese Communists, Murabitun, the Syrian Socialist Nationalist Party, and the Arab Democratic Front.

[redacted]

[redacted] Libya also is to provide the PSP with two shipments of gasoline, a precious commodity in Lebanon. The shipment of gasoline, if reexported, could provide the PSP with much needed hard currency. An additional source of hard currency will come from the reported individual salaries of \$500 to \$2,000, if the money is returned to Lebanon, where the average monthly salary has fallen sharply with the rapid depreciation of the Lebanese pound. We suspect Junblatt will receive a share of these salaries and possibly Libyan military aid, both of which will strengthen the PSP's position relative to its opponents. The influx of hard currency will also provide a boost for the Druze-controlled Shuf region, which is depressed by the rapid decline of Lebanon's economy.

25X1

25X1

25X1

[redacted] The non-Druze members, who lived primarily in Beirut, have been a financial and political burden for Junblatt and the PSP since the Syrians disarmed the PSP militias in West Beirut following the Syrian intervention in the Lebanese capital in February. The PSP had continued to pay and support several of the non-Druze members even though they had lost their effectiveness and role after the Syrian intervention. The PSP will no longer have to pay or support the non-Druze members, and Junblatt will not have obviously abandoned them.

[redacted]

25X1

25X1

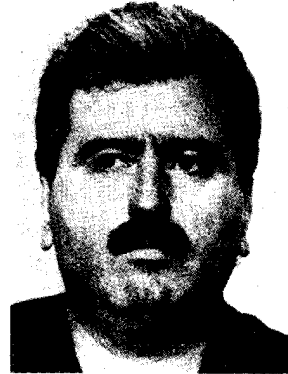
25X1

**Lebanon's Communist Party** [redacted]

25X1

Lebanon's escalating political and economic woes, coupled with stepped up Soviet activity in the Middle East over the last few years—such as the recent failed attempts to sponsor rapprochements between Syria and the PLO and between Syria and Iraq—increase the potential significance of the pro-Soviet Lebanese Communist Party (LCP). Although comparatively small, the Lebanese Communist Party wields influence in Lebanon beyond its size. [redacted]

*George Hawi, LCP Secretary General*



*Daily Star ©*

25X1

The most dramatic example of the LCP's growing influence occurred earlier this year in the capital. In February the LCP exhibited its strength in a collaborative effort with the Druze Progressive Socialist Party against the Shia Amal militia in some of the fiercest fighting in years. In a surprisingly strong showing the coalition won large sectors of Amal-controlled West Beirut, forcing the Syrians to intervene on behalf of their Shia surrogate. According to the [redacted] the LCP forces numbered about 1,000 and proved to be well organized and well trained. [redacted]

*Secretary General of the Lebanese Communist Party since July 1979 . . . has filled various posts in the LCP . . . served as editor and administrative manager of Al-Nida, party newspaper . . . Greek Orthodox . . . born 1940. [redacted]*

25X1

25X1  
25X1  
25X1

[redacted] the winter offensive was inspired by the Soviets during a meeting between Soviet envoy, Karen Brutents, and LCP and Progressive Socialist Party officials in the Shuf region. [redacted]

[redacted] a meeting did take place at the Lebanese Communist Party congress shortly before the outbreak of fighting. [redacted]

regional committee, which in turn is responsible to the Central Committee. From among its members the Central Committee elects a Secretary General to supervise party activities and elects the Political Bureau to direct the party's daily affairs. George Hawi has been Secretary General since 1979. [redacted]

25X1

25X1

25X1

25X1

**Relations With Moscow**

Founded in the early 1920s by a group of Lebanese intellectuals, the LCP controlled Communist political activity in both Syria and Lebanon until 1944, when the parties split. The Lebanese Communist Party was outlawed by the French mandatory government in 1939, but the ban was relaxed in 1943. The LCP claims members from all economic and social groups and is organized along traditional Communist lines. The basic organizational unit is the group, composed of seven to 10 members in a particular neighborhood. The group elects a secretary who is responsible to the

The LCP has benefited greatly from its close ties to the Soviet Union. [redacted] Soviets have supplied weapons and military training to members of the LCP. [redacted]

25X1

25X1

25X1

25X1

Secret

[Redacted]

The Syrian entry into West Beirut in February posed another obstacle to LCP goals and effectively denied the LCP the strengthened position it could have claimed by a successful struggle against Amal. The coalition between the Progressive Socialist Party, the LCP, and other leftist groups formed in February has suffered dramatically since the Syrian intervention robbed them of almost certain victory over Amal and has further weakened their political clout.

25X1

LCP publications claim that its objective is not to set up a Communist or a socialist order in Lebanon, but a democratic system free of foreign influence.

Therefore, although the LCP may follow the Soviet party line, it adapts it for its own use. In short, the LCP rejects interference by any Arab state in internal Lebanese politics and denounces Israel as an aggressor and threat to the Arab world, a popular stand in Lebanon.

Despite animosity toward the Syrians, the LCP recently agreed to join the Syrian-sponsored Muslim coalition, the Liberation and Unification Front, to placate Damascus. The LCP has been allied with Syria in the past, but these alliances have been of limited scope and duration.

