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Near East/North Africa Report

(FOUO 37/79)

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NEAR EAST/NORTH AFRICA REPORT

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INTER-ARAB AFFAIRS

ARAB BANKS INCREASE SHARE OF INTERNATIONAL MARKET

London THE MIDDLE EAST in English Sep 79 pp 8, 9, 12-14

[Article by B. T.]

[Text]

International lending by Arab banks has grown beyond recognition in the past five years. In 1974 only two Arab houses, both Kuwaiti, appeared as lead managers in Eurobond issues. Before 1976 no wholly Arab bank had lead-managed a major syndicated Eurocredit. Now 20 or so Arab houses have led bond issues, 35 Eurocredits. And the range of institutions involved in these markets is much wider.

At first the Arab presence in the international capital markets depended on the two state-controlled Kuwaiti houses, the Kuwait Investment Company (KIC) and the Kuwait Foreign Trading Contracting and Investment Company (KFTCIC), plus some minor participation by Lebanese banks such as the Arab Finance Corporation. Kuwait's predominance was based on the relative sophistication of its financial sector, which had burgeoned well before the 1973/74 oil price revolution, and on the Government's policy of spreading oil wealth as far as possible through the population from an early stage in the country's development.

The sudden accretion of oil funds in 1974 left most of Kuwait's Arab neighbours ill equipped to handle them. The surplus revenues were channelled mainly through the major international banks based in the US, Europe and Japan as to a large extent were Kuwait's. Because of the time it took to construct their own banking institutions, the Arabian states turned to the Arab-Western consortium banks for their trade-related business and participation in the

Euromarkets. Most of these banks had been established before the big oil price rises but had understandably attracted little attention previously. Foremost of these institutions are the Union de Banques Arabes et Françaises (UBAF) and the Banque Arabe et Internationale d'Investissement (BAII), both with their main base in Paris but with a range of affiliates in other countries.

However, the impact of these consortia on international lending was limited at first because factors such as the collapse in the summer of 1974 of the Herstatt Bank of Germany led to considerable nervousness and a drying up of liquidity in the international markets. It was not until 1976 that UBAF and later BAII started to make a mark as international lenders.

By then many of the Arab states which were shareholders in these consortia (and UBAF had representatives of all Arab states among its participants) had concluded that it was time to have their own institutions representing them in the international marketplace.

A new phase therefore started. The key year was 1977, though some elements of the trend can be traced back a year or two earlier. The year 1977 was when the Abu Dhabi Investment Company (ADIC) was established and when the Gulf International Bank (GIB) owned by seven Arabian governments, first started to make an impact. It was also the year that the National Bank of Abu Dhabi (NBAD) set up an investment and corporate finance

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department. All three banks became known as aggressive Euromarket operators in 1977 and, especially, 1978, bidding for deals with offers of very fine terms. Also much more active internationally, though its thrust had started somewhat earlier, was the privately owned Kuwait International Investment Company (KIIC). Later in this phase, other banks such as the Arab African International Bank, the National Commercial Bank in Saudi Arabia and some of the Kuwaiti commercial banks such as the National Bank of Kuwait stepped up their international lending operations. The latest twist in the story is a slowdown in the pace of lending by those new institutions that emerged in 1977 and the reassertion of muscle by UBAF and BAIL, whom many people wrote off when the purely Arab banks came on the international scene in 1977/78.

The time-lag between the quadrupling of oil prices and the emergence of powerful internationally-oriented banking institutions in the Middle East was inevitable, given the huge domestic demands placed on the banking systems of the oil-rich states by the transfer of resources to OPEC countries after 1973.

Most banks in the Arab world had more than enough business in the immediate aftermath of 1973/74 in the local market, channelling funds into development and construction projects or simply financing the massive increase in trade, to worry about looking for overseas assets. In most cases banks did not have enough branches in their local markets; they were short of qualified local staff. The last thing they needed to do was expand overseas. Only Kuwait of the Arabian countries had the outlines of a financial infrastructure which could immediately support a big expansion in overseas investment. And it had already had some experience of that. The 50 per cent government-owned KIC had been founded as long ago as 1961, the 80 per cent (now 88 per cent) government-owned KFTCIC in 1964. Both of the "big Ks" were experienced in different types of investment, at home and abroad. Both were familiar with the securities market. Both had portfolios to invest in securities on behalf of the Ministry of Finance. The early lead in the Arab world of KIC and KFTCIC in Eurobond management, stakes was thus entirely understandable.

