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Near East and South Asia Review



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6 November 1987

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**Near East and
South Asia Review**

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Israel: Shamir at Midterm

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Likud leader Yitzhak Shamir has reached the midpoint of his term as Prime Minister. In his first year he has achieved some notable political successes, suffered few failures, and narrowed the gap between Likud and the Labor Party in polls for next year's Knesset election.

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Israel-Western Europe: Foreign Relations Report Card

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Strengthening ties to Western Europe is a crucial Israeli foreign policy goal. Israeli political standing in Western Europe suffered in the early 1980s because of the invasion of Lebanon, but it has improved since the formation of the National Unity government in 1984.

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Jordan: Fundamentalist Groups and Strategies

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Islamic fundamentalists are active and represented in all sectors of Jordanian society, including universities, trade unions, and professional associations. They have been successful in parliamentary elections and have penetrated some government ministries.

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**Syria-USSR: Strategic Ties Overshadow
Economic Differences**

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The recent Soviet delivery of the advanced MIG-29 fighter aircraft underscores Moscow's commitment to support its most important ally in the Middle East. Delays in delivery and decreased shipments of other arms into 1987 highlight problems in this relationship.

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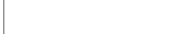
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Syria's Fledgling Submarine Force



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Syria's three Romeo class diesel submarines provide Syria with new capabilities in intelligence gathering, minelaying, commando insertion, and over-the-horizon targeting. These advantages are offset by the maintenance problems of older Soviet submarines.



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Soviet, Cuban, and East European Support to the Sudanese People's Liberation Army



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The Sudanese People's Liberation Army receives most of its foreign assistance from Ethiopia, but this assistance is heavily dependent on materiel supplied to Addis Ababa by the Soviet Union. It is augmented by support from Cuba and some East European countries.



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Egypt: Courting Ethiopia—At Least for Now



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Egyptian policymakers are increasing emphasis on improving relations with Ethiopia. The Egyptians have engineered a series of high-level contacts to improve the bilateral atmosphere and engage Ethiopian leaders on issues of mutual concern.



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North Yemeni-Libyan Relations: A Tactical Rapprochement



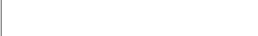
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The warming trend in North Yemeni-Libyan relations appears to be based primarily on tactical considerations. From the perspective of President Ali Abdallah Salih, Libyan military and economic assistance has provided the beleaguered North Yemeni Government a much needed shot in the arm.



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The Maghreb: Travels Through the Bled



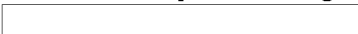
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The strongest impression of the Bled is the unfavorable contrast of Algeria's agriculture with that of Morocco and Tunisia. Algeria's problems in the rural sector stem from a lack of adequate economic incentives and present a long-term threat to the country's stability.



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Iraq: Impressions of Al Basrah [redacted] 39 25X1
[redacted] 25X1

Once larger than Baghdad and more cosmopolitan, Al Basrah had been Iraq's window to the world. Now subject to Iranian shelling, large areas of the city are deserted, although damage is not as extensive as one would expect. [redacted] 25X1

Ash Shariqah: Iran's Trojan Horse in the United Arab Emirates [redacted] 41 25X1
[redacted] 25X1

Although many of the seven emirates in the United Arab Emirates maintain relations with Iran, Ash Shariqah is most vulnerable to Iranian pressure. The ruler's close personal ties to Tehran and shared economic interests have created a special relationship with Iran. [redacted] 25X1

Middle East and South Asia: An Overview of Tax Systems [redacted] 45 25X1
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Tax systems in Middle Eastern and South Asian countries are primarily used to raise revenue for short-term budget expenditures. They generally fail to contribute to long-term budget projects such as industrial development, income redistribution, housing, and education. [redacted] 25X1

Indian-US High-Technology Cooperation [redacted] 49 25X1
[redacted] 25X1

Indian Prime Minister Gandhi's visit to Washington in October marked progress in Indo-US cooperation in several high-technology fields. New Delhi purchased a US supercomputer before the visit and has since signed a cooperation agreement on the Light Combat Aircraft. [redacted] 25X1

High-Technology Firms Prospering in South India [redacted] 55 25X1
[redacted] 25X1

Despite general industry fears of a drought-induced recession, South India's high-technology industries are doing well and expect to increase their manufacturing base and design capability. Several computer-based industries have doubled their sales over the past year. [redacted] 25X1

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Afghanistan's Maoist Factions: Which Way to the Revolution?

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Afghanistan's Maoist factions have been seriously weakened by attacks from the Kabul regime and Islamic fundamentalist resistance parties. The Maoists have lost most of the territory they controlled at the beginning of the war and have fragmented into splinter groups.



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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.



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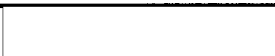
Near East and South Asia Review



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Articles

Israel: Shamir at Midterm



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In November 1987, Likud leader Yitzhak Shamir reached the midpoint of his 25-month term as Prime Minister. In his first year he has achieved some notable personal political successes, suffered few outright failures, and narrowed the gap between Likud and the Labor Party in polls for next year's Knesset election. Most important, he has consolidated his position as Likud's leader and successfully blocked proposals for an international conference on Arab-Israeli peace. Shamir's single major defeat was the cancellation in late August of the Lavi fighter plane project, a program he had supported.

Master in His Own House

In 1987, Shamir took advantage of the power of the incumbency and consolidated his position through quiet but persistent maneuvering in Likud's ranks. Viewed as a weak, transitional leader, Shamir has long faced challenges from party rivals David Levi and Ariel Sharon. Shamir was the victor at the 1987 convention of Herut—the predominant faction in Likud—and for the first time established himself as the undisputed party leader. If, as expected, he seeks to lead Likud's list for the Knesset election in November 1988, he is likely to win. The chances that Levi or Sharon will mount a serious challenge against him in 1988 have decreased in the past year.

Herut's convention in March 1987 was a major victory for Shamir. He was selected by acclamation as party chairman, a post that was vacant since Likud founder Menachem Begin retired from active political life in September 1983. The election of Shamir's chosen successor, Moshe Arens, as head of Likud's powerful secretariat was another victory for the Prime Minister. Shamir's most persistent rival, Sephardi populist David Levi, eked out a narrow victory in the contest for deputy party chairman, but his small

margin against a weak challenger was viewed widely in the party as a major setback and a symbolic victory for Shamir, according to US diplomats in Tel Aviv. Since the convention, Levi has lowered his political profile. According to US Embassy reporting, he recognizes that his chances of taking on Shamir successfully are poor.

Shamir's most important gain at the Herut conclave was probably the convention's decision to declare all its delegates as the new Herut Central Committee. Convention results suggest that Shamir controlled the largest single bloc of delegates. The new Central Committee will decide the candidates and their ranking for Herut's Knesset list next year.

Shamir has improved his standing in Herut by not allowing his party rivals to outflank him on the major issues dividing Labor and Likud. Shamir opposes an international conference on Middle Eastern peace. His firm stand against the proposal served to burnish his credentials with Likud and its allies on the right. Shamir succeeded in portraying himself as the protector of "Judea, Samaria, and even Jerusalem," according to US diplomats in Tel Aviv. He also presented Labor Party leader Peres's promotion of the conference idea as a thinly veiled and opportunistic attempt to break the National Unity government and move to an early election.

Winning Through Obstruction

Shamir largely held his fire as then Prime Minister Peres pressed for an international conference during the first half of the National Unity government. Shamir apparently did not want to risk splitting the

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government and losing his turn as prime minister by fighting a proposal that had made little practical progress. Soon after becoming Prime Minister, Shamir began to take a more aggressive stance against the conference proposal. When Peres finally sought a showdown in Israel's 10-man "inner cabinet," Shamir rallied sufficient support to force Peres to shelve his plan to hold a vote on the issue. Shamir has succeeded in turning the debate on the peace process from the conference proposal to alternative frameworks centered on direct Arab-Israeli peace talks unencumbered by superpower involvement and on functional autonomy rather than territorial compromise.

Shamir is convinced that an international conference would lead to unbearable pressure on Israel to make major territorial concessions on the West Bank, Gaza Strip, and Golan Heights. Peres declared in May 1987 that he would seek government approval for a conference, believing that international sponsorship was the only way Jordan's King Hussein could be enticed into negotiations with Israel. Peres hoped to win the support of at least one Likud member in the inner cabinet, which is split evenly between the two major parties. But Shamir intensified his rhetoric against an international conference—making it an idea that Likud members could support only at the risk of political suicide. Peres, recognizing defeat, backed down and did not even call for a formal vote in the inner cabinet.

Peres compounded his error by openly seeking an early election, stating that the National Unity government should not continue if it was deadlocked on so important an issue as the peace conference. Once again Shamir outmaneuvered Peres, lining up sufficient support in the Knesset to block Labor's early election bid. Peres for the second time in a month was forced to back down in defeat and embarrassment on a major issue. Recognizing defeat, he refrained from submitting an early election bill for a formal Knesset vote.

According to US diplomats in Tel Aviv, Shamir has benefited from the public's perception that the economy has stabilized. Moderate inflation—which at

15 to 20 percent for 1987 looks good compared with the triple-digit inflation three years ago—works to the political advantage of the incumbent. Shamir's gains from economic stability will probably be marginal. He is widely seen as disengaged from economic policy making and unwilling to lobby for further economic reforms, such as easing the burden of Israel's tax system to place the economy on a long-term growth track. Successive Likud Finance Ministers Modai and Nissim, and Peres, who was a proponent of the July 1985 economic stabilization program, have garnered most of the credit for Israel's economic turnaround. Shamir runs a risk of being blamed for any economic downturn during the remainder of his term.

Likud Loses Lavi

Until almost the end, the long Israeli debate over whether to continue developing the Lavi fighter plane was conducted on the basis of merit, not partisan politics. The final Cabinet vote on Lavi split almost entirely along party lines—Likud for, Labor against. US Embassy reporting suggests that Shamir was not committed to Lavi, realizing the economic, diplomatic, and military risks inherent in its continuation. Shamir remained undecided on the Lavi until almost the final vote, and some Shamir aides told US diplomats that he would vote for the program only if he was confident that there were enough opposition votes to kill it. Despite his doubts about the Lavi, polls demonstrate that Israelis perceive the plane's cancellation as a Likud—and hence Shamir—defeat.

Lack of Leadership

Shamir's most persistent problem in his first year as Prime Minister has been his normally low-key, [redacted] leadership. His agenda has been largely negative and reactive—against an international conference, against Lavi cancellation, and against an early election. He has not proposed many new ideas, sticking in the peace process debate to a watered-down version of autonomy that was rejected several years ago as a nonstarter and insisting on direct Arab-Israeli peace talks without superpower interference.

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US diplomats in Tel Aviv believe that Shamir's style is to avoid flashy and uncertain initiatives. In our assessment, his main goal is to finish his term as Prime Minister.

Walking a Thin Line

Since the beginning of the National Unity government, Shamir has adhered faithfully to the coalition agreement on settlements, which allowed for only six new communities in the occupied territories. Since becoming Prime Minister, Shamir has come under increasing pressure from prosettlement activists in Likud and other rightwing parties to establish more settlements. Shamir has resisted such pressure, realizing that Labor would not tolerate the establishment of more than the communities allowed under the coalition agreement.

Prosettlement forces—especially the rightwing Tehiya Party—are likely to increase their demands for additional settlements in the West Bank and Gaza Strip during the next year. Shamir is caught in a dangerous crosscurrent. If he accedes to prosettlement demands, he risks forcing Labor to end the National Unity government, increasing the chances of an early election, and curtailing his term as Prime Minister. If he continues to resist new settlements, Shamir risks pressing some Likud voters to move further to the right into the ranks of Tehiya and Rabbi Meir

Kahane's Kakh Party. Shamir is likely to hold the line on new settlements, trying to convince activists that limited funds make it more important to strengthen existing settlements.

Outlook

Shamir can take encouragement from Likud's improving status in public opinion polls in recent months. After trailing Labor before the rotation in October 1986 by as many as 10 seats, Likud recently has narrowed the gap to just a few. Polls in June and September 1987 showed that Likud, together with Tehiya, would almost equal Labor and its allies if a new election was held. Such an outcome could make another National Unity government the most likely result of next year's election. Israeli polls traditionally have overestimated Labor support and undervalued Likud's backing. Barring unforeseen developments or a reemergence of Likud leadership squabbles, Shamir will head into next year's election in better shape than most observers anticipated when he became Prime Minister.



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**Israel-Western Europe:
Foreign Relations Report
Card** [redacted]

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Strengthening ties to Western Europe is a crucial Israeli foreign policy goal. Israeli political standing in Western Europe suffered markedly in the early 1980s because of Israel's invasion of Lebanon. It has improved since the formation of the National Unity government in 1984. Although the Israeli leadership does not perceive Western Europe as a primary participant in Middle Eastern issues, Tel Aviv seeks European political support for Israeli positions on Middle Eastern peace. [redacted]

Beyond political interests, Tel Aviv is pursuing entrance to the European Economic Community and maintains a wide range of military sales and service contracts in Western Europe. Tel Aviv hopes to expand military deals with NATO countries, particularly after the cancellation of the Lavi fighter aircraft project. [redacted]

Impact of the National Unity Government

Before the formation of the National Unity government in 1984, Israelis perceived relations with Western Europe to be at a dangerously low level, according to US Embassy reporting. The Israeli invasion of Lebanon in 1982—which most European states vociferously opposed—sharply increased tensions between the Israeli forces and West European troops serving in the UN Forces in Lebanon. Rightwing Likud Prime Ministers Menachem Begin (1977-83) and Yitzhak Shamir (1983-84) further rankled West Europeans with their staunch adherence to Likud's hardline platform on Arab-Israeli issues, particularly the adamant refusal to consider territorial compromise in the occupied territories. [redacted]

The upturn in relations began with the establishment of Israel's National Unity government. When the 1984 national election failed to yield a clear victor, the two major parties—Labor and Likud—were forced to share political leadership. As Prime Minister for the first half of the 50-month term, Labor leader Peres improved the diplomatic climate with Western

Europe through more flexible peace policies and softer rhetoric. Peres tried to reinvigorate the stalled Arab-Israeli peace process, holding highly publicized meetings with Egyptian President Mubarak and Moroccan King Hassan and underscoring his party's endorsement of territorial compromise to resolve the disposition of the West Bank and Gaza. In this context, he proposed the concept of an international Middle Eastern peace conference, which after opening ceremonies would break down into autonomous Arab-Israeli working groups for conducting direct negotiations. Frequent visits to Western Europe to garner support for his conference proposal enhanced his reputation as a diplomat and statesman. [redacted]

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Tel Aviv points to a series of exchanges at senior levels and several bilateral agreements as proof of the improvement in Israeli-West European relations since the establishment of the National Unity government. According to US Embassy reporting, Tel Aviv concedes that progress in relations with some West European states is more modest than with others. In addition to the warm receptions Peres received in Western Europe, developments since 1984 that have contributed to improved Israeli-West European relations include:

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- Israel's withdrawal from Lebanon in 1985.
- Establishment of official relations with Spain in 1986.
- Increased trade and tourism with Greece.
- The successful visits to Israel by Western European leaders, such as West Germany's Chancellor Kohl and Britain's Prime Minister Thatcher.
- The visit by the Finnish Foreign Minister in 1986 and new bilateral agreements intensifying cultural exchanges and trade. [redacted]

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West European Role in Middle Eastern Peace

Although Peres sees Western Europe's role in the Middle East as secondary to that of the United States, he has proved more willing than Shamir to consider a

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supplementary role for Western Europe in regional diplomacy. As Foreign Minister since he switched jobs with Shamir in October 1986, Peres has actively sought European support for his international conference proposal. He has visited several West European capitals—including London, Paris, and Bonn—to meet with senior leaders and enlist their backing to maximize the pressure on Shamir to accept an international conclave. [redacted]

Peres has been successful in winning European support—particularly from Britain and West Germany, which have pressed Shamir through diplomatic channels and publicly announced support for Peres's conference proposal. Shamir—backed by hardliners in his party—adamantly and publicly rejects Peres's idea. Shamir has long advocated direct negotiations with Jordan and has stated repeatedly his opposition to participation by the superpowers in a Middle Eastern peace conference for fear that they will force Israel to give up the West Bank. [redacted]

Military Sales and Service Contracts

Israel is interested in expanding its access to the military sales and service market in NATO countries. Israel has established a wide range of contacts in Western Europe—including excellent bilateral military relations with West Germany, Spain, and Switzerland. Nevertheless, Israel cannot bid on many projects because operational readiness concerns have led to contract clauses limiting work on NATO hardware to the Western European theater. The Israelis have partly circumvented this restriction by establishing subsidiaries of Israeli companies in Western Europe, but the type of major contracts Israel envisions—such as servicing US helicopters and aircraft engines deployed in Western Europe—would have to be done in Israel. [redacted]

The recent cancellation of Israel's Lavi fighter aircraft program has intensified Tel Aviv's effort to obtain service and sales contracts in Western Europe. Defense Minister Rabin's economic adviser recently told US Embassy officials that Israel Aircraft Industries needed \$240 million annually in new business to replace work related to the Lavi, and that Israel expected the United States to help it win new contracts in Europe. Israel particularly wants US

assistance in securing contracts to upgrade Turkey's F-4 fighter aircraft fleet and in ensuring greater Israeli participation in maintaining and coproducing parts and ammunition for NATO aircraft. [redacted]

In addition to strict contract clauses limiting Israeli access to European military contracts, Israeli firms face an uphill battle competing with much larger and better developed West European and US companies. Tel Aviv has made important inroads in several European states. Israel and West Germany are cooperating closely in the development of armor-piercing tank ammunition, and Israel currently sells large amounts of 105mm ammunition to the West Germans. The Swiss have examined Israeli miniaturized remotely piloted vehicles and may purchase some in the near future. The Israeli firm Soltam recently began joint production of mortars with Tampella in Finland to facilitate international sales of this weapon. [redacted]

Challenge of the European Economic Community

Tel Aviv has devoted special attention to expanding its export markets in the European Economic Community, which collectively is Israel's most important trading partner. Foreign Minister Peres has expressed concern about Israel's chronic and growing trade deficit with the Community. By July the shortfall had jumped 45 percent over last year to \$2 billion. To correct the imbalance, Peres has pressed the Europeans for larger export quotas, increased financial assistance, and expanded trade opportunities in high-technology areas. [redacted]

Israel is especially concerned about the adverse impact that the Community's admission in 1986 of Portugal and Spain—competitors in agricultural products—will have on Israeli agricultural exports. Although the Community has provided some protection for Israeli citrus exports, Tel Aviv fears intense competition from Spain will erode its market share in Europe through the advantage of Community price guarantees and other subsidies. [redacted]