25X1

25X1

25X1

**Opportunities and Obstacles**

The increased interest of the Soviet Union in Lebanon, combined with the failures of Western-inspired solutions for peace in the area, have laid the groundwork for an increased role for the LCP.

Nevertheless, the LCP is hindered by the growth of Islamic fundamentalism in Lebanon.

**Outlook**

The LCP will remain a small but important player in Lebanon regardless of these setbacks, if only because of its direct ties to the Soviet Union. The Soviets appear determined to maintain independent channels to the government and various factions in the country despite the Syrian presence in Lebanon. As Lebanon sinks further into its economic crisis, the financial and political support of the Soviet Union may give the LCP the freedom to maneuver through the perilous political times in the coming months. The LCP's relatively secure financial position may enable it to increase recruiting throughout Lebanon and further increase its role in Lebanon's political future.

25X1

25X1

25X1

25X1

Strained relations with the Amal militia continue and may alienate some Shias from the LCP. LCP officials have accused Amal of murdering two LCP Central Committee members this year.

[Redacted] LCP officials pledged to retaliate and may begin assassinating Amal officials.

25X1

25X1

25X1

Secret

Secret

## Sudan's Economy: Is Reform Possible?

25X1

Khartoum and the International Monetary Fund (IMF) have worked out a reform package the Sudanese bill as a "comprehensive economic program" that is scheduled to be implemented sometime this fall. The program's innovative approach to import financing, if allowed to function properly, would ease critical shortages of goods. Much more ingenuity, however, backed by cash from Western donors and an ideological shift from excessive government controls, will be necessary before sustained economic recovery can begin. In the interim, the economy will limp along and remain a source of political vulnerability to whatever Sudanese Government is in power.

### A Legacy of Economic Decline

Enticed by an international credit market awash in petrodollars, Khartoum embarked in the early 1970s on an ambitious program of public-sector investment. Sudan's public-sector enterprises, however, lacked the managerial expertise to use this capital efficiently. Many projects were poorly conceived and suffered from an inadequate transportation network. Together these factors produced results far below the projected gains in exportable products or import substitutes. By the late 1970s, when the grace periods on contracted debts came to an end and new inflows of foreign capital began to diminish, severe foreign payments problems emerged and Sudan's expansionary bubble burst.

Now, after nearly a decade of attempts to halt the economic slide, the Sudanese economy is operating at a very low level of capacity. Gross domestic product hovers at \$7.8 billion, or at about its 1980 level when adjusted for inflation. We believe only the underlying strength of the parallel economy—trade, investment, and employment activity fueled by unrecorded worker remittances—has prevented a total collapse. Drought in recent years, together with the interminable civil war in the south, have also contributed to Khartoum's economic woes, although Sudan has received ample foreign aid to overcome the direct impact of food shortages.

In our opinion, Sudan's economic woes can be attributed largely to the government's lack of financial discipline and to excessive reliance on controls and regulations. In addition, Khartoum's economic adjustment efforts have been applied in a partial and unsustainable manner that has done little to convince consumers and investors that economic stability will result. The Sudanese currency's consistently overvalued exchange rate has proved to be perhaps the most insidious danger to the economy, discouraging import substitution and export production and creating an incentive structure favoring services and trading activities rather than the production of commodities. The government's periodic attempts to adjust the exchange rate have failed. Exchange rate devaluations have proved to be either too late or inadequate in size, or, in the few cases in which they were adequate, their positive impact was quickly eroded by high domestic inflation whose root cause lay in the government's large budget deficits.

### Failed Government Efforts

Donor expectations in 1986 that the regime of Prime Minister Sadiq al-Mahdi might move quickly on economic reform have been dashed by nearly 18 months of inaction and policy drift. Preoccupied with squabbling among the various factions of his coalition government and with the war in the south, Sadiq has until recently been unsympathetic to new economic initiatives. Moreover, memories of the April 1985 civil disturbances sparked by President Nimeiri's ill-fated IMF-inspired reforms and their role in unseating the government probably remain fresh in Sadiq's mind. Regime efforts have been directed at acquiring stopgap external assistance to bridge critical shortages of petroleum and other commodities and at

Secret

NESA NESAR 87-023  
9 October 1987

**Secret**

maintaining price controls on basic consumer commodities in a vain effort to protect urban living standards:

- Overtures to Libya and Iran as well as inaction on economic reform have served to alienate important donors—notably Saudi Arabia—and have led some to withhold urgently needed financial support. For example, a six-month supply of petroleum from Saudi Arabia valued at \$120 million is being held up, in part, we believe, because of Saudi displeasure with Sadiq's foreign policy gestures to Iran.
- Attempts to maintain stable prices for urban consumers have resulted in steadily dwindling supplies of goods. The US Embassy in Khartoum reports that practically all imported commodities are scarce in Sudan, and petroleum stocks are estimated at no more than a few weeks' supply.