Their role was enhanced by the difficulties European and American investment houses faced in raising funds for their clients in the industrial world. The Kuwaiti and to a lesser extent other Arab houses suddenly became the subjects of intense courting by the established Eurobond operators in 1974-75.

But it was a stormy relationship at times because of the application of the Arab boycott of Israel to financial transactions by the Arab houses. This meant that if, say, one of the Kuwaiti houses was in the management group for an issue, a blacklisted house such as S.G. Warburg would have to be excluded. The boycott was, however, applied only to contractual relationships between managers and members of the underwriting and selling groups. There was nothing to prevent an Arab house and a blacklisted house appearing together as underwriters or sellers since no contract between them was involved.

Many Eurobond houses in London and other major financial centres did not like complying with the boycott, and often tried to deny they were observing it. But they had little alternative so long as Arab investment banks had the capacity to underwrite large chunks of an issue when their own capacity was limited. And the Arab houses quickly realised the muscle they had to demand a place in the management group of an issue and earn extra fees, so that they could not be fobbed off with a simple underwriting or selling role.

But the Kuwaiti glory was short-lived. As the turnaround in the international markets came in 1976, traditional Eurobond managers quickly unhooked themselves from the Kuwaitis. Indeed something of a counter-boycott developed, with managers of Eurobond issues preferring to avoid the extra complications of inviting Kuwaiti houses into their syndicates.

This change in attitudes soon showed up in the statistics. In 1974 KIC led five bond issues totalling the equivalent of \$107.1 million and co-managed 15 worth \$310.4 million. In 1975 the relevant figures were seven led for \$216.5 million and 21 co-managed for \$575.6 million. By 1976, however, lead managements had dropped to three for \$64.9 million, co-managements to 13 for \$333.8 million. The following year saw a slight rise in the number of lead

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managements from three to four, but a further drop in co-managements. KFTCIC, with smaller overall totals, suffered a similar experience.

The two Ks have never really recovered. Even in the Arab world they face strong challenges from Kuwaiti and other companies. The privately owned Kuwait International Investment Company (KIIC), for instance, topped the list of Arab lead managers of Eurobonds in 1978, mainly because of its strength in the Kuwaiti dinar sector of the market, where both KIC and KFTCIC have also made a determined effort to win deals, given the difficulties they faced in the dollar sector. KIIC's total of \$251.5 million in eight deals was well ahead of KIC's \$148.6 million from six deals, though that was still good enough for second place. BAII was third in the lead-management table, KFTCIC fourth.

In co-managements ADIC easily topped KIC in 1978, with 19 deals worth \$777.6 million against KIC's 14 worth \$475.6 million. KIC in second place was just ahead of UBAF (14 deals worth \$472 million) and KFTCIC (15 worth \$470.8 million).

In managing Eurocredits the pattern of growth for Arab institutions began in 1976. That was when KFTCIC became the first wholly Arab concern to lead-manage a loan - \$100 million for the Suez-Mediterranean pipeline in Egypt - though UBAF led seven deals worth \$1.43 billion and BAII, Banco Arabe Espanol - the Kuwaiti-Libyan-Spanish consortium in Madrid - and the Arab-Malaysian Development Bank also did one deal each. GIB, KIIC, Arab International Bank (another Arab-Western consortium) and Arab and Morgan Grenfell Finance Company (a joint venture between Arab Bank and Morgan Grenfell) entered the fray as lead managers in 1977.

But 1978 was the really frenetic year as international bank liquidity reached flood proportions. Then another 25 or so Arab banks entered the ranks of lead managers. Who was top depends very much on how one measures the relative worth of each deal and pinpoints the date of the deal - should it be the date of signing or publication of the tombstone? ADIC was one of 34 lead managers (almost a contradiction in terms) of a \$1.2 billion syndicated credit for Mexico at the end of 1977, for which the tombstone was published early in 1978. If one attributes ADIC with \$1.2 billion and counts it as 1978,

it was top of Arab lead managers that year; if not, UBAF was, though its total also includes a multi-lead-managed \$700 million deal for Mexico.