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Israel's desire for improved access has been further complicated by West European attempts to press Tel Aviv to allow West Bank exporters to sell directly to European markets. In discussions held in October 1987, the European Community commissioner made clear to Shamir that Israeli refusal to permit direct Palestinian sales in Western Europe would block passage of a pending Israeli-European Community trade protocol. On a positive note, the commissioner assured the Israelis that Palestinian exports to Western Europe would not count against their own quotas. A follow-up European Community delegation is scheduled to meet soon with Israeli and Palestinian representatives in Tel Aviv. [redacted]

Israeli expertise and experience in the high-technology area is highly coveted by the Europeans. The Community recently made \$63 million available for loans to small and medium-size Israeli industrial firms to encourage high-technology exports, according to press reports. Spain has signed a protocol with Tel Aviv providing for cooperation in industrial technology development. [redacted]

Outlook

Despite the improvement in relations with most European states since the early 1980s, Israelis acknowledge limits in this rapprochement with Western Europe. West European views on the Arab-Israeli conflict often hinder Israeli efforts to deepen bilateral relations. Israelis believe the West European states generally endorse pro-Arab positions on peace issues—particularly major Israeli territorial concessions on the West Bank and a central role for the PLO. [redacted]

Israel opposes continued European arms sales to Arab states formally in a state of war with Israel. But Israel has little leverage to pry West European countries—such as Britain and France—from historical ties and lucrative arms sales in the region. Although Israeli lobbying against such sales has been restrained in recent years, the prospect of increased sales to Jordan and Saudi Arabia by West European countries will probably become a more contentious issue in Israeli-West European relations. [redacted]

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The stalemate between Peres and Shamir over an international Middle Eastern peace conference probably will cloud further major improvements in relations with Western Europe. Should Labor win the 1988 national election with a sufficient plurality to form a government, Peres as Prime Minister would be unrestricted by coalition compromises, and relations with Western Europe probably would improve. A Likud victory, on the other hand, would produce a nationalistic government whose hardline views would quickly strain relations with Western Europe and return them to the chilly days before 1984. [redacted]

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Jordan: Fundamentalist Groups and Strategies [redacted]

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[redacted] although Islamic fundamentalist groups do not threaten the monarchy, previous estimates have significantly understated their strength. Fundamentalists are active and represented in all sectors of Jordanian society, including universities, trade unions, and professional associations. They have been successful in parliamentary elections and have a small but prominent bloc of six delegates in that 60- member body. The Muslim Brotherhood—the largest and only legal fundamentalist organization in Jordan—has made major strides in penetrating some government ministries. It has established a small network of schools, social service facilities, and youth programs to aid its missionary work among the population.

expression for young Jordanians and Palestinians unsettled by the country's stagnating economy and the poor job prospects. The US Embassy notes that fundamentalists have been especially successful in the poorer urban neighborhoods in Amman, the northern city of Irbid, and other towns where there is a significant gap between the rich and poor. The Embassy also reports a discernible rise in Islamic activity on campuses in recent years, noting that fundamentalists are drawing support by exploiting student grievances. Fundamentalists played an important role in the Yarmuk University riots in 1986, in which three students were killed in confrontations with government forces. [redacted]

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[redacted] younger Jordanians and Palestinians may be turning to more radical fundamentalist organizations—particularly the Islamic Liberation Party, which has substantially increased its membership despite its illegal status.

King Hussein does not appear to consider the fundamentalists a threat to the monarchy, although he recently dampened their parliamentary prospects.

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[redacted]

[redacted]

Background

King Hussein has long recognized the threat to his regime from Islamic activity and has tried to co-opt traditional fundamentalist elements. [redacted]

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[redacted] Friday sermons by all Muslim preachers—including those affiliated with the Muslim Brotherhood—must be approved in advance by the Ministry of Islamic Affairs, which also registers religious figures. The government has been quick to suppress Islamic groups that depart from governmentally sanctioned Islam, particularly groups with antimonarchical tendencies [redacted]

[redacted]

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[redacted]

[redacted] The largest is the Islamic Liberation Party, which espouses the violent overthrow of the Hashemite monarchy. [redacted]

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[redacted] this group is increasing its membership because it offers a new channel of

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According to the US Embassy, the Brotherhood has worked effectively to increase its membership and to penetrate government ministries, including the Ministries of Education, Islamic Affairs, and Youth. Programs and social services provided by these ministries facilitate contacts between Brotherhood supporters and the general public, which aid the Brotherhood's recruitment efforts. [redacted]

[redacted]

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Consequently, the Brotherhood is becoming more prominent. The Brotherhood is focusing its activities on developing a system of schools, social service facilities, and youth programs to bring people into contact with the organization. The Embassy reports that particular emphasis is being placed on programs for youth, which combine sports with prayer and religious instruction under the supervision of Brotherhood members. [redacted]

The party recently has become more active in disseminating literature, although its capability in this area is limited. During the Muslim feast of Id al-Adha last August, [redacted] the party distributed leaflets critical of the Jordanian regime. In addition, Jordanian police were recently ordered to arrest several party members for antiregime activities. [redacted]

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Outlook

We believe that fundamentalism in Jordan will grow—particularly while Jordan's economy continues to stagnate—but it will not be a near-term threat to the King. Hussein's security services can contain the activities of the clandestine groups, and we believe they will continue to do so. [redacted]

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The Islamic Liberation Party

The Islamic Liberation Party is banned because it advocates the violent overthrow of the Hashemite monarchy. [redacted]

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To monitor future candidates for parliament and restrict fundamentalist participants, a new election law requires potential candidates to submit their names to the Ministry of Interior for approval to run for office, [redacted]

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[redacted] If discovered by Jordanian authorities, the US Embassy reports that members are subject to rigorous surveillance by the General Intelligence Directorate and may be detained for questioning and imprisoned for up to several years. [redacted]

[redacted]

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[redacted]

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**Syria-USSR: Strategic Ties
Overshadow Economic
Differences** [redacted]

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The recent Soviet delivery to Syria of the advanced MIG-29 fighter aircraft underscores Moscow's commitment to support its most important ally in the Middle East. But Moscow's delay in delivering the aircraft and the steady decrease in other arms shipments into 1987 highlight the problems that trouble this relationship. Moscow is seeking Syrian cooperation on regional political matters, moderation of Syria's offensive military posture against Israel, and improved Syrian arms accounting and financial management. Moscow's tougher stance does not mean weaker relations. The Soviets are committed to maintaining and upgrading Syrian military capabilities. Although Syria's payment record with the Soviets probably will not improve in the future, economic differences will remain secondary to both countries' need for strategic cooperation. [redacted]

Massive Syrian Debt

The Syria-USSR arms relationship is the most prominent aspect of their bilateral ties. Moscow has delivered about \$14.5 billion in military equipment since 1980, and Soviet arms make up more than 90 percent of the Syrian order of battle. Syria's military debt has ballooned, even though the Soviets probably have delivered some arms free of charge or as a partial grant in the 1980s. [redacted]

[redacted] Syria's military and civilian debt to the USSR exceeds \$10 billion. We estimate the debt is about \$13 billion. [redacted]

The growth in Syrian debt to the USSR is paralleled by a steady decline in Syria's foreign exchange earnings. Export proceeds fell sharply last year with the decline in oil prices, and expatriate remittances have fallen almost 70 percent since 1981 to \$183 million last year. Official transfers of hard currency, almost all from Saudi Arabia, have dwindled 61 percent since 1981—to \$669 million in 1986. We estimate Syria's current account deficit exceeded \$550 million last year, with little prospect for a turnaround. [redacted]

Trends in Syrian-Soviet Military Trade

Syria has completed the enormous military buildup initiated following its losses in Lebanon during 1982. It is upgrading the quality of its equipment inventory and needs a large amount of materiel to sustain its forces. By early 1986 the flow of Soviet arms shipments had slowed to a trickle as compared with earlier years. Soviet military deliveries in 1986 totaled \$624 million, with deliveries confined mostly to spare parts and ammunition. We suspect that the hiatus was due to the completion of certain contracts and Damascus's inability to pay for and absorb new weapons. Following successful financial talks during Assad's visit to Moscow in April 1987, we believe that Syria and the USSR cleared the way for a substantial increase in arms deliveries. [redacted]

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Since the April visit, Soviet arms deliveries have increased. Deliveries for 1987 total more than \$1.2 billion, reflecting the shipment of 21 MIG-29 aircraft since last July. Moscow recently delivered to Syria 20 SA-2 launchers, 38 self-propelled howitzers, and multiple rocket launchers, [redacted]

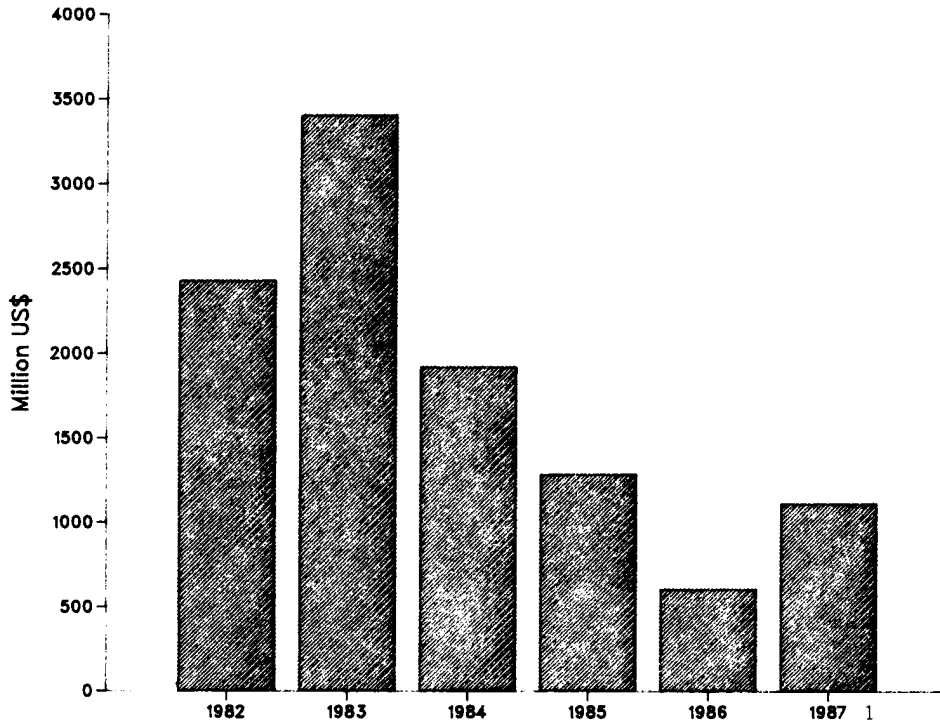
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In addition to weapons purchases, the two countries have extensive military trade involving aircraft maintenance and repairs, technical assistance, and training. These transactions are financed by letters of credit payable in dollars. Many transactions involve shipping equipment back to the USSR for overhaul. Damascus must pay for these overhauls before Moscow will return the equipment to Syria, and Moscow often holds up delivery to force Syrian payment. For example, upon completing an overhaul on a military aircraft last winter, the Soviets refused to release the plane until Damascus paid the relatively small fee for the service. [redacted]

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SOVIET ARMS DELIVERIES TO SYRIA, 1982-87



1 Through Sept 1987

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Moscow recognizes that Syria's military debt to the USSR outstrips Damascus's ability to pay. On the basis of terms common in Soviet arms contracts, our analysis indicates that Syrian obligations falling due in 1987 would total more than \$1.3 billion. We suspect, however, that special payment agreements negotiated over the past five years have reduced current obligations by about half. Regardless of the actual debt, we believe that Damascus has made only token payments on arms deliveries since 1982, confining payments primarily to downpayments, service contracts, spare parts, and technical assistance:

- Our analysis indicates that Syria's cash payments to the USSR may have been less than \$75 million annually since 1982 and much lower since 1986.

- To supplement the low payments, we believe that a share of Syrian exports to the USSR—which total \$300 million per year—is credited against the military debt.

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Syria's weak economy has forced Moscow to compromise with Syria over debt repayment.

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Syrian Trade With the USSR ^a

Million US \$

	Exports	Imports
1980	236.2	258.1
1981	349.6	387.5
1982	415.1	290.9
1983	404.9	276.8
1984	270.0	306.6
1985	230.9	385.9
1986	251.9	419.0

^a Official Soviet statistics, including some military transactions.

Although these measures will marginally relieve financial pressures for Damascus, debt relief mainly represents Moscow's recognition of Syria's virtual bankruptcy and dim economic prospects.

Debt rescheduling does not eliminate near-term financial pressures between the two countries, and Damascus is finding even minor payments to the Soviets onerous. Syria is required to pay immediately—in dollars—for some military equipment, and we believe that some debts arising from Soviet economic assistance were excluded from the rescheduling. Moscow is pressing Damascus to make payments on nonrescheduled debts, denominated primarily in rubles, totaling the equivalent of more than \$250 million.

Moscow Emphasizing Efficiency

Syria's chronic financial problems have led to deeper Soviet interest in Syria's military procurement and financial management.

Elements of Soviet-Syrian Economic Relations

Syria has extensive economic relations with the USSR. Moscow has concentrated economic assistance on infrastructure projects and trade credits, with over \$1.1 billion extended since 1981. Soviet assistance programs are facilitated by about 1,000 economic advisers and technicians.

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Trade. Syrian civilian trade with the USSR is high, over \$600 million in trade turnover in 1986, according to official Soviet statistics. Syria sells 45 percent of its exports to Communist countries, and the USSR is the largest buyer of Syrian textiles, raw cotton, and consumer goods. Syria's civilian imports from the USSR—primarily machinery—make up about 10 percent of total imports. Syria has increasingly turned to Soviet and East European suppliers as commercial relations with the West have deteriorated.

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Electricity. The USSR constructed the massive 800 MW Euphrates hydroelectric project in northern Syria during the mid-1970s and is planning to build another 64 MW hydroelectric plant downstream. Power generation from the Euphrates has been disappointing in recent years because of reduced waterflow and chronic technical problems.

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Hydroelectric production fell 31 percent between 1982 and 1985. Moscow will help build the 400 MW Tishrin power station outside Damascus, although construction has not begun.

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Industry. Soviet involvement in Syrian industry is concentrated in the oil sector. The Soviets have assisted the Syrian Petroleum Company in developing and operating Syria's older northeastern oilfields, which produce about 150,000 barrels per day of heavy crude oil. The Soviets have also brokered Syrian crude oil and product exports and are involved in natural gas development in Syria. In other sectors, the Soviets have promised to assist Syria in phosphate refining, irrigation projects, and food processing.

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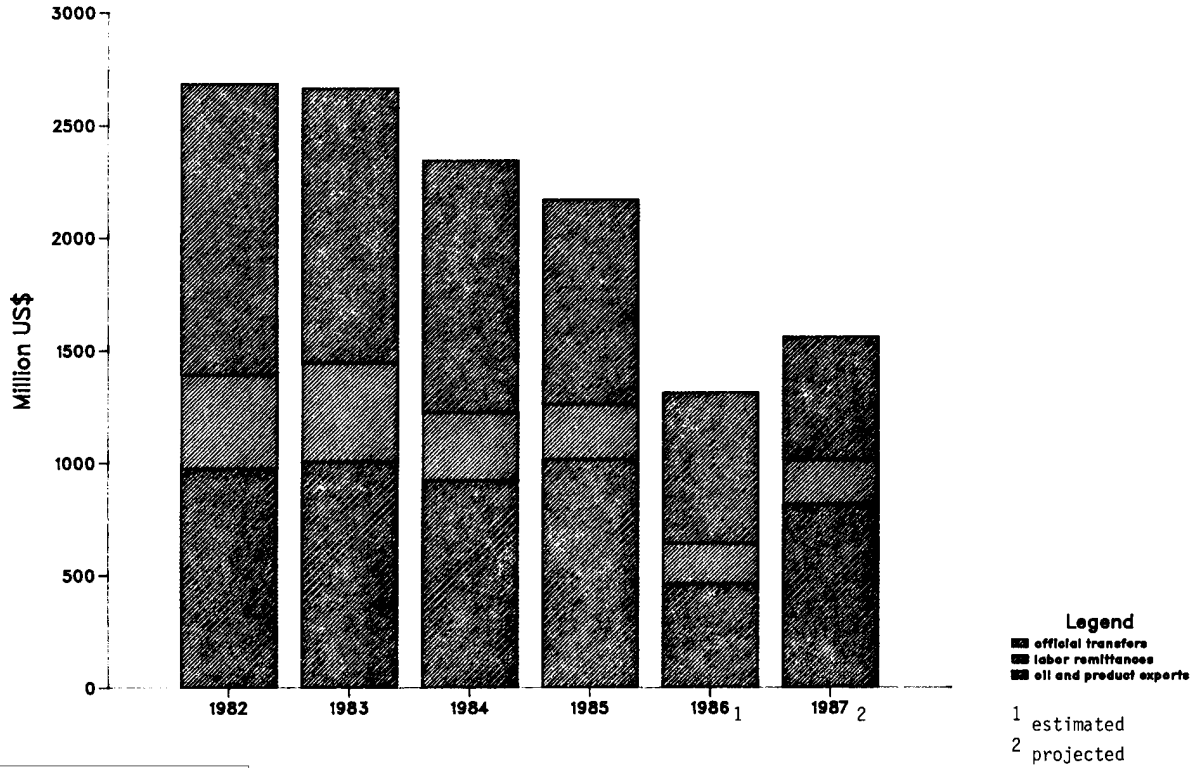
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SYRIA: MAJOR SOURCES OF FOREIGN EXCHANGE



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unit effectiveness.

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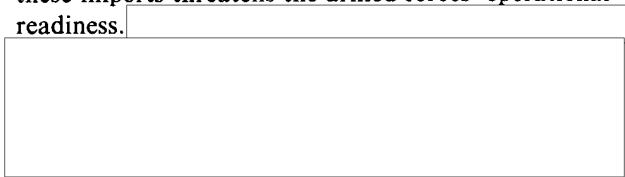
Moscow is concentrating on upgrading Syrian military efficiency and preparedness. The Soviets are pressing Syria to emphasize the quality of training over quantity of personnel and equipment. The Soviets almost certainly encouraged measures taken earlier this year to reorganize Syrian ground forces, a process intended to boost force strength of active brigades and

Syria has inadequate financial resources to absorb increased arms imports. Damascus traditionally emphasizes mass acquisition of technology, which

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requires long-term follow-on support. Soviet contracts for major weapons systems, however, usually include funding for spare parts, maintenance, and training only for a few years. We believe Moscow usually requires payment for additional support for weapon systems on commercial terms, at times in cash. Although these follow-on purchases account for only a small share of Syria's arms acquisitions, they are difficult for Damascus to afford, and curtailment of these imports threatens the armed forces' operational readiness.