#### **A New Economic Initiative?**

Mounting domestic dissatisfaction with economic conditions, highlighted by the spate of strikes in July and the imposition of a new state of emergency, appears to have convinced the Sadiq government to move forward with an economic program. The core of the "comprehensive" program under consideration consists of a new system of import financing that allows importers to self-finance imports using foreign exchange that does not require proof of origin—black-market dollars. The program also calls for reducing the bank-financed portion of the government deficit from 34 percent to 23 percent, devaluation of the official exchange rate, increases in government revenues, and reform of state-owned companies. The plan has received qualified endorsement from the IMF, but it does not constitute a formal standby arrangement. To qualify for a standby, Sudan would have to settle more than \$600 million in overdue obligations to the Fund.

Critical to the entire reform program will be the manner in which the import-financing scheme is allowed to develop. If, as US Embassy reporting suggests, the government has revised its regulations and will require only 10 percent of the value of the imports be deposited with the Central Bank and a negotiable amount with a commercial bank before a

letter of credit is issued, then the business community may decide to participate in the program. Previously the government insisted upon a 20-percent deposit with the Central Bank and an 80-percent deposit with a commercial bank. The new system could theoretically attract several billion dollars from bank accounts held overseas and from the estimated \$2 billion a year in earnings of Sudanese workers abroad. Moreover, the additional customs revenues the new import system would bring would go a long way toward helping to reduce the bank-financed portion of the budget deficit.

#### **The Limits of Reform**

Critical to the success or failure of the economic program will be the exchange rate at which imported goods will be costed under the new import system. According to Embassy reporting, the government has informally agreed to cost imports under the self-financing scheme at 6 Sudanese pounds per dollar, close to the free market rate. This may prove to be sufficient to stimulate business interest, providing the government adjusts the rate in line with further changes in the free market rate. Such flexibility on the part of Sudan's political leadership on economic matters has not been exhibited in the past, however, and involves issues that strike at the heart of Sudan's seeming inability to implement a sustained reform effort.

A de facto devaluation along the lines indicated by the self-financing program would undoubtedly push domestic inflation, already estimated at over 50 percent, even higher and could fuel the kind of discontent that led to Nimeiri's removal. Given the fragile nature of the coalition government and Sadiq's increasingly vulnerable position vis-a-vis both the political opposition and the military, it is difficult to see this government moving ahead boldly with reform. On the other hand, Sadiq's choices are limited. If he dithers, he will risk unrest because of higher prices or because goods simply are unavailable. Recent experience in Egypt seems to suggest that a populace will tolerate higher prices—except on basic food commodities—if it has been prepared for such an eventuality by the regime.

**Secret**

Secret

**Further Actions Required**

Adopting the new self-financing import scheme would represent a significant first step, but moving forward with the other measures outlined in the economic program will be necessary to sustain economic momentum. Most important, we believe Khartoum's political leaders must abandon their penchant for statist economic solutions and at a minimum adopt a more tolerant view of market-oriented policies. The government must also project a clearer and more consistent policy on exchange rate adjustments and other regulatory procedures to present the business community with a more predictable investment climate.

None of these actions will come easy in Sudan's unsettled and fragile political environment. We believe Western aid and encouragement would play a crucial role in prodding the Sudanese to act. At a

minimum, Khartoum will have to demonstrate its ability to maintain effective controls on basic food items to show its continued commitment to the urban population's welfare. Western support in building up critical commodity supplies may instill a greater sense of confidence within the regime to proceed with the economic program. Continued Western aid, however, will require an unambiguous and sustained effort by the Sudanese Government to proceed with reform.



25X1

Secret

**Egyptian Counterterrorist Units:  
Limited Capabilities** [redacted]

25X1

Cairo's efforts to develop counterterrorist forces date to the time of the Camp David accord, when the Egyptians feared they would be especially vulnerable to attacks by groups unfavorable to Egypt's separate peace with Israel. Such efforts have intensified during the past few years as a result of a series of violent incidents like the hijacking of an Egyptian aircraft to Malta in November 1985, and more recently the attacks on prominent Egyptians and US Embassy personnel in Cairo. The disastrous raid on the Egypt Air flight in Malta, in particular, shook Cairo's confidence in its counterterrorist capabilities. Its progress in improving them, however, has been slow and hindered by economic constraints. [redacted]

We believe Egypt's dedicated counterterrorist units—Unit 777 and the Hostage Rescue Force (HRF)—remain largely incapable of fulfilling their missions and have a less than even chance of favorably resolving new terrorist incidents.<sup>1</sup> Efforts to correct shortcomings in the special units are likely to continue to fail without substantial foreign financial and training assistance. [redacted]

Nonetheless, national pride probably will cause Cairo to rely on its own counterterrorist forces, especially to resolve domestic terrorist incidents, rather than transfer responsibility for rescue tasks to more capable foreign teams. The Egyptians most likely will turn to other states, including the United States, primarily for advice and equipment and will cooperate with them in resolving international incidents. Even so, weaknesses in its counterterrorist forces probably will make Cairo more cautious in deploying Unit 777 abroad and less likely to authorize risky or bold action [redacted]

[redacted]