What is certain is that by number of deals the ranking was ADIC (10), UBAF (9), GIB (9), BAII (7), National Bank of Abu Dhabi and Arab African (6 each) and National Commercial Bank (4).

ADIC raced after mandates for loans from the moment it was created in February 1977. The company is akin to the state-controlled Kuwaiti companies. It is 60 per cent owned by the Abu Dhabi Investment Authority (ADIA) which has responsibility for handling the Emirate's surplus oil funds.

Though ADIA has its own portfolios and investment managers, ADIC is clearly a conduit for Abu Dhabi's official investment in international bank loans and securities, just as the two big Kuwaiti houses transmit surplus oil funds from the Kuwaiti Ministry of Finance into Euromarket investments.

The creation of GIB to operate off shore in Bahrain showed that it was not the consortium concept as such that the rich Arab states considered had outgrown their needs. But it did show their determination to stand on their own feet and run their own international bank, even if initially they needed assistance from Citibank on staffing and they employ a number of Westerners. In itself the fact that Saudi Arabia, Kuwait, Bahrain, the UAE, Oman, Qatar and Iraq could agree on establishing the bank at all is another measure of the importance they attach to it. With a capital of \$100 million and the governments rather than the central banks as its shareholders, Gulf International is potentially the most powerful bank in the Arab world. Its aim is to be a worldwide commercial bank. Already its representative office in London has been upgraded to a branch. New York, Frankfurt and Tokyo are the next likely outposts.

It has concentrated so far on Euromarket activities because it is a relatively painless way of putting a good deposit base to use, it broadcasts the bank's name internationally and fewer staff are needed than for most other banking activities.

The National Bank of Abu Dhabi's advent on the international lending scene was late, considering that it had been in existence since 1968. But it has some natural advantages as an operator in the Euromarkets. It is the banker for the

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Emirate and thus receives all Abu Dhabi's oil revenues. Up to 80 per cent of its liabilities are in dollars. And when it set up its investment department in 1977, it was "way underlent" in the words of one local banker.

Though it was slower to make a mark than the other Kuwaiti investment companies, KIIC has made up for lost time. It has played a leading part in developing the Kuwaiti dinar bond market, both primary and secondary, and the certificates of deposit market, yet it has still found time to lead-manage syndicated credits to, for instance, East European borrowers.

The transformation of Arab-African Bank from a rather sleepy Arab consortium in Cairo, where it was established in 1964, into a bank with real international pretensions seems to have coincided with the arrival from the Arab Investment Company of Ibrahim al-Ibrahim to take over as chairman. "International" was inserted into the bank's title in mid-1978 and mandates were sought aggressively, often for hotel or real-estate-related projects in the Arab world. But since the Egypt-Israel peace treaty there has been a shadow hanging over the bank's future, because the two major shareholders are the Central Bank of Egypt and the Kuwaiti Ministry of Finance, each with some 42 per cent of the equity.

The Saudis have been slow to develop their own local banking system, so it is hardly surprising that the two wholly owned Saudi banks have been very cautious about taking on international commitments. For example, the National Commercial Bank's international lending has mainly been in the form of syndicated dollar bank guarantee facilities or in Saudi riyal credits or bonds for companies with contracts in Saudi Arabia.

All of these banks, and others, have started to become known in the international markets. The initial frenzy of internal development spending has calmed down and they have more time, more funds to employ and a clearer perception of the need to operate in the international markets through their own institutions. What they lack is personnel. Most Arab banks still rely heavily on European and American expatriates (increasingly recruited direct rather than through secondment or manage-

ment contract arrangements) for their syndication and bond-dealing departments. But it is the Arabs who have taken the lead at executive level, whether they are bankers by training or basically political appointees thrust into the banking world.

Arab bankers known internationally are still limited in number: Magdi al-Tanamli at ADIC, Hikmat Nashashibi at KIIC, Khaled al-Fayez at GIB, Abdullah al-Mazrui at the National Bank of Abu Dhabi (though he has now been elevated from chief executive to the board), Ibrahim al-Ibrahim at Arab African. These are typical of the younger breed of Arab bankers (Mazrui is only 27) based in the region. Outside, and working closer to the major financial centres, are others like Tariq Kassem, formerly of Arab and Morgan Grenfell, and Roger Azar, formerly of BAI. These two are forming a new Arab investment banking partnership to operate in Europe with one or two other Arab bankers.