Outlook

Despite recent Soviet initiatives toward other states in the region, Syria will remain Moscow's most important ally in the Middle East and receive military

and economic aid commensurate with this status. In our opinion, Moscow does not intend to support Assad's offensive concept of strategic parity, but the Soviets probably will help Syria keep rough technological pace with Israel. Although Moscow is troubled by Syrian difficulties in paying for military imports, Damascus will make little effort to boost payments to the Soviets. An increase in Syria's foreign exchange earnings will probably be devoted to importing essential items—such as wheat and flour—and reducing arrearages to Western creditors. Damascus will count on Moscow's strategic concerns to override their differences and sustain the military relationship.



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Syria's Fledgling Submarine Force [redacted]

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Syria's three Romeo class diesel submarines—although obsolete—provide Syria with new capabilities. The intelligence gathering, minelaying, commando insertion and over-the-horizon targeting—capabilities are offset by the age of the submarines and Syria's lack of experience in submarine warfare. The Syrians have so far used the Romeos for crew training—maneuvering drills and torpedo firing—and as targets in antisubmarine warfare (ASW) exercises.

[redacted]

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Antisubmarine Warfare Capability

Syria's acquisition of the Romeo has reduced its dependence on visiting Soviet submarines for use as targets during ASW training.¹ Syria uses the Romeos primarily as targets for their patrol boats and MI-14 (Haze) helicopters that participate in the exercises. The exercises, while designed more to aid helicopter and surface ship crews, give submarine crews a chance to practice evasive tactics.

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[redacted]

The Syrian Navy's increased emphasis on ASW training—even during the fuel shortages caused by the current economic crisis—and its lack of training outside Syrian coastal waters, underscore the country's growing concern with protecting its coastline from the Israelis, [redacted]

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[redacted] the Soviets delivered one Whiskey class power barge in 1985. This auxiliary generator vessel functions as a battery-charging station for submarines and cannot traverse under its own power. The submarines are based at Tartus, subordinate to the 56th Coastal Defense Brigade, which controls Syria's southern coastal sector.

Threat to Israel

Syria's Romeo submarines pose only a marginal threat to the Israelis. Any advantages—minelaying, commando insertion, and over-the-horizon targeting—that the Romeos provide the Syrian Navy are more than offset by the maintenance problems associated with older Soviet submarines, Syria's lack of experience in submarine warfare, and inadequate crew capabilities confronting the Syrian Navy.

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Training Accomplished

The Romeos have undergone three phases of training—routine maneuvering drills, ASW training, and torpedo firing—since their arrival. The submarine training area is offshore from Tartus, [redacted]

[redacted]

The Syrians began conducting routine maneuvering drills with the Romeos in spring 1986. [redacted]

[redacted]

Potential Advantages. The Romeos' current training activities suggest that the Syrians hope to use the submarines for intelligence collection off the Israeli

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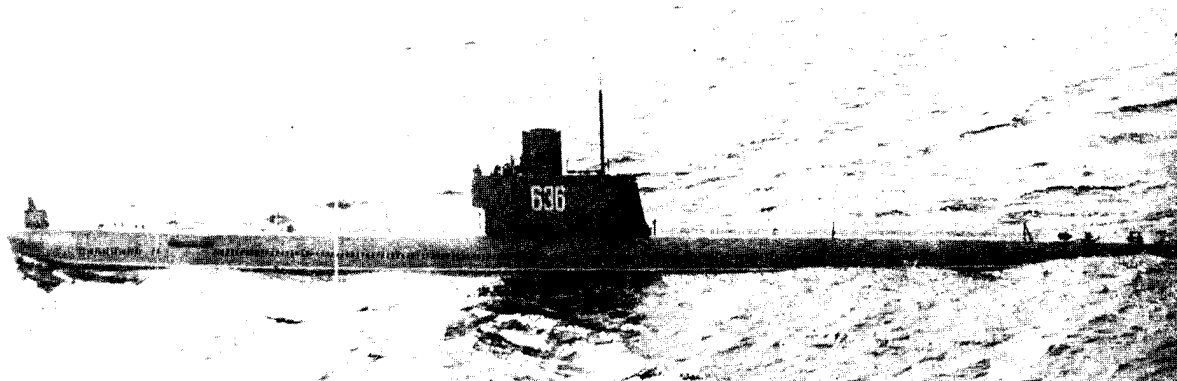
¹ Soviet Foxtrot or Tango class submarines regularly visit Tartus for 30-day port calls. These port calls are for submarine maintenance as well as rest and relaxation for the crews. The Soviets maintain an Amur class submarine tender at Tartus to provide maintenance for the submarines. [redacted]

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Romeo class submarine

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coast, probably against the major port and naval base at Haifa. This would resemble Egypt's use of at least three of its submarines during the 1973 Arab-Israeli war.

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The Romeo's torpedo tubes provide the Syrians with a minelaying capability—minesweeping is a major shortcoming of the Israeli navy. The Israelis in September discovered several mines, similar to those being used in the Persian Gulf, off the southern coast of Lebanon, reinforcing the threat that mines pose to Israeli operations. The mines were probably laid by the Iranian Revolutionary Guard contingent in Lebanon. Syrian use of the submarines' minelaying capability would pose a severe threat to Israeli ports. Israel has no minesweepers, and submarines would be a particularly effective way of planting mines, given the difficulty of detecting submarines in the Mediterranean environment.²

Problems. Insufficient maintenance, submarine warfare experience, and crew capability make it unlikely that the Syrian Navy could use its Romeos to their full potential. Moreover, the Romeo is over 25 years old, and other nations—notably Algeria, Libya, and India—have experienced severe problems with old Soviet submarines. Such problems greatly reduce the threat posed to the Israelis by the Syrian submarines.

The Romeos could be used in commando insertion and especially in over-the-horizon targeting against shipping, although no Syrian intention to do so is evident. The Romeos could carry commandos to any part of the Israeli coast. The commandos would have to disembark on the surface, however, rendering them vulnerable to Israel's strong coastal defense systems.

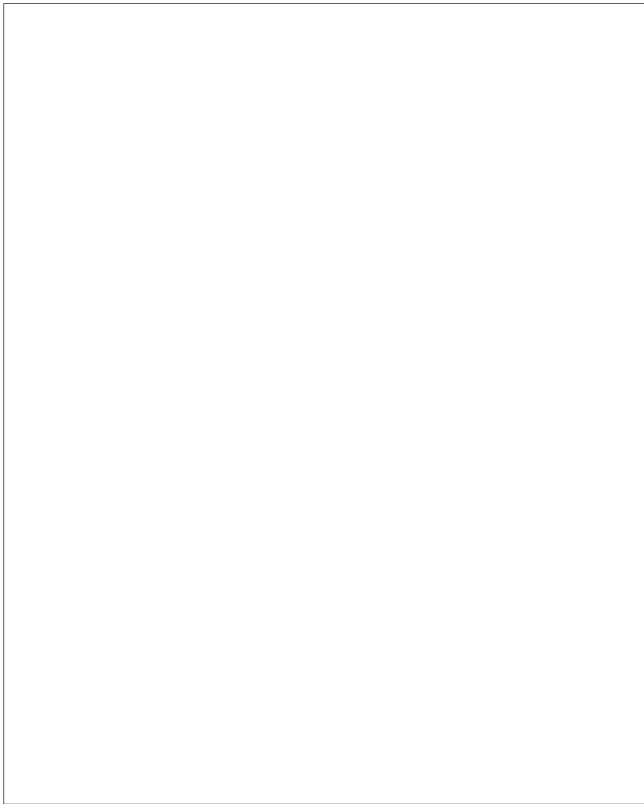
Historically, the Syrian Navy has been a neglected part of Syria's military and only recently has received greater attention because of increased emphasis on coastal defense. We expect that Syrian progress in overcoming past neglect and developing experienced crews will be slow. The Syrians are far less experienced in submarine warfare than the Israelis, who have possessed their Gal class submarines for 15 years.

² The Mediterranean basin is a congested military and commercial environment in which it is difficult to distinguish among the numerous rebounding sound waves. The detection of sound waves is critical to effective antisubmarine warfare, and a diesel-powered submarine operating under battery power is extremely hard to track in this environment

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Are They a Steppingstone?

We believe the acquisition of the Romeos, although a boost to the Syrian Navy, represents only a transition in the development of a submarine force. [redacted]



The Foxtrot and Kilo classes—especially the Kilo—are more modern and would increase the Syrian naval threat to Israel. The Kilo is much quieter than the Romeo and Foxtrot and is equipped with more advanced weapon systems—such as wire-guided torpedos and better sonar, capable of detecting submarines over a longer distance and wider range of frequencies.

We believe the Israeli navy could cope with any Romeos or newer submarines that the Syrians might acquire. Israel's planned acquisition of advanced submarines and corvettes over the next decade will make it even more difficult for Syria to catch up to Israel's submarine warfare experience and skill.



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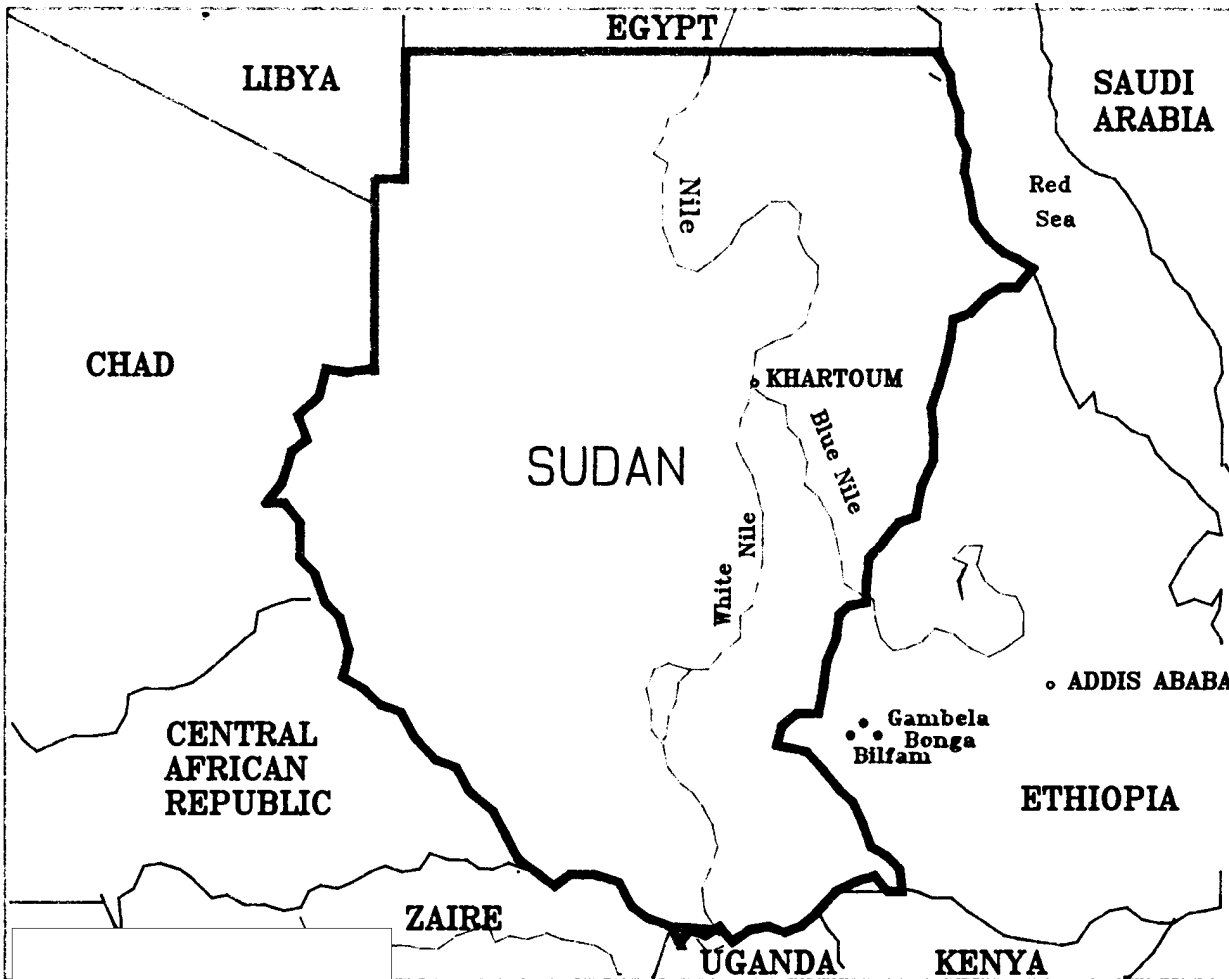
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Sudanese People's Liberation Army Bases



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Soviet, Cuban, and East European Support to the Sudanese People's Liberation Army [redacted]

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The Sudanese People's Liberation Army (SPLA) receives most of its foreign assistance from Ethiopia, but the Ethiopian assistance, in our view, is heavily dependent on materiel supplied to Addis Ababa by the Soviet Union. It is augmented by support from Cuba and some East European countries. The Soviets provide arms and ammunition to the Ethiopians who transfer the equipment to the insurgents. Soviet advisers in the Gambela region of Ethiopia—the hub of SPLA training and logistic activities—do not supervise or support SPLA training directly, but Cuban advisers in Gambela assist Ethiopian military personnel in the training of SPLA troops. Havana also provides SPLA cadres with military training in Cuba and aids SPLA medical, communications, and propaganda efforts. Some East European countries provide arms, ammunition, and specialized training to the SPLA. [redacted]

[redacted]

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The Soviet Union may use intermediaries to supply weapons to the SPLA. In January 1987, the Soviets paid India hard currency to supply and ship to Ethiopia older surplus arms— including rifles, pistols, handgrenades, mortars, artillery pieces, and ammunition. The Ethiopians then provided the weapons to the SPLA. [redacted]

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[redacted] We believe the rebels are responsible for training their forces inside Sudan. Foreign military advisers probably avoid support to the SPLA inside Sudan to reduce the possibility of capture—either dead or alive—by government forces, which would jeopardize plausible denial. [redacted]

The Soviets probably maintain limited contacts with SPLA officials in Addis Ababa. [redacted]

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In our view, foreign military support contributes significantly to the insurgents' military effectiveness. In addition, Communist military training of SPLA members probably increases the number of Marxists within the movement. Training programs for SPLA troops in Cuba and Eastern Europe probably include intense political indoctrination, and some will return home to indoctrinate other SPLA members. [redacted]

Cuban Support

Ethiopia provides most of the military training given to SPLA recruits in Ethiopia, but Cuba also provides advisory assistance. [redacted]

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Soviet Assistance

We believe the bulk of equipment given to the SPLA comes from Soviet-stocked Ethiopian inventories. [redacted]

[redacted] The Cuban assistance [redacted]

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probably includes teaching guerrilla warfare techniques and providing specialized instruction for elite units. [redacted]



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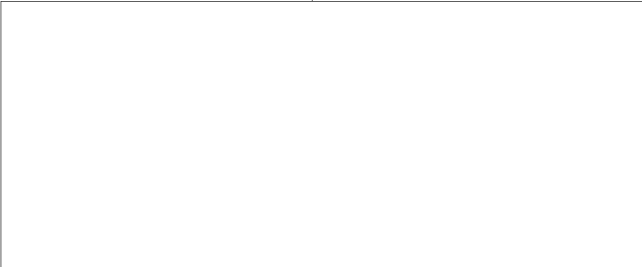
Cuban military physicians work with SPLA medical personnel in Addis Ababa and provide medical supplies to the movement, [redacted]

The military training received by SPLA members in Cuba is probably advanced or specialized. [redacted]

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Cuba probably provides some materiel assistance to the SPLA, but we believe that most of the arms and ammunition given to the insurgents comes from Ethiopian inventories. [redacted]

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Havana also provides military training to SPLA troops in Cuba. [redacted]

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Havana is also contributing to the SPLA's propaganda effort. [redacted]

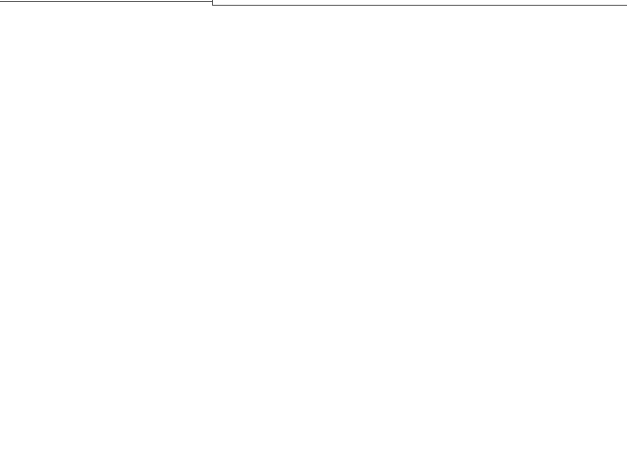
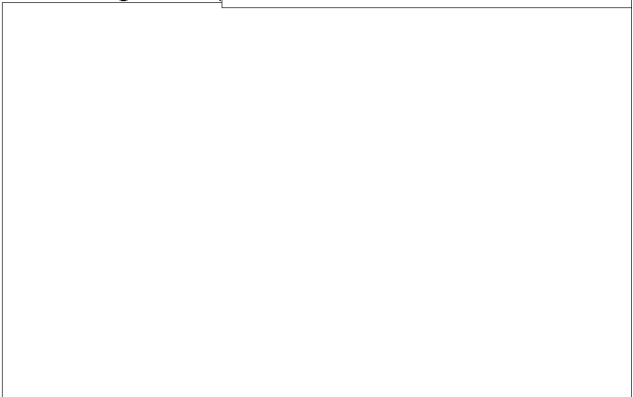
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• Senior SPLA officers generally are selected for training abroad. [redacted]

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East European Aid

East Germany probably gives the SPLA some arms, ammunition, and advice. [redacted]

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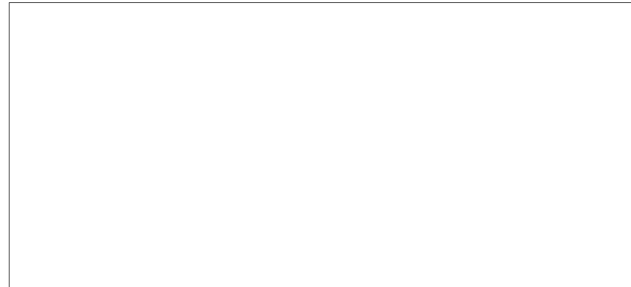
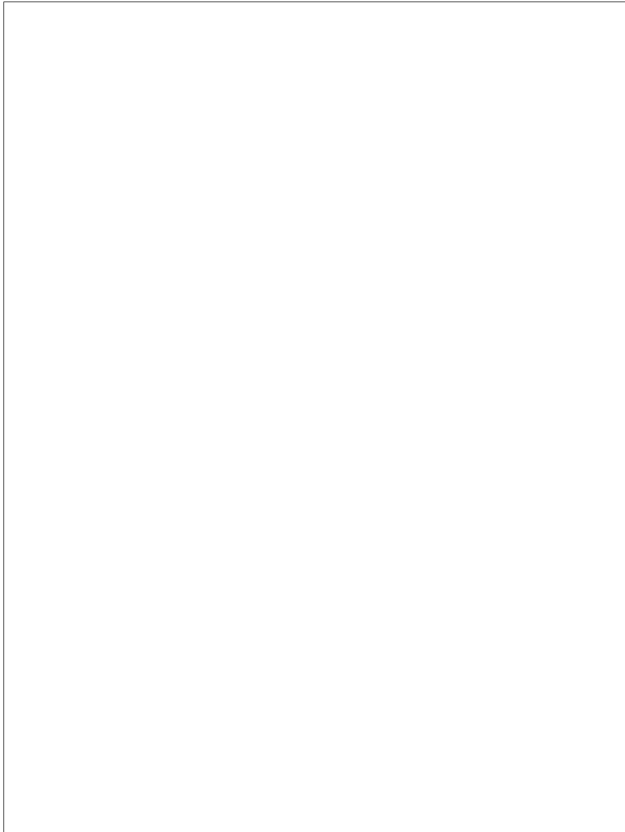
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• A high-level SPLA official said in August 1987 that 1,200 SPLA cadres have been trained or are being trained by the Cubans, with a "second wave" of cadres to be sent, according to the US Embassy in Addis Ababa.