---

**Unit 333**

*In addition to its other counterterrorist units, Egypt has a secret civilian police unit, 333. We have little detailed information on the force, but reporting from [redacted] says that, like the HRF, it can be tasked to carry out counterterrorist operations inside Egypt to protect civilian facilities and personnel. It is also responsible for responding to terrorist incidents at Cairo International Airport. The unit probably is small and is trained in paramilitary operations to include demolitions. Besides counterterrorism, we believe the force may function as a special police unit to respond to situations that could prove embarrassing or a threat to Cairo. For example, it probably was used to quietly and efficiently arrest protestors during a demonstration in Cairo in April, according to the [redacted]*

25X1

25X1

25X1

[redacted]

25X1  
25X1

25X1

**Counterterrorist Units**

Egypt has one of the largest intelligence and security apparatuses in the world—including thousands of personnel in the General Directorate for State Security Investigations and General Intelligence and Military Intelligence services as well up to 500,000 Central Security Force members—and part of its activities are directed at detecting and preventing terrorism. In particular, the Ministries of Defense and

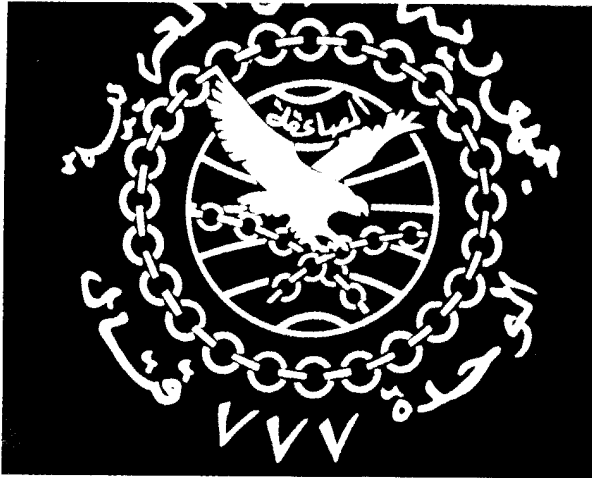
25X1  
25X1

25X1

Secret

NESA NESAR 87-023  
9 October 1987

Secret



Unit symbol for 777 [redacted]

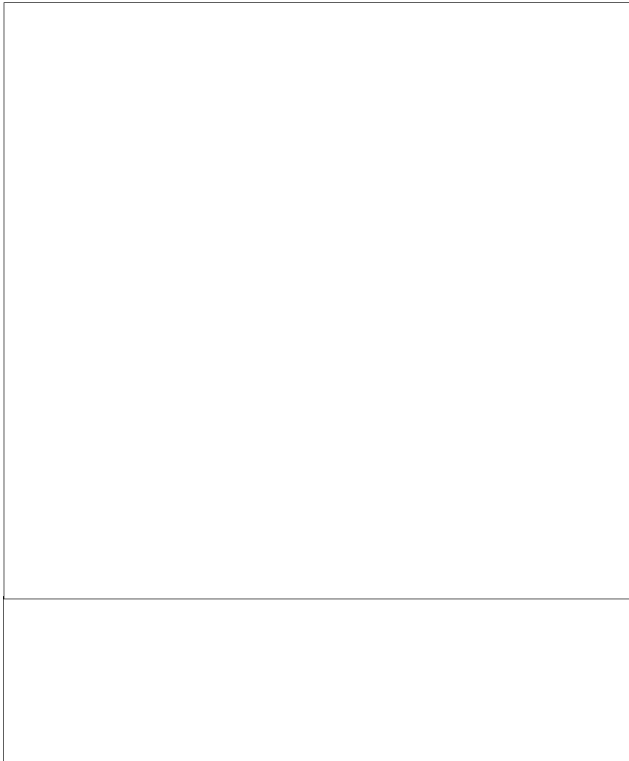


Unit 777 enlisted barracks and compound [redacted]

25X1

25X1

Interior have designated units to deal with specific terrorist threats and incidents in which hostages are taken:

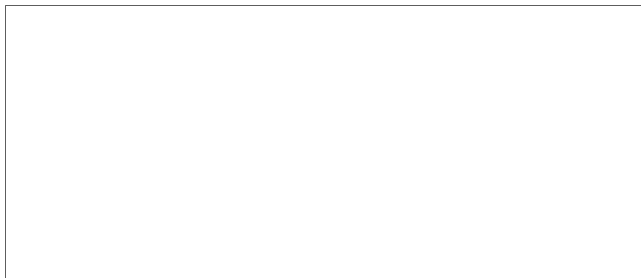


Unit 777 is Egypt's largest force dedicated specifically to counterterrorist operations, and it is organized to perform a variety of missions. According to [redacted] about 100 men serve in support roles, and some 150 form six operational groups. The operational groups in turn are divided into four teams, each with designated shooters for clearing rooms and a sniper. All operational personnel are volunteers, including some long-service professionals, and most officers are highly qualified graduates of Egypt's military academy. [redacted] individuals must complete ranger training (two and a half months) and an introductory counterterrorist course (two months). All groups are trained in tactics to counter terrorists in buildings, buses, and trains; and each is also receiving instruction to perform operations against aircraft and to carry out scuba-related missions. [redacted]

25X1  
25X1

25X1  
25X1

25X1



25X1  
25X1  
25X1  
25X1

Secret



Secret

[Redacted]



25X1

[Redacted]

25X1

25X1

[Redacted]

Two story addition above 777 enlisted barracks used in urban assault training [Redacted]

25X1

25X1

25X1

[Redacted]

25X1

25X1

25X1

25X1

Cairo has been attempting to improve the rescue skills of its counterterrorist units, but economic constraints continue to stymie progress. Unit morale has suffered as personnel have attempted to adjust to a tight operational budget.