Apart from these, the well known and respected Arab bankers are confined to the doyens of the profession such as Mohammed Abushadi of UBAF and Abdel-Moneim al-Qaissouni of Arab International Bank, both reared on Nasser's state banking system, or the Shomans who run the Arab Bank from Amman (see profiles).

The emergence of new international lenders among the Arab institutions coincided with, and was to some extent linked to, the emergence of new borrowers in the region. Through 1977 and 1978, governments, state entities and corporate names which had not previously tapped the international capital markets started to seek funds there. Qatari, Abu Dhabi, Bahraini and Saudi borrowings were a new feature of the markets. It was natural that their local banks should have a role in these borrowings, especially if governments had stakes in both the borrowing entities and the banks.

The situation was bound to provoke controversy. The new Arab banks were treading on the toes of the big international banks which had been working hard for the day when previously unborrowed states like Abu Dhabi would need to come to the markets. When, to a large extent, they lost out to the local banks, some familiar accusations were voiced. Whenever a new bank or set of banks (usually foreign banks arriving in a

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domestic market) upsets the status quo there are charges of rate-cutting. The Gulf was no exception last year. Except that whatever the Arab banks did they could not win that sort of argument. If they won a mandate by bidding better terms than an American or European bank it was because they priced the deal too low; if they won a mandate when an American or European bank offered superior terms, as happened with the \$100 million loan for the United Arab Shipping Company, it was because of political favoritism.

These newly active Gulf banks do not deny that they expect to be masters of their own markets. Abdullah Mazrui of National Bank of Abu Dhabi has said: "If we can't dominate our own market, we've failed. The Government would rather have its own bank doing a credit for its own company." But at the same time these banks have the same concern about the quality of their assets, the creditworthiness of their clients, as other banks. Khaled al-Fayez of GIB pointed out: "We've turned down Arab deals and deals involving the shareholders. We're after quality deals."

Banks like GIB, ADIC and NBAD may have pushed the terms for some borrowers to finer levels - ADIC and GIB for instance were the first to lend to an Arab borrower below $\frac{1}{2}$ per cent above Libor, in the \$100 million loan for Qatar Steel (though Chase Manhattan Ltd was a joint lead manager with them) - but they are in a different position from the Western banks to assess the risk. They are bound to take a slightly rosier view of the yield required for Arab risks, just as British banks, say, might be more favourably disposed to a British corporate borrower than a foreign bank might be. And the Arab bankers are eager to point out that, whatever the Americans or Europeans might say about the Arabs, it was they who brought the downward pressure on lending margins. And they are also quite often prepared to go into finely priced deals for Arab borrowers. In the Qatar Steel credit, for instance, Chase Manhattan was a joint lead manager with ADIC, GIB and Qatar National Bank, and, according to one participant in the deal, "not many non-Arab banks declined participations in the deal".

With the growth in the number of institutions in the Arab world experienced in international loan operations, the scope for syndicating loans entirely in the region should expand. Already several local companies and projects such as Aluminium Bahrain and a Jordanian hotel company have raised dollars through syndicates of offshore banking units based in Bahrain. There have also been a number of local currency syndications involving mostly, though not entirely, local banks. In the SR120 million credit for the Saudi Arabian Hotels Corporation in October 1978, BAI and Banque de l'Indochine et de Suez were co-managers. In the KD14 million loan for Bahatun of Kuwait, also last year, Chase Manhattan was a lead manager with National Bank of Kuwait.

More significant in the long run is the prospect of European, American and Japanese entities going down to the Gulf and raising money entirely through a syndicate of local banks. The European Investment Bank has done several issues in dollars through mainly Middle Eastern syndicates, the latest in May this year when \$75 million of 9 $\frac{1}{2}$ per cent 1989 bonds were placed through a syndicate comprising KFTCIC, ADIC, Blyth-Eastman Dillon & Co. International, Citicorp International Bank, GIB, Libyan Arab Foreign Bank, Manufacturers Hanover Ltd and the National Commercial Bank.

