

Egypt: Mubarak's Visit  
NESA M# 88-20011

**Distribution:**

**External:**

- 1 - Mr. Philip Wilcox, State/NEA
- 1 - Ms. Teresita Schaffer, State/NEA/EGY
- 1 - Mr. George Harris, State/INR
- 1 - Mr. William Burns, NSC
- 1 - Lt. Col. Mickey Baity, OSD/ISA/NESA
- 1 - Mr. Roger Pajak, Treasury
- 1 - Mr. Richard Tropp, AID
- 1 - Lt. Col. Douglas Menarchik, Office of the Vice President
- 1 - Mr. Richard Brown, AID

**Internal:**

- 1 - DIR/DCI/DDCI Exec Staff
- 1 - DDI
- 1 - ADDI
- 1 - NIO/NESA
- 1 - C/PES
- 1 - PBD Staff
- 1 - NID Staff
- 6 - CPAS/IMD/CB
- 1 - D/NESA
- 1 - DD/NESA
- 1 - C/NESA/PPS
- 2 - NESA/PPS (one copy to analyst for sourcing)
- 1 - C/NESA/SO
- 1 - C/NESA/PG
- ~~1 - C/NESA/AI~~
- 1 - C/NESA/IA
- 1 - NESA/AI/E/Chrono
- 1 - NESA/AI/E/rs

DI/NESA/AI/E/

25X1

25X1

Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

19 January 1988

EGYPT: Mubarak's Visit

Summary

Buoyed by his reelection in October and Egypt's restored relations with most of the Arab States following the Arab Summit in November, Egypt's President Hosni Mubarak comes to the United States in late January in a mood "almost cocky" by comparison with his outlook a year ago, according to one observer. Mubarak can claim significant progress in political liberalization--the opposition presence in the People's Assembly has almost doubled, the press enjoys unprecedented freedom, and the rulings of a strengthened judiciary are taken seriously from the President on down. A combination of improved crisis management and good luck has vindicated his cautious leadership style. [redacted]

25X1

Despite these positive signs, economic grievances are mounting, Cairo's negotiations with the IMF are not going well, and the disturbances in Israel's occupied territories raise the political cost to Egypt of a continuing stalemate in the peace process. [redacted]

25X1

Mubarak's agenda in Washington will focus largely on peace issues. In particular, he will ask that the US press Israeli Prime Minister Shamir to take a more accommodating approach to an international conference to resolve the Arab-Israeli dispute. On bilateral issues he will seek more US cash aid, FMS debt forgiveness, US intercession with the IMF, and increased defense coproduction. We doubt, however, that he will come armed with significantly new ideas on any of these issues or that his expectations for the visit are particularly high. [redacted]

25X1

\* \* \* \* \*

This memorandum was prepared by [redacted]

25X1

[redacted] Arab-Israeli Division, Office of Near Eastern and South Asian Analysis.

25X1

Comments and questions should be addressed to the Chief, Arab-Israeli Division [redacted]

25X1

NESEA M 88- 20011

25X1

25X1

Mubarak's US AgendaThe Peace Process

Middle East peace issues are likely to top Mubarak's agenda when he comes to Washington later this month. In particular, he will look to the United States to push Israeli Prime Minister Shamir to take a more accommodating position on peace negotiations and a workable settlement for disposition of the occupied territories. In our view, Mubarak believes that Egypt's reentry into the Arab fold has strengthened the moderate Arab bloc and provided a unique opportunity to revive the peace process. He continues to be frustrated and discouraged, however, by the intransigence of Israel's Likud-led government. He may be prepared to acknowledge that the Arabs must put their own house in order, but he will be looking to us for new ideas. [redacted]

Aid and Debt Relief

Mubarak probably understands that US aid to Egypt is unlikely to increase and expects it to continue at current levels. He is almost certain to argue for increased cash disbursements and other modifications in the implementation of the aid program. [redacted]

We expect Mubarak to ask the United States to intercede with the IMF on Egypt's behalf. The optimism that accompanied Egypt's standby arrangement with the IMF last spring has eroded badly as high inflation and shortages of foreign exchange have hit the economy. Egypt's relations with the IMF have become strained over Cairo's alleged non-compliance with the terms of their agreement. We believe Mubarak and his economic advisers remain determined to implement economic reform but at their own pace, and they will plead for understanding of political and social constraints, especially at a time when domestic dissidence is rising. [redacted]

We also believe Mubarak will press for concessions on Egypt's FMS debt, even though he probably does not expect a significant offering. Although he has been well briefed on recent US legislation that allows commercial refinancing of military debt, he does not believe this legislation will help Egypt, according to US

Embassy reporting from Cairo. We believe he is opposed to refinancing the debt with commercial banks because he still harbors hopes that this or some future US administration might forgive the debt altogether. [redacted]

25X1

Defense Coproduction

We are confident that Mubarak will reaffirm Egypt's strong military bond with the United States and will seek assurances of continued US commitment to Egypt's military modernization program. Specifically, the Egyptians are likely to press Washington to give final approval to a deal allowing Egypt to coproduce technically sophisticated military equipment such as the M1A1 tank--the expected centerpiece of efforts to revitalize Egypt's lagging defense industries. The Egyptians may also raise other coproduction issues, such as assistance in manufacturing remotely piloted vehicles. [redacted]

25X1

The Domestic Scene

Mubarak comes to the United States with his political confidence at an all time high. One foreign observer has described him as "almost cocky" compared to a year ago. Indeed, political stability in Egypt was reinforced during the past year by a string of domestic and foreign policy successes:

25X1

- In Parliamentary elections held last spring, Mubarak's ruling National Democratic Party (NDP) retained a large majority, ensuring his renomination to the Presidency in July. At the same time, however, the opposition presence in the Assembly almost doubled, enabling Mubarak to claim yet another step toward more representative government.
- Egypt successfully negotiated an IMF standby agreement last May that offered credits and paved the way for rescheduling \$10 billion of Egypt's official debt, provided Cairo commit to a range of economic reforms.
- Mubarak's legitimacy was strengthened when he was

25X1

reelected in October by popular referendum to serve a second six-year term.