[Redacted]

25X1

25X1

25X1

Training remains inadequate, despite help from Western countries, including the United States, West Germany, and the United Kingdom [Redacted]

[Redacted]

25X1

25X1

25X1

25X1

25X1

[Redacted]

[Redacted]

Secret

Secret

[Redacted]

[Redacted]

25X1  
25X1  
25X1

[Redacted] Cairo also has increased its reliance on 777 [Redacted] after several assassination attempts against Egyptian and US personnel during the past six months and out of concern that the appeal of radical Islam is widening.

25X1  
25X1

[Redacted]

25X1  
25X1

In addition, the counterterrorist units lack thorough contingency plans, and future operations are likely to suffer from insufficient standard operating procedures. Problems in the 1985 rescue attempt in Malta were made worse because the 777 personnel involved had not worked out in advance simple signals to learn such things as the number of terrorists and the condition of passengers, according to defense attache reporting.

[Redacted] US Embassy sources report that [Redacted] officer was killed on 15 August during an unsuccessful attempt by his team to capture the men suspected of attacking former Interior Minister Isma'il two days earlier.

25X1  
25X1

**Outlook**

Improvements in Egyptian counterterrorist units probably will continue to be slow and sporadic. New commanders have taken over 777 [Redacted] in the past year and have intensified efforts to upgrade training and rescue skills. They also look favorably on foreign assistance and will actively seek additional help to enhance their units' skills and capabilities. Nonetheless, Cairo's focus on its counterterrorist forces in the past has been driven by specific terrorist incidents and not by a long-range plan to enhance the capabilities of the units. Cairo's interest and resources provided to counterterrorist forces have diminished with lulls in attacks.

25X1  
25X1  
25X1

25X1

Poor coordination between counterterrorist forces and other security or military units increases the chances for a mishap during a crisis.

[Redacted]

25X1  
25X1  
25X1  
25X1

[Redacted]

[Redacted] We suspect that command and control problems are intensified by service rivalries—especially in the General Directorate for State Security Investigations.

Despite the limited capabilities of its counterterrorist forces, Cairo will continue to advocate harsh measures against terrorists, including using [Redacted] to resolve domestic incidents and deploying 777 outside Egypt for rescue attempts. Nonetheless, the Egyptians recognize that their forces suffer significant weaknesses. After 777's poor performance against the Egypt Air hijackers, Cairo probably will be more cautious in assessing international terrorist

25X1

25X1

**Importance Increasing**

Despite their shortcomings, Unit 777 and the HRF are better prepared than other Egyptian forces to respond to terrorist attacks, and Cairo is increasing its

Secret

**Secret**

situations and may send in 777 only as a last resort. We suspect Cairo also would look to US or other Western forces for support, though national pride would preclude 777 from deferring responsibility for the operations. [redacted] commander also would request foreign advisory assistance for major operations against domestic threats. [redacted]

25X1

25X1

25X1

**Secret**

Secret

## Iraq's Security Services: Saddam's Ruthless Octopus [redacted]

25X1

President Saddam Husayn's pervasive and ruthless security services have thwarted coup attempts from the Iraqi Army, Ba'th Party, and Iraqi dissidents. Saddam maintains control over his security organizations by appointing trusted directors, purging disloyal officials, and encouraging different agencies to monitor each other. The effectiveness of the services has helped Saddam to prosecute the war with Iran as he sees fit and will help fend off challenges to his rule after the war's end. [redacted]

### Saddam's Road to Power

Saddam Husayn has used Iraq's security services to underpin his personal power base since the Ba'th Party took power in 1968. As Vice President in 1970, Saddam founded and headed the so-called Public Relations Bureau, the predecessor of today's Iraqi Intelligence Service (IIS), according to the US Embassy. Saddam assumed direct control of the Bureau because he was concerned that the purges immediately after the 1968 coup had not assured the loyalty of the civilian and military security services to the new regime. After 1974, Saddam apparently took command of the country's other two services, the Directorate of General Security (DGS) and the Directorate of Military Intelligence (DMI). The importance of Saddam's links to these services was heightened, in part, because Saddam had few ties to the Army. [redacted]

### The Services' Priorities and Effectiveness

The services' primary domestic mission is to protect the supremacy of the Ba'th Party from the Army. The DMI and IIS have informants in all major Iraqi Army units, according to the US Embassy. These spies report directly to their respective headquarters in Baghdad. The services' pervasive presence and occasional purges of officers suspected of disloyalty have created resentment among the military, but they have so far appeared to stifle coup plotting. [redacted]

The second priority of the services is to monitor and intimidate dissident Iraqi Shias and Kurds. Iraqi security services executed Iraq's leading Shia cleric,