The best example so far of a credit done mainly in the Gulf for an external borrower is the \$100 million operation last year for Chrysler Financial Overseas Capital at a spread of 1 per cent. Led by GIB, NBAD, KFTCIC/Burgan Bank, UBAF and Wardley Middle East, it was arranged by First Boston. Bahrain branches of international banks also participated. A lot of bankers both in the Gulf and outside the Gulf hope that other corporations from the US, Canada and Britain will be interested in doing issues there. American public utilities would be a good catch for the Gulf banks in such issues.

The Gulf has also proved a good place for banks to launch floating rate certificates of deposit (FRCDs). ADIC has made a speciality of this, particularly for Japanese banks, which are in constant need of CD

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funding because of their Ministry of Finance regulations, but ADIC's most recent foray into this field has been for a local bank, Khalij Commercial, in a typically controversial operation priced at the extremely fine rate of $\frac{1}{4}$ per cent over Libor.

Activities such as FRCDs cannot hide the fact that ADIC, in stark contrast to 1978, had not in the first five months of 1979 lead-managed a single syndicated bank loan. The names of some of the other aggressive Arab banks in 1978 have also been featuring less in tombstones during 1979. A major reason for this is the general level of margins in the international credit market. Spreads, even for less than prime borrowers, have been squeezed so low that many banks have decided they cannot make money in that sector of the business. The Arab banks, whatever the approach of their managerial staff, have cautious paymasters or shareholders, who would presumably balk at their bank lending to say an East European or Third World name at $\frac{1}{4}$ per cent or $\frac{1}{2}$ per cent above Libor, which is possible these days. Lending to Arab risks at

those or even lower rates is a different proposition for them.

But major local borrowers have largely been absent from the markets in the first half of 1979, and that is another reason for the leading Arab houses' fall-off in lending.

On top of these reasons, individual banks have had their own reasons for slackening off. ADIC has not, for example, been granted the capital increase it expected in the last part of 1978, a factor which somewhat restrains its lending. The National Bank of Abu Dhabi has to some extent been paying more attention to domestic business.

The consortia, UBAF and BAI, have thus been able to reassert themselves, taking top and third position in lead managements of Eurocredits in the first half of 1979. They have shown themselves capable of winning mandates even when the going gets really tough in the markets. That is something which the less experienced Gulf banks will learn in time. When they do they will be a real force in the markets.

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IRAN

POLITICAL TURBULENCE BECOMES ENDEMIC

London THE MIDDLE EAST in English Sep 79 pp 25-31

[Article by Fulvio Grimaldi and Fletcher Scott]

[Text] Iran's Threat From Within--"The saddle has changed but the donkey is the same," is how many Iranians view their situation. Certainly opposition to the new regime is mounting on a scale unprecedented since the fall of the Shah. THE MIDDLE EAST's roving correspondents, Fulvio Grimaldi and Fletcher Scott, were in Tehran as tension rose, and toured the turbulent provinces.

To complete the picture, our Business Section examines the state of Iranian industry (p 70) and Mosaic looks at the impact of the revolution on the children who took part in the overthrow of the Shah (p 49).

"We must proceed to our second revolution," an Iranian told *The Middle East* late in August. "The first one has given us God and independence, now we want freedom and well-being." Such sentiments are fairly widespread in Iran, and knowledge of his dwindling popular support was instrumental in deciding Ayatollah Khomeini to crack down on opposition, whether secular, leftist or from the minorities.

The moderate religious leader Ayatollah Shariat-Madari, has consistently given warnings against the dangers of mixing religion with politics. "The role of the clergy is a spiritual one I don't think we should involve ourselves in government. The clergy should fight threats

of a new tyranny," he said recently in his frank way.

But a new tyranny is precisely what seems to be developing, with the banning of the entire opposition and independent press and the expulsion of all foreign correspondents, the banning of the Kurdistan Democratic Party (KDP) and the pro-Soviet Tudeh Party, and the issuing of warrants for the arrest of even moderate figures like National Democratic Front leader Matin Daftari.

The alliance between the Shia militants and the leftist secular opposition was always an uncomfortable one. But it might have survived longer if Iran's new rulers had not had to contend with such overwhelming problems, some inherited from the previous regime and others of their own making--un-

employment, inflation, the breakdown of law and order, the disintegration of the armed forces, the national minorities, and increasingly strained relations with neighbouring states.