-- The President's political stock was boosted in November when nine Arab states restored full diplomatic relations with Cairo without demanding concessions, such as downgraded Egyptian-Israeli relations, in return. These states had severed formal ties in 1979 after Egypt signed the peace treaty with Israel.

Mubarak can claim significant progress in political liberalization, including unprecedented press freedom and a strengthened judiciary whose rulings are taken seriously from the President on down. Even the President's critics admit that the political climate in Egypt is freer today than at any time since the 1952 revolution.

We attribute Mubarak's recent successes less to political vision than to a combination of cautious leadership, improved crisis management techniques, and considerable luck. Mubarak, for his part, probably views his successful management of liberalization as a vindication of his caution in dealing with socially sensitive issues. Despite Mubarak's successes, Egypt faces potential threats to its stability that probably will require bolder leadership.

-- Economic grievances are mounting, and domestic discontent over basic bread-and-butter issues will almost certainly increase as Mubarak haltingly implements IMF-mandated economic reforms. Inflation is becoming a serious political issue--particularly among middle-class government workers on fixed incomes who face a decline in their standard of living. Meanwhile, the government is increasingly hard pressed to provide the generous subsidies and benefits that most Egyptians have come to regard as a right.

-- Concern about the economy is intensified by fears of Islamic resurgence. After two years of relative quiet, fundamentalist groups are becoming increasingly restive, particularly on Egyptian campuses. Although the movement lacks widely accepted leadership, individual groups tend to be disciplined, well-organized, and eager to exploit popular grievances as a weapon against the establishment. The government will crack down hard on extremist groups to maintain order, but too tough a policy risks generating sympathy for the radicals among the apolitical mainstream.

The International Context

We expect recent Palestinian violence in the West Bank and Gaza will add new urgency to Mubarak's agenda in Washington. We do not believe Egypt is likely to take any dramatically negative action against Israel, however. Nevertheless, the unrest has once again made relations with Tel Aviv a focus of protest in Egypt, especially on campuses and around mosques. So far the disturbances in Egypt have been controlled, but government officials fear that pro-Palestinian demonstrations could serve as a catalyst for more widespread unrest fueled by rising economic grievances.

The decision by nine moderate Arab states to restore formal ties with Egypt after the Arab Summit in November was a major political victory for Egypt, although Cairo enjoyed near-normal ties with most of these states for years. Prospects for a rapprochement with the radical Arab states appear remote. Press and diplomatic speculation about a possible reconciliation with Syria--brokered by Jordan's King Hussein--appears dubious. Moreover, Mubarak's publicly expressed interest in settling differences has not been reciprocated by Syrian President Assad. Recent Embassy reporting from Damascus suggests Syria remains unwilling to work for better relations, although we cannot rule out

25X1  
25X1

25X1

25X1

25X1  
25X1

25X1

25X1

temporary cosmetic improvements spurred by financial inducements from Saudi Arabia. [redacted]

important relations with the United States to gain ground with Moscow, which in any case is incapable of offering really substantial economic assistance. We believe the Egyptians were surprised and embarrassed by the speed with which the Soviet consulate in Alexandria was reopened in the absence of a firm go-ahead from Cairo. Moreover, the projected doubling of trade appears highly unrealistic--neither country has a high demand for the other's goods, and they differ over exchange rates. Still, good relations with Moscow gives Egypt centre to a politically important player in the peace process and helps Mubarak rebut critics who call him a US puppet. [redacted]

25X1

25X1

We expect Egypt to reap increased financial benefits from its newly restored relations with the Gulf Arabs. Although exact accounting is difficult, we believe the Gulf Arabs have provided over \$1 billion in cash since mid-1986, as well as an additional \$235 million in project assistance. This aid will probably reinforce Egyptian political stability--a major Arab concern--by enabling Cairo to ease the impact of inflation and avoid severe jolts to its generous system of subsidies. The aid might, on the other hand, diminish Egypt's sense of urgency in implementing much-needed economic reforms. [redacted]

25X1

25X1

In return for aid, the Gulf Arab states will look increasingly to Egypt for support and protection against Iran. Cairo's response to Gulf requests for security assistance, however, is likely to be confined to training missions and some materiel. Egypt has expressed strong interest in reviving its indigenous arms industry for the potentially large Gulf market. [redacted]

25X1

25X1

Relations between Cairo and Moscow have improved steadily since April, when the two sides reached agreement on rescheduling Egypt's military debt. Since then, the Soviets have reopened their consulate in Alexandria--after an 11-year hiatus--and recently received permission to refuel their warships at Egyptian ports. Moscow has gained favor with Egypt by appearing flexible and supporting an international conference on Arab-Israeli peace. On economic issues, the two sides concluded a three-year trade protocol in December under which they expect to double their bilateral trade to \$1.5 billion in 1990. [redacted]

25X1

The prospects for further dramatic improvement in bilateral relations are not promising, however. Egyptian officials are inately suspicious of Soviet motives, and Mubarak has told political associates that he has no intention of risking Egypt's far more

25X1