Muhammad Baqr Sadr, in 1980. In 1983 six close relatives of Muhammad Baqr Hakim, an exiled leader of the Dawa Party, Iraq's largest Shia opposition group, were executed after Hakim refused to return to Iraq, according to the US Embassy. Moreover, Iraq probably is still holding under detention members of the Hakim clan to exert pressure on Shia dissidents. Such executions and detentions, coupled with the penetration of the Dawa Party and Iraq's expulsion of over 60,000 Shias of Iranian extraction, probably account for the sharp decline in Shia dissident acts in Iraq since 1982. [redacted]

25X1

25X1

Iraqi security also has closely monitored Kurdish dissidents in northern Iraq, particularly since they have become increasingly active following Iran's stepped-up aid to them in 1984. Ali Hasan al-Majid, Iraq's coordinator of internal security and intelligence, was given overall supervision of the Army's counterintelligence campaign in early 1987, according to the US Embassy. The Army's ruthless tactics, which have included the razing of Kurdish villages and the control of food supplies, have reduced dissident Kurdish activity. [redacted]

25X1

Saddam has placed an equally important priority on the services' control of the Ba'th Party and government institutions. According to the US Embassy, the pervasive security presence, which includes security personnel in all government and party offices, has greatly inhibited dissent. [redacted]

25X1

25X1

### Ensuring the Services' Loyalty

Saddam Husayn depends mainly on fellow clansmen and family members from his home province, the Tikrit area, to staff the upper echelons of his security services.<sup>1</sup> Fadhil al-Barraq, director of the IIS, and

25X1

25X1

Secret

NESA NESAR 87-023  
9 October 1987

Secret

25X1



Abd al-Rahman Duri, head of the DGS, are from the Tikrit area, according to the US Embassy. Ali Hasan al-Majid and Husayn Kamal al-Majid, head of presidential security, are relatives of Saddam from Tikrit. [redacted]

Saddam does not hesitate to purge security personnel whose loyalty and competence he doubts. In 1983, Saddam purged the IIS director, his half brother Barzan al-Tikriti, and Barzan's followers in the IIS because Barzan was suspected of building his own power base and not reporting fully and accurately on IIS activities, [redacted] Saddam brought in a popular career military officer, Lt. Gen. Hisham Sabah al-Fakri, to conduct the purges before

appointing Fadhil al-Barraq to head the organization. The Iraqi leader also conducted a brutal purge of the DGS in 1973 after an attempted coup by its chief, Nazim Qazir. [redacted]

Saddam uses a system of checks and balances to help maintain control of his security services. Each service serves a different function to ensure that no service becomes too powerful, according to the US Embassy. The IIS monitors the Ba'th Party, the DMI supervises the Army except for Ba'th Party members, and the DGS is responsible for internal dissidents such as the

25X1  
25X1

25X1

Secret

Secret

Shias and the Kurds. Saddam may have created Ali Hasan al-Majid's position as coordinator of security in late 1983 to monitor the IIS following the dismissal of Barzan. [redacted]

25X1

**Could the Services Fail Saddam?**

The security services' effectiveness and Saddam's control over them make a successful coup difficult. Nonetheless, the services have not been expanded since the beginning of the Iran-Iraq war and have always been designed primarily to monitor and thwart attempted coups involving relatively small numbers of dissidents within the regime. They might find it difficult to deal with security problems created by large numbers of Iraqi draft dodgers and deserters in the wake of major Iranian victories. The services would also be spread thin by increased Kurdish guerrilla actions that succeeded in cutting main roads and damaging oil facilities in the north or by increased Shia demonstrations and terrorism in Baghdad and southern Iraq. Such developments would increase Saddam's vulnerability. [redacted]

25X1

25X1

Secret

Secret

**United Arab Emirates:  
Economic Disparities Test the  
Federation** [redacted]

25X1

Economic growth in the United Arab Emirates (UAE) in the next several years probably will be insufficient to provide adequate jobs for the growing number of well-educated youth and will further frustrate federal efforts to deal with regional economic disparities. These problems, however, are unlikely to undermine the long-term cohesion of the federation. The mutual security needs and complementary constraints among the seven emirates—disparities in manpower, finances, and political participation—provide strong motivations for keeping the federation together. [redacted]

years, but wages and employment have fallen sharply. These events have not caused the reduction of the large foreign worker force—almost one-third of the population—desired by the government, because conditions in the expatriates' home countries are often worse than the depressed conditions in the UAE, according to the US Embassy in Abu Dhabi. [redacted]

25X1

**Dealing With Disparities**

After almost 16 years of independence, the seven states of the United Arab Emirates—Abu Dhabi, Dubayy, Ash Shariqah, Ajman, Umm al Qaywayn, Ra's al Khaymah, and Al Fujayrah—have made considerable strides toward integrating their economies, defenses, and political machinery. Oil is the primary force holding the federation together. Estimates by the International Monetary Fund show that the petroleum sector accounts for 90 percent of national revenues, 80 percent of export earnings, and 40 percent of gross domestic product. Abu Dhabi and, to a lesser extent, Dubayy have used their vastly greater oil wealth to finance the federal government, provide for national defense, and fund development programs. For the most part, the emirates have directed their wealth toward the personal enrichment of a large segment of the population and the development of a relatively efficient economic infrastructure. [redacted]