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Effects of Foreign Military Assistance

In our view, foreign military assistance has significantly contributed to the SPLA's military effectiveness. Although the insurgency probably would continue without external support given fundamental southern political grievances against the government in Khartoum, we believe the conflict's intensity would be appreciably lower. [redacted]

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We continue to believe that the SPLA under Garang's leadership has a loosely defined socialist political agenda. Over the long term, however, continued foreign training and political indoctrination of SPLA cadres could nurture a Marxist bloc within the SPLA. This group could effectively challenge Garang's leadership or force him to adopt a more radical leftist political agenda. [redacted]

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Overseas Training for Sudanese Youth

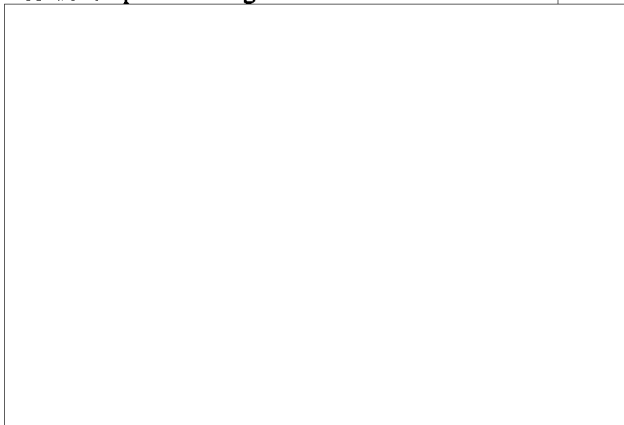
In addition to providing military training to SPLA troops, Cuba and East European countries are involved in politically indoctrinating Sudanese youth to develop the next generation of SPLA cadres. [redacted]

[redacted] Ethiopia and the Soviet Union are concerned that the SPLA might turn to the West if it became more autonomous. [redacted]

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**Egypt: Courting Ethiopia—
At Least for Now**

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Egyptian policymakers are increasing emphasis on improving relations with Ethiopia. After decades of acrimonious relations dating back to the days of Nasir and Haile Selassie, the Egyptians recently have engineered a series of high-level contacts to improve the bilateral atmosphere and engage Ethiopian leaders on issues of mutual concern. Substantive achievements, however, have been minimal and are likely to fall short of Cairo's expectations.

Ethiopian Foreign Minister Berhanu's official visit to Cairo last January—the first by a policy-level Ethiopian since the 1974 revolution—was viewed by Egyptians as an important signal of Ethiopian willingness to improve relations, despite the absence of results. Since then, Ethiopian President Mengistu has paid an official visit to Cairo (April 1987), and Egyptian President Mubarak has journeyed twice to Addis Ababa to meet with Mengistu during the Organization of African Unity summit meeting (July) and Ethiopia's Republic Day celebrations (September).

Although the atmosphere has been generally positive, President Mubarak appears to be seeking more than his Ethiopian counterpart is willing to deliver. A few minor trade and technical agreements have been signed, but several had been on the books—and ignored—for years. Despite Egypt's eagerness for better ties, President Mengistu appears intent on extracting substantive offers from Mubarak without offering anything in return. In particular Ethiopia seems determined to drag its feet on the issues of greatest Egyptian concern—the Nile and Sudan.

Egyptian Interests

Recent Egyptian overtures toward Ethiopia reflect growing frustration in Cairo with the political turmoil and vacillating leadership in Sudan and an awareness that Addis Ababa holds the key to progress on Egypt's two most pressing regional concerns.

The Nile. Egyptian officials believe Ethiopia's use of water from the Nile—Egypt's lifeline—will be a key issue for the next two decades.

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Ethiopia controls the headwaters of the Blue Nile, which supplies over 80 percent of Egypt's water, and Cairo feels profoundly threatened by occasional reports that Addis Ababa is planning upstream dam projects.

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Sudan. Cairo is concerned with stability in war-torn Sudan and seeks Ethiopian help in arranging a rapprochement between the Sudanese Government and Ethiopian-backed rebel forces led by Col. John Garang. A peaceful resolution to differences between Ethiopia and Sudan could eliminate external support for the insurgency and enable Egypt's southern neighbor to focus on pressing internal political and economic problems. For Egypt, an end to the insurgency would permit construction to resume on the 425-kilometer Jonglei canal in southern Sudan, which is designed to increase waterflow in the White Nile.

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Egypt seeks to wean Mengistu from his Soviet patrons and prod him toward a more independent foreign policy.

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Cairo is using its overtures to Addis Ababa—a Soviet ally—as evidence to counter Soviet complaints that Egypt is interested only in supporting US positions on international issues.

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The Sudan Factor

Mubarak's most immediate purpose in mending fences with Mengistu is to put pressure on Sudanese Prime Minister Sadiq al Mahdi to begin dealing

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constructively with Sudan's problems. Mubarak's courtship of Ethiopia has intensified as his distrust of Sadiq has deepened over the past few months.



Mubarak as Peacemaker?

To help restore Egyptian influence in Khartoum and bring Sudanese policy into line with Egyptian objectives, Mubarak is attempting to play the role of regional peacemaker by getting himself invited to mediate between Addis Ababa and Khartoum,



- Relations between Ethiopia and Sudan remain strained. Addis Ababa is the main benefactor of Col. John Garang's Sudanese People's Liberation Army in its insurgency against the Khartoum government, and it is fueling the war by giving the rebels access to bases, financial aid, logistic support, training, and materiel.

The Ethiopians have no incentive to stop backing the Sudanese insurgents as long as Khartoum supports Ethiopian dissident groups from Eritrea and provides safehaven to their leaders.



A peacemaking role would help Egypt project its influence in Sub-Saharan Africa—a key foreign policy objective for the past several years since Egypt was formally ostracized from the Arab world after signing the Camp David accord. Reporting from the US Embassy in Cairo suggests, however, that Mubarak's aims in this instance are modest. Egypt wants to get the talks started but apparently has not devised a subsequent strategy.

Mubarak has virtually no leverage over either Sudan or Ethiopia, and we believe the distrust between all

three parties is certain to doom his efforts, at least in the near term:

- Neither Mengistu nor Sadiq wants Mubarak to mediate, [redacted] Mengistu fears such involvement would increase Egyptian influence in Sudan. [redacted]

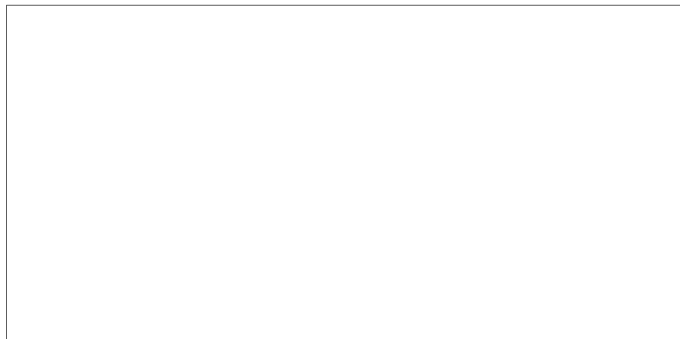
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- In our view, neither Sadiq nor Mengistu believes a bilateral meeting between them would settle Ethiopian-Sudanese differences. [redacted]

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- Both Mubarak and Mengistu appear to be joining against Sadiq to insist that he make the first moves toward peace, [redacted] This collaboration is certain to discourage initiatives from Khartoum. [redacted]

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Outlook: Too Many Obstacles to Progress

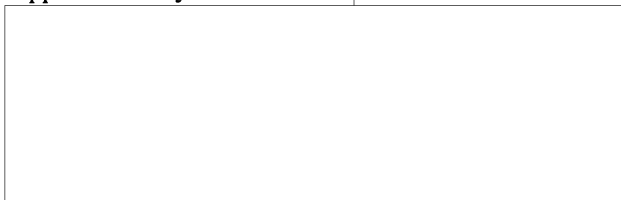
Prospects for improvement in Egyptian-Ethiopian ties appear to be as limited as Mengistu's goals for the relationship. The long legacy of coolness will be difficult to overcome. By responding to Egypt's courtship, Mengistu may have realized his most immediate aim—a partial reversal of Addis Ababa's increasing isolation in the region—

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Despite the improved atmosphere, little of substance has come out of bilateral contacts

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beyond minor trade and technical agreements, which appear unlikely to be fulfilled. [redacted]



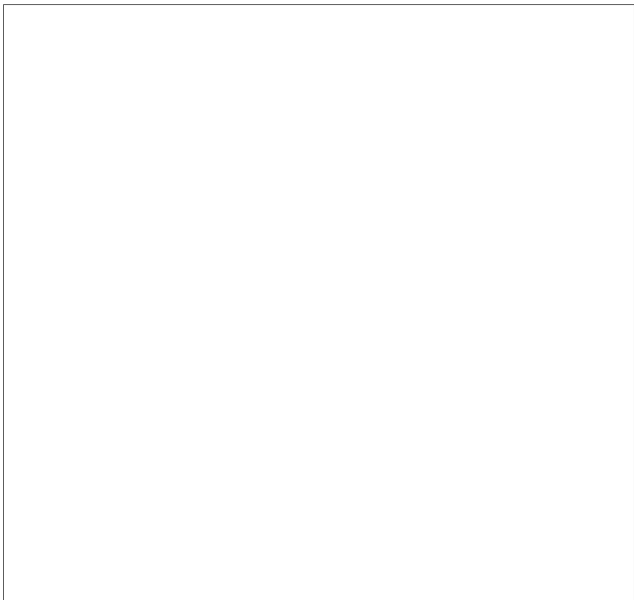
Ethiopians pressed Cairo to close local offices of Eritrean liberation groups last January, and Egypt complied—at least temporarily. Nonetheless, [redacted] [redacted] Egypt will maintain its special relationship with the Eritreans by providing moral and psychological support because Cairo views this support as a humanitarian gesture. [redacted]

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More important, Mengistu seems unwilling to offer anything beyond vague promises on the Nile and Sudan. Addis Ababa will brush aside Egyptian invitations to join the multilateral Undugu group of Nile Basin countries, viewing it as a veiled front for Egyptian and Zairian political aspirations and of no benefit to Ethiopia.¹ Because Ethiopia is the most important upstream Nile state, Addis Ababa believes it would be in a weak negotiating position on major water issues at Undugu meetings and would bear the onus of regulation while the benefits accrued downstream. [redacted]

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Egypt, for its part, appears unwilling to change dramatically its policy of support for Eritrean insurgents—a longstanding Ethiopian demand. The



¹ Undugu (Swahili for brotherhood) is a loose grouping of Nile Valley countries and others that benefit indirectly from the river, including Egypt, Sudan, Uganda, Zaire, Rwanda, Kenya, Tanzania, Burundi, and the Central African Republic. Established at Egypt's instigation to encourage cooperation among users of Nile water, Undugu held its first meeting in Khartoum in November 1983. [redacted]

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North Yemeni-Libyan Relations: A Tactical Rapprochement

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The warming trend in North Yemeni-Libyan relations appears to be based primarily on tactical considerations. From the perspective of North Yemeni President Ali Abdallah Salih, Libyan military and economic assistance has provided the beleaguered North Yemeni Government a much needed shot in the arm. Libyan leader Qadhafi's interest in the relationship is to reduce his isolation, gain support for Libya's war with Chad, and undermine US influence in the region. Salih is concerned about US and Western reactions to his flirtation with Tripoli, but he apparently has decided that the tangible benefits of closer ties outweigh the political costs. In our judgment, relations will improve in the near term, but the longer term outlook will be troubled by recurring political differences and the volatility of Qadhafi's foreign policy.

North Yemen is caught between the conflicting interests of the United States—on which it relies to balance Soviet and Saudi influence in North Yemen—and Libya, from which it receives needed economic assistance and military cooperation. Salih does not want to offend the United States and generally tries to minimize his relationship with Qadhafi. But Salih is obligated to Qadhafi for his assistance and will respond to Libyan requests, sometimes at the expense of US interests.

The value President Salih places on his relationship with Libya was demonstrated by his emphasis on Libyan matters in September, during talks with the US delegation to North Yemen's National Day celebrations, which were partly financed by Libya. Over the past year Tripoli's assistance has been one of the few bright spots for Salih's regime:

- Unable to secure Saudi backing for his policy toward Aden, Salih accepted a Libyan offer to provide economic and military support for the more than 30,000 exiles who fled to North Yemen with deposed South Yemeni President Ali Nasir after the coup in Aden in January 1986.

A Case Study in North Yemeni-Libyan Relations

North Yemen's handling of the Libyan-sponsored assassination attempt against an American employee of the US Embassy in Sanaa in April 1986 exemplifies how Sanaa manages its relations with Tripoli. Less than a week after the US air raid on Tripoli, the US Embassy in Sanaa reported that unknown assailants opened fire on a US diplomatic vehicle driven by a US Embassy communicator. The communicator sustained three bullet wounds in the head and shoulder.

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According to the Embassy, the North Yemenis suspected Libyan complicity in the attack.

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within a week, North Yemeni security arrested a Lebanese Shia whom they suspected of organizing the attack.

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Members of the Popular Front for the Liberation of Palestine were also detained under suspicion of carrying out the attack. Despite repeated attempts by the US Embassy to obtain the facts of the case, the North Yemenis refused to confirm Libyan involvement and tried to place the blame for the attack on agents of the South Yemeni Government. North Yemeni officials promised the US Ambassador to increase security for all US officials and their dependents.

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Meanwhile, Salih dispatched his Foreign Minister to Tripoli to confront the Libyans.

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Relations between Tripoli and Sanaa soon returned to normal with North Yemen's acceptance of a Libyan offer of oil assistance and additional weapons for the South Yemeni exiles.

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perpetrators of the attack probably were dealt with harshly.

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- Tripoli helped to fill the gap when Riyadh failed to deliver promised economic assistance and cut oil shipments to force Salih to negotiate contentious border issues. Libya is providing North Yemen with at least 15,000 barrels of oil per day—approximately half its domestic requirement—

[Redacted]

- [Redacted] with Scud tactical missiles and SA-6 surface-to-air missiles after the Soviets rebuffed Sanaa's request for advanced weapon systems late last year. At least 200 North Yemeni troops are in Libya receiving training on these systems, which Sanaa expects to receive within six months.

North Yemeni Motivations: A Quick Fix

In our judgment, Salih believes that Libyan economic and military aid—in the absence of Saudi economic assistance and declining US aid—has played a pivotal role in shoring up the troubled Sanaa government. Salih's inability to satisfy popular expectations raised by the prospects of oil revenues or to resolve North Yemen's troubled relations with its neighbors and the USSR has begun to alienate key constituencies, such as the military and the tribes. Libyan military assistance has helped to satisfy Salih's critics within the defense establishment.

Salih's relations with Libya have helped to further his limited arms diversification program designed to reduce North Yemen's dependence on direct Soviet military assistance and advisers. Libya has been Salih's only significant source of arms outside the Soviet Union since the civil war in South Yemen in January 1986.

From North Yemen's perspective, Salih's reciprocation for Libyan aid has been relatively modest. Salih has:

- Provided limited military and diplomatic support to Libya's campaign in Chad.

[Redacted] Apparently at Qadhafi's request, Salih has raised with US and French officials the issue of their countries' support for Chad, urging them to rein in President Habre.

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- Approached the United States and Iraq on Tripoli's behalf with offers to mediate their differences with Libya.

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- Apparently agreed to act as middleman for Libyan arms purchases.

- Allowed the Libyans to meet with representatives of African dissident groups on North Yemeni soil.

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- Mediated between Libya and Egypt over the return of a Libyan C-130 transport aircraft and its crew after the pilot and copilot defected in early 1987.

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Libyan Motivations: Increased Influence

Libyan leader Qadhafi's interest in North Yemen dovetails with broader policy objectives in the Arab world. Qadhafi's repeated attempts since June 1986 to mediate the repatriation of the South Yemeni exiles in North Yemen reflect his desire to reduce his isolation and gain a leadership role in the Arab world. His provision of arms to the exiles and economic and military assistance to North Yemen is part of an effort to gain leverage with both parties. Qadhafi almost certainly hopes to use this leverage to draw North Yemen away from the United States. He probably is attracted by North Yemen's proximity to Saudi Arabia, Djibouti, and Somalia, periodic targets of Libyan subversion.

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The North Yemeni-Libya relationship has provided important opportunities for Qadhafi:

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- Salih's visit to Libya in the summer of 1986, the first by a head of state following the US airstrike in April, helped ease Qadhafi's concern about international isolation.