Unemployment is one of the biggest problems facing the authorities, with the number of unemployed estimated at 3 million. A freeze on civil service recruitment has only exacerbated the situation.

Deputy Premier Sadeq Tabatabai told *The Middle East* that the problem was being tackled through the construction of roads, villages and houses. But young unemployed intellectuals and students who are being sent away to take part in the "reconstruction campaign" complain that the real

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purpose of the exercise is to remove potential political trouble-makers.

Factories in which the Pastaran (revolutionary guards) have dissolved the workers' committees or have replaced the director (unavoidably associated with the former regime) with his subordinates have remained closed. Although the major industries were nationalised some weeks ago, few have been given Government-appointed boards so they too are not functioning. No improvements in working hours, pay or promotion have been offered to the workers, who are described as "lethargic and unwilling to work".

In Tehran the Government is preoccupied with the growing number of industrial disputes that continue to put pressure on the shaky economy and threaten to isolate Iran even further by disrupting trade, communications and transport. A new "special" law proposes penalties for those promoting strikes.

Landlords who built up their holdings behind the mask of the Shah's "land reform", are now said to be defending them behind the mask of Islam, while in the provinces they are accused of working to suppress minority national rights. Provincial middlemen and merchants are accused of making unreasonable profits and of pushing prices up.

In short, the opposition argues that although the *mostafazin* (the poor) helped to overthrow the Shah, the *bazari* (rich merchants) are the ones who gained. The *bazari* had been threatened by the staggering inflation arising from the Shah's policies and had been waiting for years to extend their influence beyond the bazaar, the opposition says.

Fedayeen leader Mustafa Madani told *The Middle East*, "The Government is the true representative of this new, dynamic capitalist class whose natural ally will sooner or later be the US again, and a capitalist mode of development. As long as they pray and clamour for unity, they are all right with Khomeini."

The recent elections for the 75-member Assembly of Experts to discuss and amend the Draft Constitution did nothing to allay the fears of the opposition. The Constitution envisages a President with control of both the Executive and the armed forces as well as powers to appoint the Government, veto laws and dissolve parliament. "Only

someone very naive wouldn't be tempted by such powers to become a despot," NDF leader Matin Daftari commented.

But all hope of any real change to the Draft ended even before the elections were held. The extent to which the pro-Khomeini komitahs controlled the selection of candidates, ensuring the choice in most cases of Islamic Republican Party (IRP) members, prompted the secular opposition to abstain from voting in protest. Moreover, the subsequent evidence of ballot rigging during the voting prompted groups whose candidates failed to be elected to publicly denounce the election irregularities.

Of the successful candidates, only Abder-Rahman Ghassemloo of the KDP (elected for West Azerbaijan) and Rumatollah Moqadam Maragheh of the Muslim People's Republican Party (MPRP) which is associated with Shariat-Madari could really be called independents, and Ghassemloo's election was subsequently declared "null and void".

The MPRP in Tabriz issued a statement addressed to the "brave people of Azerbaijan", alleging that votes given to the two most popular MPRP candidates had been ignored.

"It is necessary to remember that the people of Tabriz and the whole of Azerbaijan have been oppressed for many years and that this is still continuing," the statement said. "You rose up before and know how to fight for your rights, and it is only out of respect for the highest authority in Shia Islam (a reference to Shariat-Madari) that you have been silent. If the Central Government ignores our statement, it must bear the responsibility for what happens."

In the wake of the statement the Governor of Tabriz said, "There was cheating in every polling station in Tabriz. I saw some of it with my own eyes." Even the IRP organiser for the town resigned, stating, "This election was just like those held for the Rastakhiz Party. It was against God and Islam."

This reaction and the fact that Khomeini's party polled only 8.5 million votes, much less than the earlier 20.1 million "yes" vote of the Islamic Republic referendum, almost certainly convinced the Iranian religious establishment that it would have to use force to retain control in the face of growing unrest.

The implementation of the press law published in June but delayed because of

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public opposition, was the logical next step. It provides for imprisonment of up to three years for insulting prominent state or religious figures. Press freedom, however, had become something of a rallying point for the opposition providing the pretext for demonstrations of solidarity which led to violent clashes with Khomeini's revolutionary guards.