Disparities in the oil wealth of the individual emirates increasingly serves to aggravate interemirate tensions. Abu Dhabi's large onshore oil reserves have low associated production costs and are subject to minimal threat from the Iran-Iraq war. Dubayy's relatively smaller oil resources are primarily located in high-cost offshore fields that leave the emirate more vulnerable to the ravages of the war and Iranian pressure. Although the UAE is a member of OPEC, Abu Dhabi is relegated to the role of swing producer for the emirates by Dubayy, which generally produces at maximum levels. By and large the oil resources of the northern emirates have fallen far short of expectations. The costly development of these short-term resources has left the smaller emirates even more beholden to the two larger and wealthier emirates. [redacted]

25X1

25X1

Soft oil market conditions since 1981, however, have tested the mettle of the federation. We estimate that oil revenues of \$7.5 billion last year were down over 63 percent from their peak at the start of the decade. Real GDP also declined at an average annual rate of 8.4 percent since 1981. In contrast to the pace of overall economic activity, the nonoil sector expanded by 2.8 percent annually during the period, as past investments evolved into viable ventures. Recession has brought inflation to a near standstill in recent

Waning oil revenues focus attention on emirate rather than federal needs. Less comfortable economic times have reinforced the primacy of emirate budgets through which emirate leaders distribute benefits to their subjects and thereby defend their respective political positions. As a result, Abu Dhabi must bear almost sole responsibility for financing the federal government. Disputes over respective contributions to the UAE budget have left federal ministries badly underfunded in recent years and increased tensions, especially between Abu Dhabi and Dubayy. Work on interemirate development projects has slowed as a result. The northern emirates are hardest hit by the cutbacks because their relative isolation and small

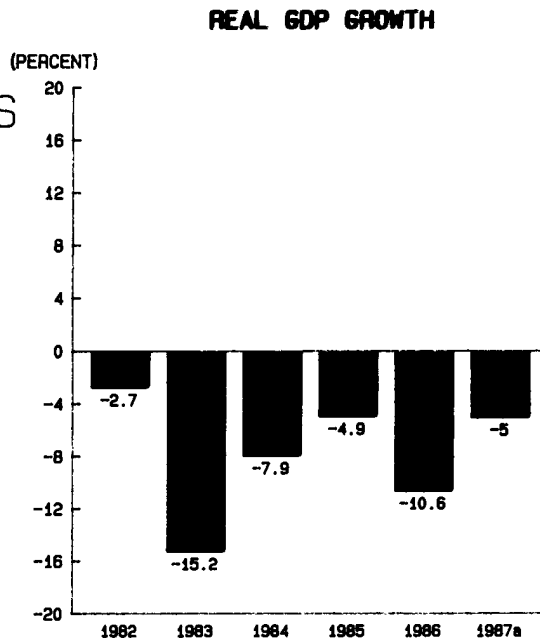
25X1

Secret

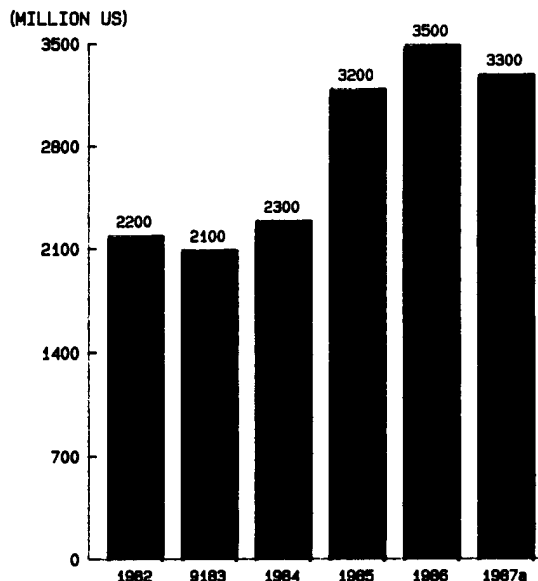
NESA NESAR 87-023  
9 October 1987

Secret

U.A.E.  
ECONOMIC  
INDICATORS  
1982-1987



**FOREIGN EXCHANGE RESERVES<sup>b</sup>**



a. PROJECTED  
b. YEAREND  
EXCLUDING  
GOLD

Secret



Secret

**United Arab Emirates: Current Account Balance**

Million US \$

	1982	1983	1984	1985	1986 <sup>a</sup>	1987 <sup>b</sup>
Current account balance	5,093	4,329	5,530	5,944	602	220
Trade balance	7,893	6,729	7,130	7,344	1,602	1,020
Exports f.o.b.	17,333	15,085	14,173	14,254	8,243	7,520
Oil	15,930	12,800	11,440	11,040	6,384	6,020 <sup>c</sup>
Nonoil	1,403	2,285	2,733	3,214	1,859	1,500
Imports f.o.b.	9,440	8,356	7,043	6,910	6,641	6,500
Net services	-1,000	-1,800	-1,400	-1,300	-800	-600
Grants	-1,800	-600	-200	-100	-200	-200

<sup>a</sup> Estimated.<sup>b</sup> Projected.<sup>c</sup> Assumes average oil exports of 1 million b/d at \$16.50 per barrel.