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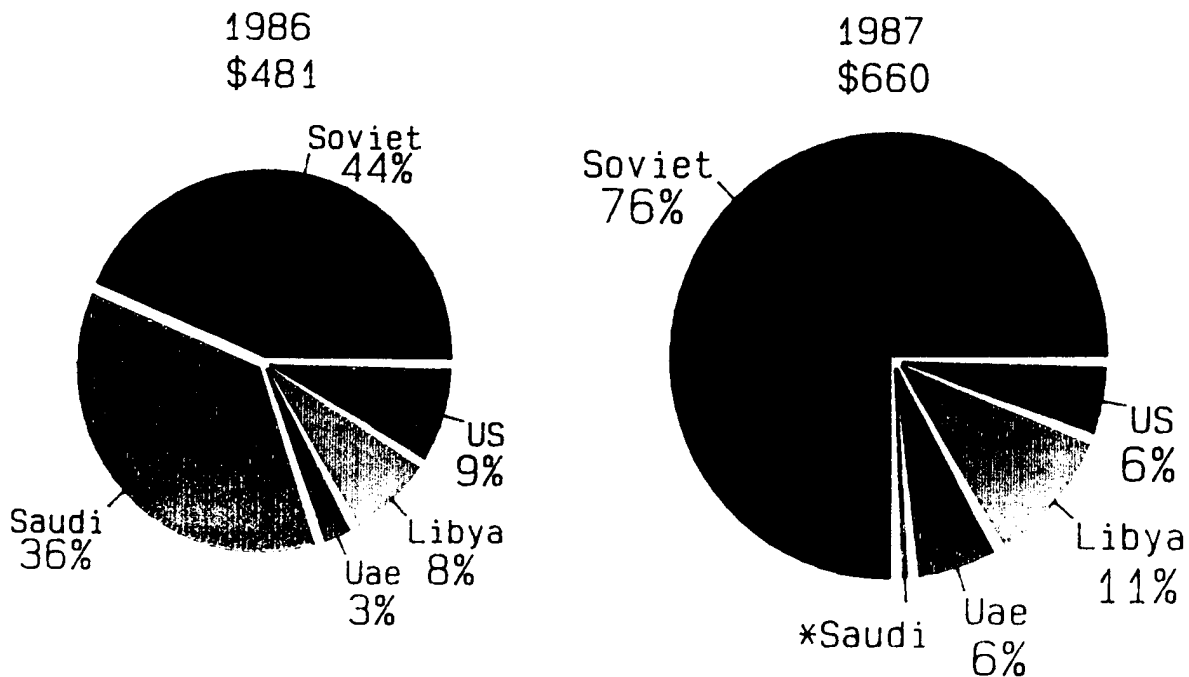
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Economic and Military Aid to North Yemen

1986-1987

(Millions of US Dollars)



* Less than 1% of total aid for 1987



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- North Yemeni support for his war with Chad will ease the combat burden on Libyan forces and possibly reduce domestic political pressures.
- Visits to North Yemen by low-level Libyan officials and representatives of the revolutionary committees—one of Qadhafi's key domestic support groups—provide a safety valve against domestic discontent by giving the Libyan Government the appearance of acceptance in the Arab world.
- Yemeni intercession with Baghdad probably was a factor in the restoration of Libyan-Iraqi relations last month [redacted]

We believe that Salih is aware of the risks he faces in dealing with Qadhafi. Tripoli has a history of meddling in North Yemen's internal affairs, including support for coup attempts in 1978 and 1982 and substantial backing for the South Yemeni-sponsored National Democratic Front insurgency from 1979 to 1982. [redacted]

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In our judgment, Salih cannot satisfy the mercurial Libyan leader indefinitely. Salih's efforts to placate Qadhafi last month by sending several hundred South Yemeni military exiles to Tripoli appear to have been inadequate. [redacted]

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In Qadhafi's view, the military and economic aid provided to Sanaa is a low-cost way of obtaining Yemeni support. The tanks and other military equipment given by Tripoli constitute only a small fraction of Libya's inventory. Even the provision of a limited number of Scud surface-to-surface missiles will not diminish Libyan military capabilities. Libyan economic and technical aid, particularly oil, is affordable—the Libyan oil industry is operating at less than full capacity. [redacted]

In addition, Salih's relationship with Libya undoubtedly will cause him further problems with Saudi Arabia. According to the US Embassy in Riyadh, the Saudis have expressed displeasure over the improvement in North Yemeni-Libyan ties, citing it as a factor in their growing irritation with Salih. [redacted]

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Prospects for the Relationship

The short-term prospects for the relationship between North Yemen and Libya appear to be good. Inside North Yemen the impetus for pursuing the relationship comes from Salih, and there is no evidence of leadership discord on this issue. [redacted]

In response to these and other concerns, Salih has tried to limit the Libyan role in his country. Salih has refused Libyan offers to deploy a training brigade to North Yemen. [redacted]

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The outlook for the long-term relationship is less positive. North Yemeni-Libyan relations traditionally have been characterized by deep mistrust, and, despite the upswing in bilateral activity, considerable mutual suspicion is evident. Salih suspects that Qadhafi will back North Yemeni dissidents, particularly the Nasirist-oriented 13 June movement to which Qadhafi has close ties. Moreover, Qadhafi may worry that North Yemen will use Tripoli to get assistance but will suspend political support for Tripoli's foreign policy [redacted]

Implications for the United States

Salih will seek to assure Washington that his relationship with Libya will not harm US interests. Nonetheless, Salih is likely to weigh US aid and support against that from Libya and conclude that the Libyan connection offers more tangible benefits. To

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Threat to US Security

Threats to US security are unlikely to increase dramatically because of closer ties between Libya and North Yemen. Despite the Libyan-sponsored shooting of a US Embassy employee in Sanaa in the immediate aftermath of the US airstrike in April 1986, Libya is unlikely to use North Yemen as a venue for attacks on US personnel and facilities.

[Redacted]

The difficult operating environment and minimal anti-US sentiment prevent Libya from implementing its preferred course of action—exploiting domestic radicals to promote attacks on US interests. Furthermore, North Yemen will carefully monitor its relations with Libya to ensure that Tripoli—emboldened by its closer relationship with Sanaa—will not be tempted to resume meddling in domestic Yemeni affairs or to conduct operations against its enemies on North Yemeni soil.

demonstrate his evenhandedness, Salih can be expected to offer to mediate between Washington and Tripoli.

Over the longer term, US–North Yemeni ties will not suffer serious dislocation, if only because Salih recognizes the value of US economic and oil development aid and limited military assistance. His relationship with the United States will seem even more valuable as his association with Qadhafi loses its luster. Salih will appreciate the role the United States plays as a counterweight to the Soviet presence in North Yemen and as a sympathetic voice in dealings with the Saudis.

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The Maghreb: Travels Through the Bled ¹ [redacted]

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The strongest impression of the Bled is the unfavorable contrast of Algeria's agriculture with that of Morocco and Tunisia.² In our view, the problems result mainly from a lack of adequate economic incentives for individuals to produce efficiently. We believe Algeria's problems in the rural sector present a long-term threat to the country's stability.

At First Glance

The agricultural regions of the three countries have similar geography and environment. The most fertile regions are a mix of rolling hills and alluvial plains near the coasts. [redacted] water—frequently through irrigation—[redacted] adequate throughout the region. Soil quality [redacted] fairly uniform. Farmers in each country cultivate crops of wheat, hay, olives, vegetables, and grapes. Tractors and other agricultural machinery are used on larger farms in all countries, but they are not abundant. Mules are used on the smaller farms. There are ample roads to move produce, but road quality varies widely. Traffic—even on the main highways of each country—is congested with farm vehicles and livestock.

A Closer Look

The similarities fade at the level of rural activity. There was much less productive activity in Algeria than in Tunisia or Morocco. Even during work hours, village cafes in Algeria [redacted] crowded with men drinking coffee or sitting idly. This contrasted with Tunisia and Morocco, where cafes, although not empty, [redacted] much less crowded during the day. We believe that, with agriculture in Algeria predominantly socialized, farmers do not have a

¹ Bled is the Maghrebian Arab term for countryside and connotes rural areas that are not subject to firm government control.



Only in Algeria Do the Fish Die of Old Age

The official exchange rate—about 5 dinars to the dollar—is artificially high and leads to many efforts to obtain hard currency. For example, Algerian fishermen often officially report small catches of fish despite the abundance of fish in Algerian waters. [redacted] far more fish are caught than are reported, but the fishermen sell them at sea to Europeans for hard currency. Algerians note with tongue in cheek that, since the fish are not caught, many must die of old age. They add that neighboring countries that have fewer trade restrictions do not have such long-lived fish. Further, hotels in Algiers that are frequented by foreigners often will not accept payment in Algerian money—hard currency must be used. The Soviet Embassy and Consulate are required to pay their telephone bills in dollars because rubles are not considered hard currency. Taxi drivers and hotel bellhops who know little English know the phrase "Change money?" [redacted] the only people in Algeria that deal at the official exchange rate are US and UK diplomats. [redacted]

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strong economic incentive to work hard. In contrast, agriculture in Tunisia and Morocco is mainly in private hands, and owners have much more incentive.

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Lack of incentive appears to have caused Algerian farmers not to use productive techniques that are common in Tunisia and Morocco. For example, although [redacted] farmers in Tunisia and Morocco burning their fields to enrich the soil for winter wheat, [redacted] not [redacted] done in Algeria. In addition, grape vines are not as likely to be staked and weeded in Algeria as they are in the other countries.

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NESA NESAR 87-025
6 November 1987

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Aspects of Agriculture in the Bled



Olive trees are common throughout the region. There are more olive trees than people in Tunisia.



Open irrigation ditches are used throughout the Bled to move water. Much scarce water is lost through evaporation.

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Plastic covers will be put over the frames in the background to create temporary greenhouses for winter crops.

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Farmers throughout the region stack bales of hay in piles the size and shape of houses. In Tunisia and Morocco they are often coated with mud that hardens and keeps the hay moist.

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The Broader Ramifications

Socialized agriculture has converted Algeria from a net food exporter at independence to a country that imports about 60 percent of its food. Domestically produced food is high priced—[redacted] watermelons cost more than twice the US price, and meat cost about \$22 a kilogram. Flowers and luxury food items [redacted] not available in Algeria but [redacted] frequently in Tunisia and Morocco. Although [redacted] no starvation or severe malnutrition, the high cost of living and shortages almost certainly contribute to a budding security problem in the Algerian countryside. For example, [redacted]

[redacted] the high frequency of robbery on the trains. US diplomats in Oran report a growing danger of highway robbery on the heights above Oran and Mers el Kebir. Gangs of youths have been known to steal everything from motorists, including the clothes they were wearing.

Declining standards of living in rural areas have contributed to a flow of people into the cities. About 60 percent of Algeria's population live in cities, and the rate of urbanization is above 5 percent per year—both the highest figures in the Maghreb. Conditions in the cities are deteriorating as a result of high rural-to-urban migration. Oran, the second largest city and once the most European, is a case in point. After independence, the government greatly reduced rent in buildings that had been owned by Europeans and placed almost no restrictions on the number of people that could move in. Nearly three decades of rent control have resulted in the "ruralization" of the city, including a noticeable deterioration of buildings,

dozens of people occupying moderate-size apartments, and garbage-strewn streets. [redacted]

[redacted] former peasants in an [redacted] apartment building kept roosters and chickens in their apartments for food.

The Slow Pace of Reform

Algerian President Bendjedid appears determined to correct rural economic problems by breaking up state farms and promoting private farming. In our view, when private farms are established and allowed to compete freely, productivity will increase. Progress will be slow because Bendjedid is meeting serious resistance in the ruling party and the bureaucracy. We believe the slow pace and incomplete nature of the reforms will contribute to the failure of many of the first private farms. For example, one family of entrepreneurs [redacted] is eager to launch a poultry farm. Although the ownership will be private, the farm cannot compete effectively with state enterprises. All equipment and supplies must be bought from state monopolies and all products sold at prices set by the state.

For the short term, most Algerians are likely to view the state as a source of economic frustration. Algerians with money to spend often find nothing suitable to buy in Algeria and prefer to shop in Tunisia or Morocco. On their way home they are frequently stopped at roadblocks where the police perform customs duties.

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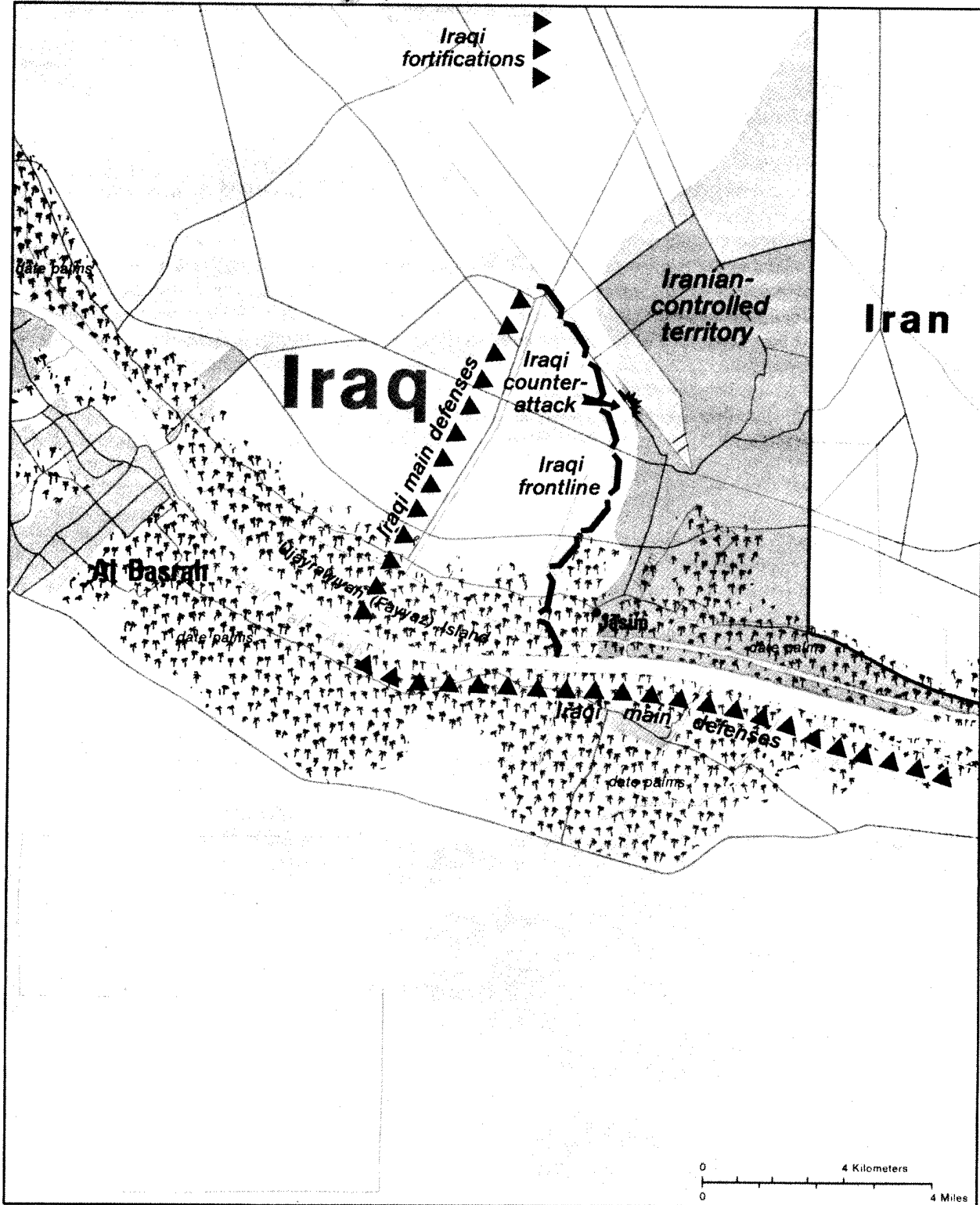
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Military Deployment Around Al Basrah, 30 October 1987



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Iraq: Impressions of Al Basrah

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The Decline of a Great City

Our guide, a native of Al Basrah, regaled us with stories of his home city's past glories. He claimed that Al Basrah had been Iraq's most important city in recent times, larger than Baghdad and more cosmopolitan. Baghdad had always been isolated from foreign influences, while Al Basrah had been Iraq's window to the world. He pointed out one massive new industrial installation after another, all built before the war and intended to give the Al Basrah region a great industrial future. None were in use.

We entered the city at a portentous moment. On 29 August, the Iraqis resumed their airstrikes against targets in the Persian Gulf for the first time since the middle of July. There had been much speculation over the Iranian response to this resumed campaign—in particular whether the Iranians would launch missile attacks against Baghdad. Instead, the Iranians responded with heavy shelling of Al Basrah and its environs.

We found ourselves caught in the middle of this barrage. We were told that on the previous two days 1,356 shells had hit the city—39 people had died and 200 were injured on 2 September. The reason for the high number of casualties, we were informed, was targeting of the city's new residential areas. For the first time, Iranian shells had fallen much further to the west, especially northwest of Al Basrah. Although the central city had been almost abandoned earlier in the year, most residents of the sprawling northwestern suburbs had remained, hoping that they were beyond range. Beginning on 1 September, their hopes proved to be wrong.

¹ This article is based on a dispatch from the US Embassy in Baghdad describing a visit to Al Basrah in early September by two US Government officials and their assessment of the effects of the Iran-Iraq war on Iraq's once leading port and second largest city, with a population of about 450,000.

The Hospital: Impassive Faces and Death

The bloody impact of the previous two days' shelling was evident in our first stop, Al Basrah's Republican Hospital. As we entered the sprawling, dilapidated hospital compound, a corpse was casually being wheeled out into the hot sun by an impassive young woman. We were escorted into two of the hospital's main wards. One was for women and children, and one was for men. Each had about 35 beds with victims from the previous two days. There was an element of theater in our visit, as we were closely pursued by a television cameraman. The wounds, however, were real, and the accompanying doctors insisted on showing us every detail. Most of the patients had shrapnel wounds in their legs or arms, broken bones, or abdominal injuries caused by shrapnel and concussion. There was little anger or emotion in their faces. Most patients seemed passive and fatalistic. Some spoke matter-of-factly about the simultaneous death of a wife, child, or grandparent, as if it were a daily and expected occurrence.

The medical care was adequate under the circumstances. The doctors were articulate and seemed competent. The sheets, however, were dirty and sometimes bloody. Cats wandered around, and the wards were full of flies. There was an obvious lack of staff, and the doctors explained that most of the so-called nurses were local female volunteers. One young doctor claimed he and his family had been assigned to this hospital at the beginning of the war, although he and his family reside in Baghdad. He had been unable to obtain reassignment. There was a lack of privacy for the patients, who obviously could not prevent our intrusion. They were under instructions to respond to our questions, and their responses had much the same ring. When the bombs fell, they had been minding their business, sitting in their houses, or walking to their cars.