25X1

economies have the most to gain from national integration. Development projects in Abu Dubai and Dubayy, on the other hand, are moving apace.

authority to local tribes whose allegiance has been built up over many generations. Jealousy and suspicion run high among the member states. Each has its own budget and concentrates on domestic problems, often to the detriment of the national interest. Development projects remain the domain of each emirate, laws and local customs are often contradictory between the emirates, and each emirate maintains its own army. The coup in Ash Shariqah in June indicates how susceptible the emirates are to adverse economic conditions and intrigue. The autocratic ruling style leaves emirate leaders personally vulnerable to criticism

25X1

The UAE's foreign payments position is another source of friction. Despite the one-third cut in imports and sharply lower grant assistance since 1981, the nation's positive current account position has continued to deteriorate. Moreover, the dirham and oil prices are pegged to the US dollar, which has depreciated against the currencies of the UAE's major trading partners—Japan, the United Kingdom, Italy, and West Germany. Even this burden has not been equally shared. Increased tensions in the Gulf have had no apparent effect on Dubayy's flourishing reexport trade, especially with Iran, according to the US Embassy in Abu Dhabi. Iranian mines off the coast of the northern emirates this summer, however, disrupted lucrative tanker bunkering operations—a chief source of emirate revenue—at the Fujayrah port of Khor Fakkan.

Most emirate leaders have potentially life-shortening health conditions that could be worsened by the pressures of governing under conditions of austerity.

25X1

25X1

25X1

One of the demands on the tightly held dynastic system of rule is the pressure for political participation from a growing body of well-educated young nationals. The country has achieved universal primary education and is moving toward universal

25X1

**The Political Tableau**

Emirate politics is more an art than a science. Power still resides in the royal families who control through an intricate process of co-optation, cooperation, consensus, and crackdown. These leaders owe their

Secret

secondary education, according to the US Embassy in Abu Dhabi. The Embassy says that pressure probably will first appear in the job market and will be only mildly affected by the fortunes of the oil economy. The political rub will come as aspirants to higher level managerial and technical jobs find those positions filled, with previously unacceptable lower level jobs their only alternative. The relative youth of the population, slow economic growth in coming years, and the large number of royal family members in need of commensurate jobs, however, will sharply limit the leadership's ability to manage this potentially contentious issue. [redacted]

Iran remains the UAE's greatest external threat. Differing interests and experiences have produced differences between Abu Dhabi and Dubayy in dealing with Tehran, according to the US Embassy. Dubayy's extensive commercial relations with Iran, the proximity of its oilfields to Iranian territory, and a large expatriate Iranian community give this emirate strong motivation for maintaining cordial relations with Tehran. The northern emirates' weak economies and frustration with the level of benefits provided by the wealthier emirates invite Iranian subversion. The Iranian attack on Abu Dhabi's offshore oil facilities last November leaves that emirate more wary of Iranian intentions. These different views of Iran have frustrated attempts to provide for a coordinated national defense and a consistent foreign policy. [redacted]

**Prospects for the Federation**

Economic conditions probably will improve slowly over the next several years. With oil prices likely to fluctuate around \$18 per barrel next year, UAE oil

revenues could rise by up to 6 percent. As a result, we project that gross domestic product probably will increase by as much as 4 percent next year, the first positive growth since 1981. Conditions in the nonoil sector, in particular, should brighten as new oil funds become available. Overall, public expenditure probably will remain restricted as the government continues to grapple with the problem of securing emirate contributions to the national budget. [redacted]

25X1

Over the longer term, the many irksome problems confronting the emirates are far outweighed by the benefits of maintaining the federation, in our view. One particularly strong force that will work against dissolution of the federation is the Iranian threat, which will continue even after the Iran-Iraq war. The emirates' security interests are basically similar—cautious, nonprovocative, and defensive—a fact that ultimately will cause emirate security policies to converge. Complementary resource constraints between the emirates—financial constraints in the northern emirates and manpower constraints in Abu Dhabi and Dubayy—will probably strengthen interest in further integration. We believe that even political differences, especially between Abu Dhabi and Dubayy, will succumb to a growing interest in resolving pressing security and economic issues. [redacted]

25X1

25X1

25X1

25X1

Secret

25X1

25X1

**Page Denied**

25X1

25X1

25X1

25X1

25X1

25X1

Next 4 Page(s) In Document Denied

25X1

25X1

25X1

25X1

25X1

25X1

Secret

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

25X1

**Syria**

**Construction Projects in South Lebanon** [redacted]

25X1

Syria is engaged in several road construction projects in South Lebanon that are aimed at supporting Shia Amal leader Nabih Barri and possibly facilitating Syrian intelligence activities in the south. [redacted]

25X1  
25X1

[redacted]

[redacted] The Council of the South is a quasi-official organization that has served as a means for Barri to widen his support among Shias in the south. For Syria the projects represent practically the only remaining financial support for Amal. In addition, Damascus probably hopes to capitalize on the road construction to place Syrian intelligence officers near the Israeli-controlled Security Zone. [redacted]

25X1

25X1

**Secret**

**Secret**