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As we left the hospital, a car careened up with its windows blown out. A woman in black painfully emerged from the passenger side, evidently injured. We learned that injured persons typically have to find their way to the hospitals, either driving themselves or relying on their neighbors for transportation. Many people have to wait hours before getting to the hospital. There is no system to check for injured people after shells fall. (Looting has been heavy in Al Basrah, some of it by soldiers. Civil defense units have become leery of searching bombed areas for fear of being accused of looting.)

A Deserted City

After leaving the hospital, we drove straight across town to the Shatt al Arab near the Sheraton Hotel. This distance of about 3 kilometers was almost deserted. It is obvious that Al Basra has become a ghost town, especially the section near the Corniche. There was no traffic on the streets, except a few scurrying military vehicles. There was none of the usual evidence of human habitation, such as children playing in the streets, clothes hanging out to dry, merchants in small shops, women huddled with women, or men chatting.

There was some destruction in the central city but not as much as one would expect. We passed a large mosque and a church, both of which had been shelled the previous day, but this was not obvious until it had been pointed out. The Sheraton, on the Corniche, was also a surprise. The hotel had a fair number of holes in it, but there was no major destruction evident. Much of the destruction did not result from the war—as is typical of Iraqi cities. The authorities have intentionally destroyed many of the city's mud and lattice-work houses to rebuild them in modern cement. The destruction, which has been carried much further in other Iraqi cities, has been frozen in Al Basrah. Most of the new cement structures have yet to be constructed. On the other hand, we noticed numerous holes and pitting, the obvious result of shelling.

When we stopped at the Corniche, there was a lull in the shelling. Soldiers behind sandbags along the Corniche had been lying down in the heat of the day and roused themselves from their torpor. The Corniche was lined with date palms. Across the Shatt the palm groves showed few signs of destruction—although we knew that the eastern part of the city must be in worse shape than the western part. Except for the quiet and the fact that some of the ships in the Shatt were upturned and sunken, Al Basrah still had the appearance of a great port. There are large numbers of oceangoing vessels trapped at the quays that have been there throughout the war.

The Shelling Gets Too Near

We sped from the Corniche northwest through the deserted city. Distant shelling could be heard, mounting in frequency. We passed ship after ship moored along the old quays. We stopped at the only functioning hotel, the Shatt al Arab Hotel, which also serves as the airline terminal for the Al Basrah airport. We toured the hotel, where we had reservations for the night, and observed a board displaying the photographs of dead soldiers who had served in the airport unit.

We lunched at the Navy Club, a modern building extending over the Shatt with an impressive view of the ships trapped in port. The club had taken no direct hits, but two military vehicles in the parking lot had been hit on the previous day, we were told. The shelling became increasingly frequent at two- to five-minute intervals and came closer to our location. Midway through the lunch a couple of shells landed near enough to rattle the windows of the club and nearly lifted us out of our seats. We made clear that we had no desire to leave directly for Baghdad, but our entreaties to return to the center of the city fell on deaf ears. We spent the night at the home of our guide about 25 kilometers west of Al Basrah.



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**Ash Shariqah: Iran's Trojan Horse
in the United Arab Emirates** [redacted]

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Although many of the seven emirates in the United Arab Emirates maintain relations with Iran, Ash Shariqah—the third largest emirate—is most vulnerable to Iranian pressure and sabotage. The ruler's close personal ties to Tehran, Ash Shariqah's accessible Shia community, and its shared economic interests have created a special relationship with Iran. Moreover, there are 3,000 to 4,000 Iranian Shias resident in the Emirate. Tehran has tried to exploit this relationship over the years to increase its foothold in the Persian Gulf. Concern among UAE leaders over close ties between Ash Shariqah and Iran was an underlying factor in the attempted coup last June.

[redacted] pro-Iranian sentiment appears to be increasing in Ash Shariqah's eight Shia *husayniyyas*—gathering places for informal religious discussions. Several *husayniyyas* are highly politicized, and virtually every sermon is supportive of Iran. [redacted] local security services were especially concerned that Iranian activists at the *husayniyyas* would incite demonstrations during the celebrations of Muharram last September. The US Embassy reports that, although Ash Shariqah's policy has been to avoid promoting *husayniyyas*, the government has tolerated their presence as a way to channel the activities of the Shia religious community. [redacted]

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Security Threat

Iran is Ash Shariqah's principal security threat. Natives of the Emirate have always been wary of Iranian intentions, and the Iranian occupation of Abu Musa Island in 1971—an island claimed by both—typified, in Ash Shariqah's view, Tehran's aggressive policy toward the emirate. Since then, Iran has demonstrated little willingness to respect the emirate's sovereignty. Most recently, Iran disregarded its promise not to use Abu Musa for military purposes, launching helicopters and small boat attacks from there on shipping in the southern Gulf. According to the US Embassy, in mid-October Iran delivered additional military equipment to Abu Musa, including tanks and possibly artillery. [redacted]

Ash Shariqah, with its permeable borders and inadequate security forces, is ill equipped to cope with the Iranian threat. Although the emirate maintains a 1,600-man military force, it depends heavily on the Abu Dhabi- controlled federal security apparatus for protection against external aggression and subversion. According to the US Embassy, senior emirate officials assert that Abu Dhabi does not provide Ash Shariqah with adequate resources to deal with threats to its security. For example, it had to rely on Dubayy's police force to identify and surveil Iranians suspected of subversive activities in 1985. But Dubayy's force at times is overburdened with its own concerns and is not a reliable source of protection for Ash Shariqah. [redacted]

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Economic Ties

Although Ash Shariqah's resident Iranian population does not constitute a direct threat, it provides substantial cover for Iranian-sponsored activities. [redacted]

Since 1974 Ash Shariqah and Iran have shared the revenues from the Mubarak oilfield adjacent to Abu Musa Island. Ash Shariqah has retained responsibility for operating the field and for all decisionmaking. The US Embassy reports that the emirate coordinates major decisions with a group of Iranian technical experts and probably defers to Iranian views on production policy. Mubarak

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production peaked about 10 years ago at 65,000 barrels per day. Current output is about 5,000 barrels per day. [redacted]

Over the past year Iran has taken steps to regularize its contacts with Ash Shariqah over the Mubarak oilfield. According to the US Embassy, Tehran maintained a permanent group of technical experts who dealt routinely with Ash Shariqah before the Iranian revolution. Last March, Ash Shariqah and Iran agreed to establish a permanent committee to collaborate on technical and policy matters affecting oil and gas production in the fields near Abu Musa Island. [redacted]

Iran's renewed interest may be partly related to the discovery of a large gas condensate reservoir beneath the Mubarak oilfield early this year, according to the US Embassy. The Iranians have not been pleased with Ash Shariqah's tendency to pump oil too fast—depleting reservoir pressure—or to overproduce the field. Moreover, the Iranians believe that Ash Shariqah's development of this new discovery is cutting into their profits. By setting up a permanent committee, Tehran probably hopes to get greater control over the new discovery before Ash Shariqah squanders its wealth. [redacted]

Ash Shariqah and Iran have additional economic ties apart from the shared Mubarak oilfield. The emirate's primary export market is Iran, with exports totaling at least \$50 million in 1986. Trade is handled almost exclusively by dhows that sail between Ash Shariqah and Bandar-e Abbas. The emirate places virtually no restrictions on nonmilitary goods to Iran, [redacted] These dhows carry mainly foodstuffs and consumer goods—items that command high prices in Iran because they are in short supply. Occasionally cars or light trucks have been seen on the docks, according to the US Embassy. Ash Shariqah also serves as an important airlink to Iran, particularly in cargo service, with two passenger and four cargo flights weekly. [redacted]

In addition, Iran maintains several business establishments that facilitate Tehran's overseas activities and its acquisition of much needed technical equipment and foreign currency, according to US

Embassy reporting. Iran's national oil company maintains a small equipment purchasing office in Ash Shariqah that is staffed by Iranian Government officials. Two of Iran's larger commercial banks, Bank Melli and Bank Saderat Iran, have offices in Ash Shariqah. [redacted]

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Palace Connections

Shaykh Sultan bin Muhammad al-Qasimi, ruler of Ash Shariqah, has carried his emirate's close relationship with Iran beyond what mere pragmatism requires, according to the US Embassy. Known as the maverick among UAE leaders, Sultan has fancied himself a close friend of Iran and even tried to represent himself as one who could negotiate with Iran to help end the Iran-Iraq war. He planned a trip to Iran in 1986 for that purpose, which for an unknown reason never took place. UAE watchers suspect that Federation President Zayid strongly reminded Sultan that such efforts should come from the President's office only. [redacted]

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Sultan's ties to Iran have created concern among the UAE leadership and probably were an important factor behind the attempted coup in June. The US Embassy reports that Abd al Aziz al-Qasimi—Sultan's older brother who attempted the coup on 17 June—believes Iran's long-term policy has been to penetrate the UAE through Ash Shariqah, and Tehran has chosen his brother Sultan as their surrogate. Rumors have circulated in the UAE that Sultan had developed direct links to senior Iranian officials without federal approval and that Zayid strongly disapproved such contacts. Abd al Aziz also alleged to US Embassy officials that indications of Sultan's favor for the Iranians included:

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- Sultan tried to ignore and then hide the arms cache and terrorist cells that were discovered in Ash Shariqah in 1985.

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- Sultan has not insisted that Iran abide by its promise not to use Abu Musa Island, allowing Iran unbridled access to the island.
- Two Iranian banks suddenly and inexplicably waived at least \$17 million of a \$50 million loan made to the emirate government this year.
- Sultan secretly gave \$600,000 to support a local Shia *husayniyya* and may have tacitly approved the visit of a mullah from Tehran to preside over religious ceremonies during Muharram without formally being invited by the Shia community or cleared by the emirate's security authorities. [redacted]

Iran tried to manipulate the attempted coup to preserve Sultan's position, [redacted]

[redacted] Tehran reacted quickly when Abd al Aziz attempted to oust Sultan by issuing an official statement backing Sultan. The US Embassy reports that Iranian officials worked behind the scenes to bolster Sultan during his temporary exile in Dubayy and offered to mobilize its forces on Abu Musa in support of Sultan. We believe Iran saw in Abd al Aziz a decidedly less friendly figure and believed that as ruler he would deal more firmly with Iran and Ash Shariqah's security weaknesses. Tehran probably calculated that the replacement of Sultan, who has frosty relations with Zayid, would undermine its strategy of playing Ash Shariqah and Dubayy against Abu Dhabi and the other emirates, hindering UAE solidarity toward Iran. [redacted]

The power-sharing arrangements that have been worked out between the brothers as a result of the coup attempt are partly intended to check Iranian efforts to court Ash Shariqah and in particular Sultan. Abd al Aziz has been appointed Crown Prince and deputy to his brother as well as deputy chairman of a newly formed executive council to govern the emirate. [redacted]

Zayid, who allegedly backed Abd al Aziz in his coup attempt, was instrumental in setting up the power-sharing arrangements designed to enlarge Abd al Aziz's role in policymaking. Zayid probably hoped

that Abd al Aziz's anti-Iranian sentiments would serve as a check on Sultan's friendship with Iran. [redacted]

Implications

Iran's use of Abu Musa Island for military purposes will continue to be a major source of friction between Iran and Ash Shariqah, but this is unlikely to disrupt relations. The US Embassy reports that, although Ash Shariqah has never agreed to Iran's military use of the island, emirate officials believe they are powerless to challenge Iran's presence there. Nonetheless, according to the US Embassy, after the Iranian military buildup in October, the Amiri Guard commander warned Iranian diplomatic officials to refrain from meddling in the emirate's affairs on the island and threatened to close Iranian establishments in Ash Shariqah and call in US forces to oust the Iranians from Abu Musa. Despite these warnings, Ash Shariqah would prefer to ignore Iranian activities on the island, especially if Iran refrains from attacks along the coast. [redacted]

Ash Shariqah's inability to control Iranian activities on Abu Musa will increase interemirate tensions that are running high over how to deal with Iranian aggression in the region. Faced with an increasingly hostile Iran, UAE leaders, particularly those in Abu Dhabi, are likely to press Ash Shariqah to take a tougher position with the Iranians. Emirate leaders, however, will be eager to maintain their lucrative ties to Iran and will advocate accommodationist policies. [redacted]

Ash Shariqah's meager military and security capabilities as well as its sizable native Shia and Iranian population will prevent emirate leaders from taking actions that might provoke the Iranians. Iran probably has sufficient access to Ash Shariqah's Shia community to carry out subversive activity at Tehran's discretion. [redacted]

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Despite Ash Shariqah's shared interests with Iran, the emirate is unlikely to change its pro-Iraqi stance in the war or its support for the federation. Emirate leaders, including Sultan, are not naive about Iranian motives in the region and are aware that shared economic interests do not offer much protection against Iranian aggression. Moreover, the political, security, and economic benefits of the federation are far too important for Ash Shariqah to jeopardize by straying too far from the federation's policy toward Iran.

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**Middle East and South Asia:
An Overview of Tax Systems**

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Tax systems in Middle Eastern and South Asian countries are primarily used to raise revenue for short-term budget expenditures.¹ They generally fail to contribute to implementation of long-term policies in such areas as industrial development, income redistribution, housing, and education. Taxes are rarely used as a fiscal policy tool, as in Western countries, to influence the growth of the economy. Governments in the region often implement tax policies that are publicly acceptable but do not make economic sense. Moreover, tax evasion is rampant, and enforcement of tax laws is lax. We believe efforts to reform tax systems—as in Israel, Egypt, and Pakistan—will remain politically sensitive and hinder the raising of revenue.

and luxury items. Direct taxes in these states typically do not raise much revenue, largely because of evasion and difficulty of administration. In Egypt and Jordan, for example, personal and corporate income taxes contribute less than 15 percent of tax revenue and do little to improve social services or redistribute income, according to diplomatic reporting.

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Most governments in the region use a mixture of direct and indirect taxes to raise revenue. They rely primarily on indirect taxes which constitute over 60 percent of tax revenue in most countries.

Some countries impose taxes on an ad hoc basis to meet revenue shortfalls. Libya, for example, has imposed a “jihad tax”—3 percent of each person’s salary is deducted for the Islamic Call Society’s “Jihad Fund”—

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Governments throughout the region generally impose direct taxes that are progressive—taxing those with the ability to pay. Direct and indirect taxes typically raise less than half the total domestic revenue—particularly in the Persian Gulf states. The difference is made up primarily by investment income, royalties, and profits from state-owned industries.

In addition, the Libyan Government has imposed new taxes to finance its Great Manmade River Project. We believe that these measures will become permanent fixtures of the tax system.

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Regional Differences

The states of North Africa and the eastern Mediterranean levy a wide variety of direct and indirect taxes.² Customs duties, excise taxes, and licenses and fees provide the bulk of domestic tax revenues—almost 50 percent in Jordan, for example. Other indirect taxes used by these states include value-added taxes, turnover taxes, user fees, production and consumption taxes, and taxes on travel

In the Arab Peninsula and Persian Gulf states, which collect most of their revenue from oil production and royalties from government-owned enterprises, direct taxes—such as taxes on property or wealth, corporate income or profit, and inheritance—raise only minimal revenue.³ The main indirect taxes used by these states are customs duties, excise taxes, and licenses and fees. Like direct taxes, they generally do not raise substantial revenue and do little to affect economic growth. Customs duties and excise taxes are used to protect newly established domestic industries. The Gulf Cooperation Council recommends three tariff levels, but each country is free to decide its tariff rate. In Saudi Arabia, for instance, the general tariff was increased in 1985 to 7 percent, but several items enter duty free.

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In the Persian Gulf, reduced oil revenues in recent years have caused some governments to try to improve budget revenue and minimize the effects of the

¹ Information on tax rates, tax revenue, and government budgeting mechanisms are for many countries poor. In addition, it is difficult to track government expenditures and the effects the expenditures have on capital formation, development, and modernization.

³ These states include Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, UAE, Iraq, Iran, North Yemen, and South Yemen.

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² These states include Morocco, Algeria, Tunisia, Libya, Egypt, Sudan, Jordan, Syria, Lebanon, and Israel.

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Taxes Used in the Middle East and South Asia

Direct taxes. The main direct taxes are the personal income tax, corporate income tax property or wealth tax, and oil taxes and royalties. Other direct taxes, less frequently implemented, are zakat—a general Islamic wealth tax to be used for the poor and needy—and taxes on inheritance, capital gains, and land revenue.

Advantages: Rates generally are progressive, taxing those with the ability to pay.

Disadvantages: Cuts back savings, real investment, and development. Politically difficult to increase because of political strength of the rich. Easy to evade. Numerous loopholes and exemptions often limit effectiveness. Raises little revenue because of the limited incomes of the poor. Difficult to implement because of high illiteracy rates and administrative difficulties in taxing large numbers of people.

Indirect taxes. The main indirect taxes are customs duties, excise taxes, value added taxes, licenses and fees, and taxes on consumption, sales, travel, and luxury items.

Advantages: Easier to administer and enforce because of fewer complicated tax forms and the smaller number of taxpayers (producers, wholesalers,

and retailers). Often raise more revenue than direct taxes because the activity being taxed is more accessible—receipts from imports, exports, sales, and fees versus individual and corporate incomes, which probably are more easily concealed. May be used under the infant industry argument—new domestic industries need protection from established foreign competitors. Consumption or sales taxes—collected by retailers and then given to the government—allow the government to reach the typically large, subsistence population. May have a lower political cost because the distribution of the tax burden is unclear. Indirect taxes may conserve foreign exchange by restricting imports of luxury goods—taxing those with the ability to pay.

Disadvantages: Inability to reach high concentrations of income and wealth as effectively as direct taxes. Customs duties may become protectionist and distort domestic production by sustaining inefficient industries or fostering black-market activities. Some indirect taxes—customs duties and excise and sales taxes—are regressive and hurt the poorer segments of society.

recession on domestic businesses. For example, Bahrain has raised fees for business licenses and other government services, and Oman has raised user fees for government services. Financially troubled firms in Saudi Arabia may be exempted from paying zakat, equal to 20 percent of their profits, if they can provide proof of their difficulties, according to the US Embassy in Riyadh. [redacted]

Direct taxes in South Asian countries provide relatively little revenue.⁴ Pakistan and India, with

⁴ South Asian countries include Afghanistan, Pakistan, India, Nepal, Bangladesh, and Sri Lanka. [redacted]

relatively sophisticated tax structures, obtain less than 20 percent of tax revenue through direct taxation, according to diplomatic reporting. Several countries do not tax agricultural income, primarily because of the political clout of large landowners, leaving a large potential source of revenue untapped. [redacted]

Like the Arab states, South Asian countries rely heavily on indirect taxation—especially customs duties, excise taxes, licenses and fees, and sales and luxury taxes—to raise revenue. India and Pakistan

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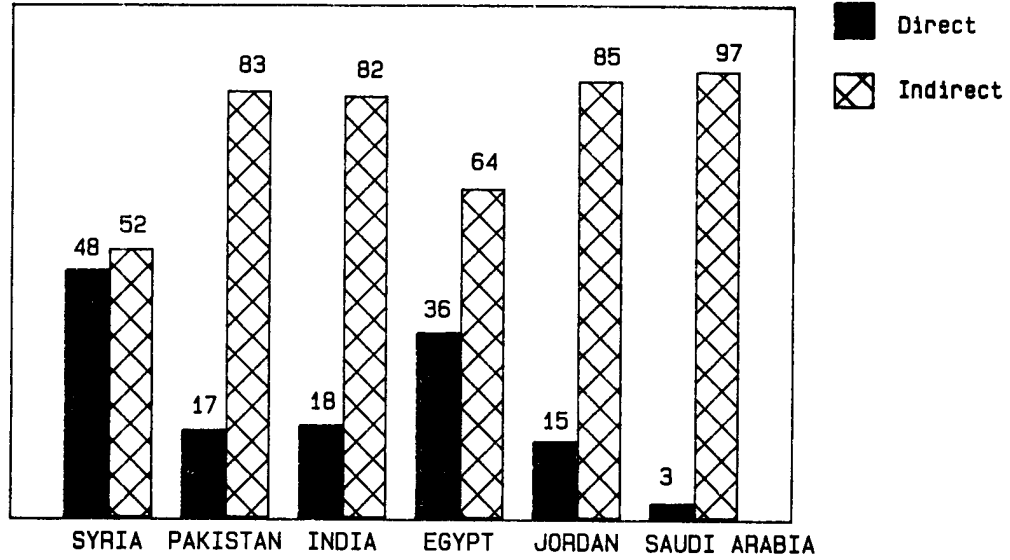
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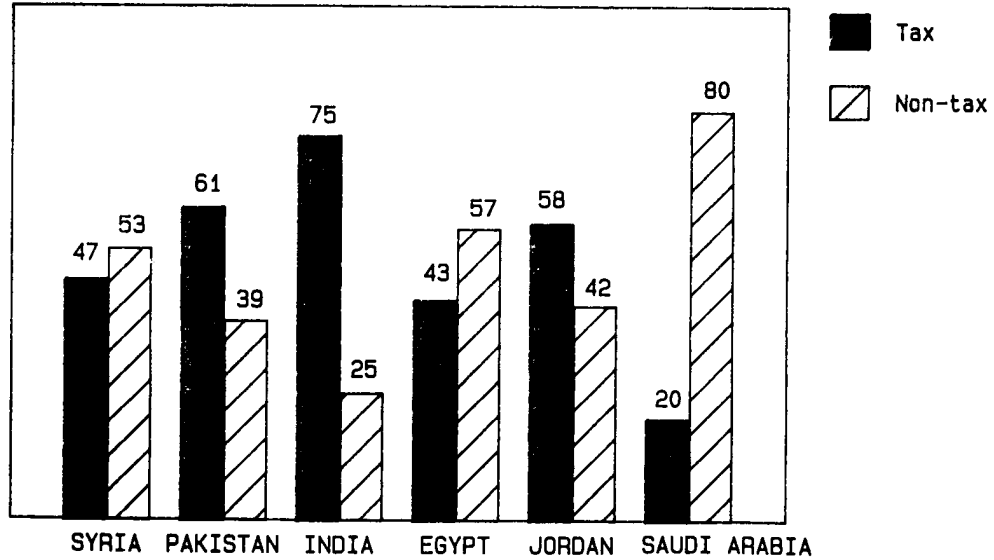
**PROPORTIONS OF DIRECT & INDIRECT TAX REVENUE
1987***

Percent



**PROPORTIONS OF TAX & NON-TAX DOMESTIC REVENUE
1987***

Percent



* Estimate

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have value-added taxes on certain commodities. India's modified value-added tax scheme—introduced in 1986—covers almost the entire industrial sector with the exception of textiles, tobacco, and petroleum, according to the US Embassy in New Delhi. [redacted]

South Asian governments have used a variety of tax measures to help make up for budget shortfalls or to pay for unexpected expenses:

- India imposed a 5-percent surcharge on taxable income and corporate profits above \$3,845 for fiscal year 1988/89 to raise \$420 million for damages from this summer's drought, according to the local press. In addition, temporary surcharges were placed on customs duties and domestic air and rail fares.
- Bangladesh, to raise money to import food and to repair and rehabilitate areas damaged by the recent flood, imposed a 6-percent income tax surcharge and 5-percent excise duty on cinemas, hotels, restaurants, and soft drinks.
- Nepal began advance collections of 1987-88 business taxes to meet 1986-87 budget demands, [redacted]

Tax Avoidance and Evasion

Tax avoidance and evasion, while difficult to quantify, are widespread in the Middle East and South Asia. A shortage of trained personnel, such as accountants and customs officials, and the inability of governments to register taxpayers—local vendors as well as the general population—are contributing factors. In addition, individuals and businesses often are not attuned to paying taxes or the need to do so. In some countries this attitude is a reaction to the countries' colonial history. Taxes were regarded as an instrument of colonial power and, therefore, a legitimate object of evasion. [redacted]

Tax policies in the region—as in most developed and developing countries—often contain loopholes, and potential revenue slips through the cracks. For example, although Morocco's tax system snares most salaried employees and foreign companies, local businesses have developed tax avoidance to a fine art,

according to the US Embassy in Rabat. The local businessmen invest heavily in the agricultural sector because of tax exemptions on agricultural income until the year 2000. [redacted]

Prospects for Reform

Tax increases and reforms are politically sensitive in the Middle East and South Asia, just like in many other regions. Proposed tax increases in Pakistan, for example, touched off rioting in Punjab Province in June 1987. Most government leaders in the region have tried to increase tax collection by removing tax and tariff exemptions. Such moves are frequently resisted by businesses—which would lose the financial benefit of the exemptions on imported capital goods, tax exemptions on profits, and/or rebates on interest rates—and corrupt bureaucrats who would lose opportunities for personal enrichment [redacted]

The countries of the Middle East and South Asia tend to alter tax rates rather than enforce the tax laws already in place or simplify administrative processes. Several countries are taking steps to revise their tax systems:

- Tunisia's reform measures call for a single, comprehensive income tax to replace separate tax regimes for salaried employees, self-employed persons, and semiskilled industrial workers. In addition, the government is reducing tariffs and liberalizing import measures and exchange rates to make the industrial sector more competitive, according to diplomatic reporting.
- Israel's committee on tax reform is seeking to improve the tax return filing system. Only 350,000 workers—out of 1.6 million—file tax returns, according to the US Embassy in Tel Aviv.

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Indian-US High-Technology Cooperation [redacted]

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Indian Prime Minister Gandhi's visit to Washington in October marked progress in Indo-US cooperation in several high-technology fields. New Delhi decided to purchase a US supercomputer and arranged a US launch of its fourth communications satellite just before the visit and signed a cooperation agreement on the Light Combat Aircraft after the visit. Gandhi has won support for his efforts to improve bilateral relations from India's business and scientific elites and many of the urban middle class who share his enthusiasm for more advanced technology. Gandhi has lowered his public profile on the acquisition of advanced technology, however, as his political opponents increasingly challenge his efforts. They claim he is pursuing this interest at the expense of Indians who are suffering in the drought and living in rural poverty.

United States in a position to dictate the scope and pace of Indian technological progress and economic development. These officials complain about US controls and are inclined to recommend purchases of comparable non-US equipment from other developed countries to avoid what they see as unjustified restrictions and ingrained US suspicions about Indian trustworthiness.

Differences over the emphasis given to transferring versus protecting US technology will disturb efforts to cooperate. New Delhi views Washington's stringent interpretation of the Memorandum of Understanding on technology transfer as frustrating India's national ambitions. US concerns about the potential dual use and diversion of sophisticated technology may constrict the flow of US technology and prompt New Delhi to turn to alternative suppliers of technology, [redacted]

Both the Indian Government and private industry are concerned about protecting Western technology and equipment to retain access to future developments. During 1987, New Delhi has warned US officials not to sell to certain firms it suspects of working for the Soviets. The Indians, even with the best of intentions, cannot foreclose Soviet collection efforts or prevent diversion. We can confirm transfers of controlled US dual-use technology—mainly computer-related items—by Indian firms and individuals over a period of 10 years. Non-Indian firms, [redacted] [redacted] have used Indian businesses as a conduit for transferring technology and equipment goods and software to the USSR and Eastern Europe. [redacted]

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[redacted] New Delhi has not been enthusiastic about Moscow's proffers favors in the high-technology area.

Light Combat Aircraft

Gandhi has lowered the political barrier to defense cooperation with the United States with his signing of the agreement on the light combat aircraft and the statement in the joint communique at the end of his visit welcoming further cooperation. He is confronting the leftist political opposition within his administration that questions the reliability of the United States as a supplier and US intentions to use high technology to control New Delhi. Nonetheless, Indian officials in the defense establishment who

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Technology Diversion

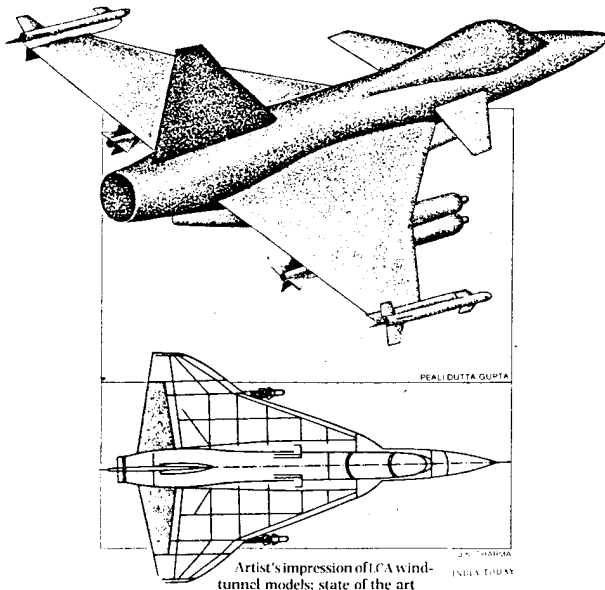
Gandhi believes that the Memorandum of Understanding is a key element in New Delhi's plans for technological progress and economic development over the next decade, [redacted]

[redacted] He has said repeatedly that rapid improvement in productivity requires imported technology. Some of his advisers believe the memorandum will help New Delhi modernize the military by expanding access to US technology. Others caution that the memorandum might place the

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Artist's impression of LCA wind-tunnel models: state of the art.

India Today ©

support Gandhi's decision fear that Washington's reluctance to release technology will prevent New Delhi from working with the US firms offering hardware and other technological support.

New Delhi is making headway toward producing the light combat aircraft which is intended to modernize India's aircraft industry, provide its Air Force with a near state-of-the-art fighter, and reduce dependence on Soviet combat aircraft. New Delhi has purchased 11 General Electric F404J engines for use in the construction and testing of the prototype aircraft and has a long shopping list of US subsystems. The US Embassy reports General Electric believes it can interest the Indians in its radar.

We expect Gandhi will shop around for military technology and equipment for the light combat aircraft. New Delhi has awarded the design contract this year to Dassault of France and is shopping in Western Europe for advanced technology. New Delhi has not sought assistance from the Soviets for the program. Moscow has offered 50 additional MIG-29s as an alternative to the aircraft. New Delhi agreed this year to buy the MIGs but has not slowed work on the light combat aircraft project.

Gandhi will attempt to balance India's ambitions to become self-sufficient militarily with its need to keep ahead of China and Pakistan. In the case of the light combat aircraft, Gandhi knows he is undertaking a difficult task. There is a possibility New Delhi will decide to shelve the program in the early 1990s because of increasing costs and time delays. It has the option to coproduce the MIG-29 or the Mirage 2000 as an alternative.

Computers

Gandhi's decision to buy the US supercomputer probably gives US firms an additional edge in the Indian computer market. New Delhi expects that imports of US computers will stimulate domestic industrial development and improve its ability to compete in international markets. Immediately after the signing of the Memorandum of Understanding there was a flurry of activity between New Delhi and several US companies for coproduction agreements. Negotiations on several deals have been hamstrung by Indian bureaucratic foot-dragging and US licensing requirements.

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India is interested in acquiring US superminicomputers—such as Digital Equipment Corporation's VAX—to upgrade its computer-aided design and manufacturing capabilities and US supercomputers—from Cray—to satisfy their high-speed computing needs. Control Data Corporation negotiated a \$500 million deal for production of their medium-size mainframe computers in India. Digital Equipment Corporation is discussing a deal for Indian production of their MicroVAX II.

Despite the optimism over prospects for future negotiations, New Delhi recognizes that its access to US computer technology will be limited by US licensing requirements. The Indians, therefore, are talking with Japanese and West European firms about everything from supercomputers to personal computers as an alternative to dealing with the United States.

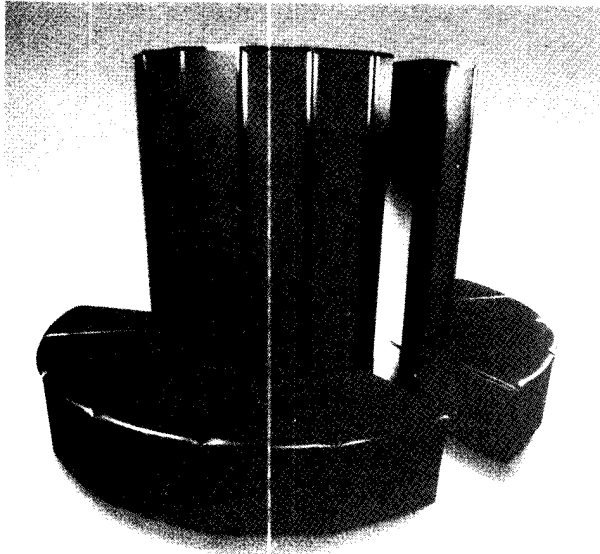
Bilateral Space Cooperation

Indians prefer US technology for their space program, but New Delhi's emphasis on self-reliance, the shuttle

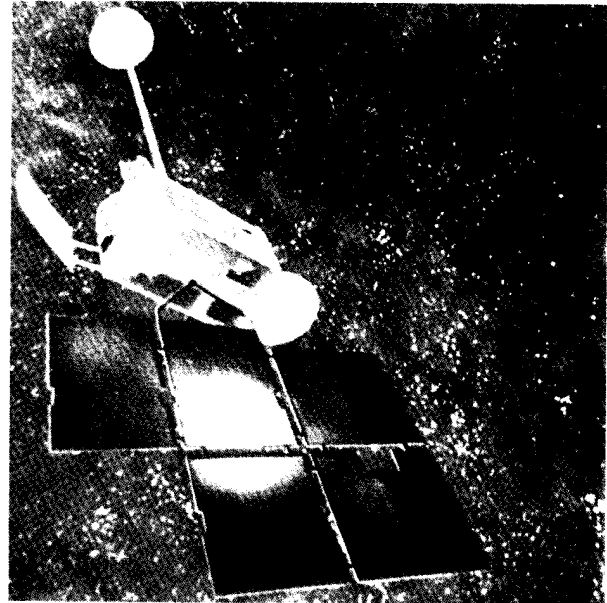
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The CRAY X-MP/1 computers



An artist's impression of INSAT-1

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launch failure, and the US Missile Technology Control Regime (MTCR) probably will limit Indo-US space cooperation over the next several years. New Delhi's immediate program goals include a second launch of its augmented space launch vehicle, the orbiting of the remaining two Insat-I communications satellites and the remote sensing satellite, and the development of the Insa II communications satellites and polar and geostationary launch vehicles. New Delhi has reservations for a US Delta launch vehicle to place their Insat I-D communications satellite in orbit in March 1989. India has asked for US technology, including cryogenic engine research and development, liquid propellant tanks for satellites, supersonic wind tunnels, telemetry equipment, and wheel bogies for the mobile service tower for the polar space launch vehicle. New Delhi has also approached France, West Germany, Canada, and Japan to meet its near-term goals.

India's space program probably will be delayed by the MTCR but should achieve its goal of self-reliance in space applications by the end of the century. New Delhi anticipates that certain spinoffs from the space program—such as expanded communications capability—will contribute to economic growth and to an improved quality of life.

The USSR and India signed several science and technology cooperation agreements this year that will aid India's space program. In early 1988, the Soviets will launch India's remote sensing satellite (IRS-1), helping New Delhi pass another milestone in its ambitious program. Moscow has offered to provide significant amounts of advanced equipment to India.

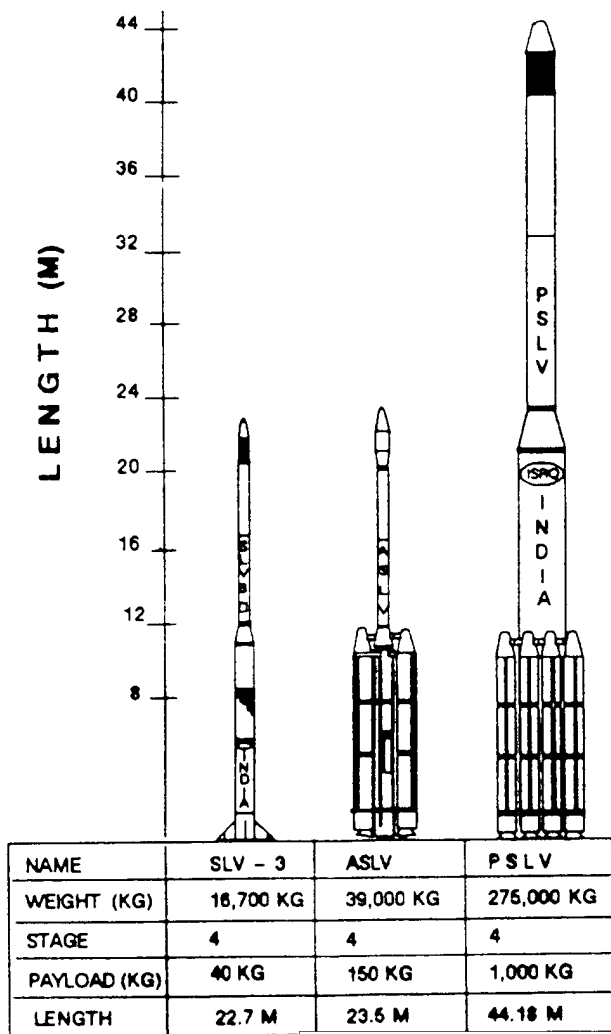
India, in our judgment, can produce many of the technologies needed for ballistic missile development, but it needs assistance with advanced guidance systems, thrust vector controls, and heat shield-reentry vehicle technology. New Delhi is shopping for technology, probably intended for its ballistic missile program, from France, West Germany, and Japan—testing the MTCR in the process.

We have no direct evidence that India is receiving Soviet assistance for its missile development program. The Soviets have expressed a guarded interest in joining the MTCR. Indian scientists associated with the missile programs and their Soviet counterparts

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INDIA'S SATELLITE LAUNCH VEHICLES



India's satellite launch vehicles

have exchanged visits. Moscow and New Delhi have a well-established defense procurement relationship that has included coastal missile defense systems.

Looking to US-Trained Indians

Gandhi is trying, with some success, to involve expatriate Indians living in the United States in lending their skills and capital to India's modernization drive. Gandhi recently named Sam

Petroda—an Indian-born, US-trained scientist—as adviser on technology missions. Petroda, who will serve as a member of the Cabinet, has extensive business holdings in the Chicago area. Diplomatic reporting indicates US-based, nonresident Indians are trying to enter the personal computer business in India with mixed results. They are optimistic about the long-term payoffs but find that patience and persistence are required to launch a new venture in India, especially in areas outside Bombay and New Delhi. They face bureaucratic delays, red tape, and outright opposition from state and national officials.

Outlook

New Delhi and Washington will differ over the issues of access to and diversion of advanced US military, computer, and space technology—with Gandhi pressing for wider access, prompt clearances, and favorable financial terms. New Delhi will look to US firms for advanced avionics technology for India's light combat aircraft program and is likely to continue negotiations for the purchase of at least two additional supercomputers. The Indians almost certainly will ask that discussions to purchase advanced dual processor supercomputers, presently denied under the US-Japanese agreement, begin during 1988. We expect the Indians will shop in the United States for the specialty items they need for their space program—despite the obstacles posed for New Delhi by the MTCR—because US firms can compete on price with Japan and Western Europe.

We believe New Delhi will turn to Japan and Western Europe rather than the USSR for the advanced technology denied by the United States. Gandhi will continue discussions with Moscow on a series of high-technology deals to placate leftist domestic political interests. He, however, will move cautiously to avoid alienating other constituents with technical training or business interests favoring Western rather than Soviet technology. Despite India's efforts to curtail diversion of Western technology, we believe India's capacity to track foreign and domestic diverters will lag behind the ingenuity of the individuals or private firms operating in India.

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Gandhi probably will be looking for an indication that Washington is as enthusiastic as it was in 1985 about the future of Indo-US cooperation in advanced technology. He is aware of the disagreements in Washington over India's intentions and ability to protect sensitive technology. New Delhi will continue to press the United States for prompt release and favorable financial terms for advanced avionics technology for its light combat aircraft program.



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**High-Technology Firms
Prospering in South India** [redacted]

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Despite general industry fears of a drought-induced recession, South India's high-technology industries are doing well and expect to increase their manufacturing base and design capability. Several computer-based industries have doubled their sales over the past year and expect similar growth this year. The availability of skilled engineers, scientists, and technicians makes southern India a prime location for additional growth of high-technology industries. Companies in southern India produce software cheaply, which could help them gain a niche in the world market, but they need to overcome several problems associated with software design and marketing. One of their greatest weaknesses is their small-scale production, which makes it difficult for them to compete internationally.

US Embassy officials say New Delhi hopes that computer software will be the new export growth area, [redacted] confident. The head of software exports for one company told a US Embassy official that the industry would be lucky to reach half of the \$2 billion in software exports projected by the government for 1990. India can produce software cheaply, but most firms lack design capabilities, market knowledge, or financing to get into the international arena. Others complain that they spend most of their time meeting the needs of domestic clients or are too small to invest the sums necessary to market internationally. Nevertheless, [redacted] India may eventually succeed internationally because Indian software writers are the world's most productive and least expensive.

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Domestic Market Versus Exports

Computer manufacturers and other high-technology firms, like most Indian industries, look to the large domestic market for the bulk of their sales. The primary market is the government—state and central banks and ministries—and public-sector firms, such as transportation. Some producers have made lucrative sales to India's space program and defense industries, but they have had less success with educational institutions and private-sector firms.

Growing Technical Capability

Unlike many segments of Indian industry, the high-technology firms in the south are well informed of the latest developments in their field. The more established firms have small but sophisticated research and development units. One company, for example, designed and manufactured a minicomputer with a state-of-the-art microprocessor only six months after the microprocessor was released for commercial use by the Western company that developed it. Another firm is working on the development of circuits that would reduce computer size and increase data-processing efficiency.

Most computer hardware manufacturers see only limited export opportunities. High customs duties and transport costs of imported parts frequently price Indian products out of the international market.

[redacted]

[redacted] Indian manufacturers indicated they are under pressure to look to other markets where they can earn hard currency to maintain essential components and technology.

The head of Keonics, the Karnataka State Electronic Development Corporation, told a US Embassy officer that Indian firms can produce about 60 to 70 percent of India's personal computer and minicomputer component needs. Throughout southern India there are a large number of small-scale firms (Keonics estimates 500 to 1,000 in Bangalore alone) that make a wide range of computer components and electronic

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subassemblies. Domestic supplies of electronic components and computer peripherals are likely to increase when new industries around Bangalore, supported by Indian private sector investment and foreign collaborators, go into full-scale production over the next few years.

Computer firms in Madras and Bangalore are interested in ventures with foreign companies because this allows them to add to their technical capabilities. Software and computer manufacturers view joint ventures as a way of stimulating state-of-the-art circuit design and computer software production in the region. One company's representatives told a US Embassy officer that their firm plans to buy time on a foreign company's satellite communications system to sell software in the United States.

India's Silicon Valley

A strong base of skilled engineers, scientists, and technicians makes southern India ideal for the development of high-technology industries. The Indian Institute of Technology in Madras provides first-class undergraduate education and is conducting pioneering research in frontier areas such as superconductors. The Indian Institute of Science in Bangalore is India's leading graduate institution for scientific research and education. According to one computer manufacturer, there are a large number of local private and state-supported engineering schools producing skilled graduates. [redacted]

[redacted] the state of Karnataka alone produces over one-third of the nation's engineering graduates, many of whom specialize in the electrical and computer sciences.

US Embassy officials say many computer and computer software firms attempt to emulate a Silicon Valley culture. They note that the offices bustle with activity, and there is a shirt-sleeved informality. Most managers are young, have modest-size cubicles rather than "power" offices, go by first names, and are easily accessible to their colleagues. This is in sharp contrast to the usually rigid hierarchies and command-oriented bureaucratic structures prevalent in other Indian private and public-sector firms. [redacted]

[redacted] this environment increases creativity and job satisfaction. [redacted]

High-Technology Development and Manufacturing Organizations in South India

Software Research and Development Organizations

ISRO Satellite Centre	Bangalore
Indian Institute of Science	Bangalore
Indian Institute of Technology	Madras
Data Software Research	Madras

Manufacturing Firms

Electronic Corporation of Tamil Nadu	Madras
OEN Micro System, Ltd.	Cochin
Kerala State Electronic Development Corporation	Trivandrum
Electronics Research Pvt., Ltd.	Bangalore
Sharad Kuman	Bangalore
Aurelec	Madras
Wipro	Bombay

Some industry leaders worry that India's sizable trained manpower pool will merely provide service for multinational firms and will not be involved in the innovative aspects of projects. Scientists at the Indian Institute of Sciences in Bangalore are concerned that some joint ventures are only a means of using cheap Indian brainpower to satisfy the needs of Western markets. They believe that, in some cases, there is little of technological value done in India because most of the designs come from the United States, leaving the tedious detail work to Indian programmers.

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Other observers criticize Indian electronics policy, which encourages kit imports. [redacted]

[redacted] local manufacturers who took the more expensive route of fostering research and development and manufacturing capabilities are losing profits to companies that are importing only the components for assembly. Most firms particularly resent the sales leader "Shiva" computers, which produces low-cost, kit-built personal computers. [redacted]

[redacted]

The Down Side

One of the major weaknesses of Indian computer firms is their small-scale production. A leading company produces only 3,000 personal computer units a year (Apple produces over 250,000 units) and only a handful of minicomputers. A US Embassy officer was told that computers were "handmade" at most establishments, with operations resembling a cottage industry. The quality of the products varies widely, leading to maintenance and service problems.

Small-scale production has made it difficult for Indian computer firms to compete internationally. Stiff competition and low volumes have shaved profit margins, seriously eroding research and development budgets. Computer manufacturers in Madras and

Bangalore expressed concern to a US Embassy official that they will fall further behind international standards if they cannot fund future product development and improvement.

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Outlook

Despite some shortcomings, economic prospects for high-technology industries in southern India are promising. The large domestic market—particularly government agencies and defense-related industries—is largely untapped. If software design and marketing problems can be solved, India could gain a niche in the international market because of its low-cost production.

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India will have to resist the temptation to produce all of its computers and related components. New Delhi probably will reduce computer kit imports as domestic component producers come on line, which will strengthen the competitive position of those firms with their own research and development capabilities. It will have to maintain a steady inflow of technology and components to keep pace with fast-moving developments in the computer field. Otherwise, India's high-technology field will suffer from technological obsolescence and high-cost production, the bane of other Indian industries.

[redacted]

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Afghanistan's Maoist Factions: Which Way to the Revolution?

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Afghanistan's Maoist factions have been seriously weakened by attacks from the Kabul regime and Islamic fundamentalist resistance parties. We believe the Maoists have lost most of the territory they controlled at the beginning of the war and have fragmented into splinter groups. [redacted]

[redacted] Maoists make up a large percentage of the "nonparty" supporters of the Kabul regime and the Afghan employees of nongovernmental aid organizations in Peshawar and Quetta, Pakistan. We believe many Maoists have joined the traditionalist resistance factions. In our view, the Maoists—organized, experienced, educated, and more disciplined than most resistance organizations—can form a small, urban underground and carry out such critical clandestine activities as intelligence, propaganda, and sabotage. Such operations would depend on the Maoists' unlikely ability to surmount internal schisms and coordinate operations with the main resistance groups. [redacted]

The Birth of a Movement

[redacted] the Afghan Maoist factions grew out of the same Kabul student movements that, during the 1960s, produced the People's Democratic Party of Afghanistan (PDPA)—the current ruling party—and the precursors of today's fundamentalist resistance groups. These student movements fell into three general categories, [redacted] The first, a group led by Islamic theologians—and current resistance leaders—Gulbuddin Hekmatyar and Burnahuddin Rabbani, favored a renewed emphasis on Islam within the Afghan Government and society. The other movements—nationalist and Marxist—both split internally along ethnic lines. Nationalist Hazaras and Tajiks opposed the domination of the Afghan Government by the Pashtun tribes. Pashtun nationalists sought to carve their own country—"Pashtunistan"—out of tribal areas on both sides of the Afghan-Pakistani border. Similarly, [redacted] [redacted] leftist Pashtuns joined the PDPA, and students from minority groups formed the Organization of Progressive Youth. [redacted]

Although we believe the Organization of Progressive Youth grew out of two small factions—the Mahmudi and Yari cells—initially influenced by the same Soviet and Tudeh (Iranian Communist) writings as the PDPA, it soon rejected the Soviet model in favor of Maoist doctrine. [redacted]

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the group began publishing a biweekly paper, *Shula-i-Jawed* (Eternal Flame), in 1967 that became extremely popular. [redacted] *Shula's* readership included several military officers and public officials, few of whom knew that the Organization of Progressive Youth—soon renamed Shula after its newspaper—was behind the publication. The newspaper was banned by the government and the group's leaders arrested in November 1967 after it had incited several strikes and demonstrations, [redacted]

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Growth and Fission: The 1970s

During the 1970s, the surviving Shula members broke up into several factions as a result of personal and ideological disputes, [redacted] [redacted] the major faction—the Revolutionary Group of the People of Afghanistan—asked its members to go into the countryside and work with the farmers. Their goal was to found a pro-Chinese Afghan Communist Party. We believe the group's efforts—along with their pragmatic blend of Maoist rhetoric and a variety of regional and ethnic causes—explain the concentration of Maoists during the 1970s in relatively remote areas of Badakhshan, Nimruz, and Helmand Provinces. In our view, the group's successes were partly due to the tribal rank of its members, many of whom were chiefs' sons sent to Kabul for their education. [redacted]

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Several smaller factions such as SAMA (Sazman-i-Azadibakhsh Milli Afghanistan), SURKHA (Liberation Organization of the People of

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Afghanistan), and a pro-Albanian group called Akhgar (Burning Ember) split from Shula and the Revolutionary Group after the PDPA coup in April 1978, [redacted]

[redacted] the new Afghan Communist regime moved quickly against competing ideologies and purged the government and academic community of known Maoists. [redacted]

[redacted]

group's founder—was killed by agents of the Kabul regime, [redacted]

[redacted]

[redacted] describe the group as being pro-Albanian. [redacted]

[redacted]

Several Maoist groups are successful urban guerrillas—in part because of their experience in working within a cell structure. [redacted]

[redacted] SAMA, has been led from Europe by Abdul Qaum Rahbar since 1980, when his brother Aboul Majid Kalakami—the

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[redacted] Maoist insurgents in Kabul assassinated the vice director of KHAD, the Afghan secret service, in 1980 in retaliation for the arrest and murder of SAMA's founder, Abdul Majid Kalakami.

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[redacted] such urban groups generally make up for their small numbers with careful organization and target selection. We believe that most urban Maoist cells concentrate on intelligence collection and circulating *shabnama* (night letters) encouraging greater resistance to the regime or airing ideological disputes. [redacted]

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only proregime Maoist group to retain at least nominal independence from the PDPA. According to the Embassy report, the 5,000-member organization consists mostly of Turkmens, Tajiks, and Uzbeks. It is primarily concerned with protecting the interests of minorities against the Pashtuns who dominate the Afghan regime. Kabul press reports in late October 1987 indicate that the PDPA is wooing ROWPA with promises of greater power and regime positions in return for closer support for the government. In our view, the regime's success with such tactics will be limited by ROWPA's size and anti-Pashtun orientation. [redacted]

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Maoists in the Regime

Although [redacted] Afghan regime members singled out Maoists in their early purges, we believe many Maoists are now either members or supporters of the government. According to the US Embassy in Kabul, Najibullah announced the PDPA's intention to absorb smaller political and labor groups at the 19th PDPA meeting in September 1986. We believe most such groups are Maoist factions that have decided they would gain more by working with the regime, but who seek at least nominal independence from PDPA direction. [redacted]

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Two earlier Maoist holdouts, the Vanguard Organization of Young Workers of Afghanistan and the Revolutionary Association of Afghan Working People, merged with the PDPA in late September 1986, according to the US Embassy in Kabul. The leader of the Revolutionary Association of Afghan Working People, Mohammad Zahir Ofuq, is a member of the PDPA Central Committee. We know little about these two factions but believe them to be offshoots of Setam-i-Melli. [redacted]

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Relations With the Resistance

[redacted] many Maoist groups are trying to avoid the PDPA mistake of appearing to be subservient to a foreign, anti-Islamic ideology. [redacted] Maoist factions have reorganized and adopted such names as the Freedom Fighters' Front to seem more a part of the resistance movement. [redacted]

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One group absorbed by the PDPA in the early years of the Afghan regime was Setam-i-Melli (Oppressed Nation). This anti-Pashtun group—most active among the ethnic minorities of the north—was founded in the late 1960s by Mohammad Taher Badakhshi. Badakhshi, a Shia Tajik, had been a founding member of the PDPA in 1965. He left the party after a dispute with Nur Mohammad Taraki. He dropped from sight after the 1978 coup—arrested and executed on the orders of Hafizullah Amin, according to a press report. [redacted]

[redacted] many Setam members now follow Prime Minister Soltan Ali Keshtmand, the brother of Badakhshi's widow. [redacted]

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According to the US Embassy in Kabul, the Revolutionary Organization of the Working People of Afghanistan (ROWPA)—led by former Setam member Mohammad Bashir Baghlani and, we believe, built on Setam's original constituency—is the

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[redacted] In 1980, [redacted] [redacted] six of the seven Peshawar-based resistance parties demanded that the UN High Commission for Refugees stop funding the Afghan Doctors' Association, which they claimed was using its humanitarian programs to conceal its Maoist orientation. [redacted] a doctor with the association was kidnapped and killed because of his Maoist views, almost certainly by fundamentalist resistance fighters. [redacted]

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[redacted] some Maoists have been welcomed within the traditionalist resistance parties. Asif Kawari, chairman of the cultural affairs department of Mojadedi's Jabha-i-Najat-i-Milli Afghanistan; Dr. Haider, Mojadedi's political adviser; and Azizullah Ludin, Harakat-i-Inqilab-i-Islami leader Nabi's political adviser were given their positions despite their known Maoist connections, [redacted]

[redacted] many other Maoists are employed by nongovernmental humanitarian organizations. [redacted] the Maoists have been valuable to these agencies because they are generally better educated and have a more modern outlook than most Afghan refugees. [redacted]

Facing a Dead End
In our judgment, Maoist influence will continue to decline. Afghan resistance suspicion of non-Islamic ideologies and many Maoists' disillusionment with Communism will, in our view, limit Maoist influence in the resistance movement. Similarly, the Maoists within the Kabul regime are handicapped by their minority ethnic status and lingering PDPA suspicion. [redacted]

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We believe the Maoist groups—particularly the remaining SAMA cells in Kabul and other cities—could contribute greatly to the Afghan insurgent war effort. The resistance has been hampered in the cities by its lack of experience in clandestine operations and aversion to rigid discipline. We believe the urban-based Maoist factions have used their experience to create a network of cells penetrating government circles and carrying out sabotage and propaganda operations. In our view, an increase in such operations—whether unilaterally or in cooperation with the main Afghan resistance parties—could affect the progress of the war far more than the Maoists' small numbers would warrant. Such a development would require the Maoists to put aside internal ideological quarrels and accept the risks involved in heightened operations. Such a change would be unlikely to come from Afghanistan's most schismatic factions. [redacted]

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Contacts Abroad

We believe the Afghan Maoists receive little or no significant aid from China. [redacted]

[redacted] the Chinese decided in the early 1970s that the Afghan Maoist groups were hopelessly fractured and ineffective and that Afghan conditions were unlikely to support a Maoist revolution. In our view, the fact that several factions openly oppose Deng Xiaoping's reforms also limits Chinese willingness to offer support. We believe China may have coordinated with the Maoist Freedom Fighters' Front on the group's attempt in 1983 to block the seating of the official Afghan delegation at the Nonaligned Movement's meeting in New Delhi. [redacted]

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The Maoist groups have far more extensive ties to leftist student groups in Western Europe. [redacted]

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