Within two weeks of the law's coming into effect on 6 August, some 22 papers had been closed down including all those reflecting opposition or even independent views. But even before this any paper which criticised the Imam ran the risk of having its premises burned down.

The main morning paper *Ayendgan*, for example, published an interview with Khomeini by the expelled journalist David Lamb. The Imam refused to read it, and the next day all kiosks selling the paper were burnt down and some street-sellers were said to have been whipped.

The initiative for many arbitrary and repressive acts, however, comes from the forces holding power in the streets - the Pastaran and armed units of the komitahs - not the Government. Tehran's Prosecutor-General has protested against such actions, demanding that no arrest should be made without his authority and alleging that Tehran's Qasr court and prison are controlled by "irresponsible elements".

This is one reflection of the duality of power between the Central Government and the religious establishment in Qom. The failure of efforts so far to co-ordinate policies makes coherent government impossible.

Executions and arrests, especially of people not clearly linked to the regime, appear to be increasingly the result of rivalries between komitahs struggling for control. In south Tehran, for example, fighting broke out between two komitahs after one had ordered the arrest of a businessman whom the other supported. Both were said to be vying for control of his lucrative activities.

The komitahs and the Pastaran look only to Qom for direction, and Khomeini appears unwilling, or is perhaps unable, to curb their activities - in many of the provinces they are the only forces backing the authorities.

Efforts are being made to rebuild the shattered armed forces in hopes of using them to restore order, but this is proving a

difficult task. It is estimated that there are about 100,000 men in the Army compared with nearly 400,000 before the revolution. The rest have returned to their towns and villages and show no signs of wanting to rejoin. The call-up for the current batch of national servicemen has been extended by two months because of the poor response.

The Army has been renamed "The Army of the Islamic Republic" and the Imam has tried to boost its morale on various occasions, but the people in general remain deeply suspicious, especially of the officer corps. And the lower ranks seem to share this view judging by the continuing reports of poor discipline and lack of respect for superiors.

Dismissed General Azizollah Seif Amir Rahimi, the somewhat eccentric 55-year-old former commander of the military police, seems to believe that war was the best unifying force for both the Army and the country.

Asked how he would handle the situation in Khuzestan, he replied that "after extremely detailed investigations by experienced officers and after having approached the local leaders" he would "crush the counter-revolutionaries". The recent clamp-down on the Kurds, which involved the Air Force as well as the Army may well have been an attempt to test the advice.

Certainly it was more important as an exercise to bolster up the morale of the armed forces than for its effectiveness in weakening the Kurdish militants. The Army's confidence had been undermined by a series of events, culminating in the resignation of Chief of Staff General Nasser Farbod in July, partly because of outside interference in military affairs by "committees, political groups and other power centres" and of "differences of opinion".

Nor has the continuing campaign of strikes, walkouts and occupations by the Homafars (Air Force contract technicians), by far the most radical group within the forces, helped the situation. In their actions against any attempt to reimpose traditional military discipline they have grounded a substantial part of the Air Force.

Army actions in Kurdistan, before the most recent attempt to take complete control of the province, only showed up its weaknesses.

Units of the 64th Division based

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in Orumieh were mobilised to travel 60 kilometres to Serow on the Irano-Turkish border to relieve the local gendarmerie base which was besieged by Kurdish "rebels".

The Army was unable to use the mountain roads, however, because they were controlled by the Kurds, and had to cross into Turkey and approach Serow from behind. A one-hour journey therefore took several days and cost several tanks and other vehicles. Attempts to mobilise units for intervention in Marivan were equally unsuccessful. After the resources of four major bases had been tapped, only 500 troops could be assembled.

One highly placed political source told *The Middle East* that what was left of the Army "would obey orders in theory as long as it wasn't given any in practice". The Government is thus reluctant to rely totally on the armed forces to control difficult situations for fear they will disintegrate further, and is still forced to depend on the revolutionary guards.

But in both Kurdistan and Khuzestan (Arabistan) a significant part of the population see the young and inexperienced revolutionary guards as occupation forces. Resistance to them varies according to levels of organisation and armament.

Although both the Arabs and the Kurds are demanding autonomy within a democratic Iran, the two struggles are being waged in isolation from each other. Apart from the relative backwardness of the Arab campaign, the main reason for this has been the links of Arab Shiite religious leader Shaikh Muhammad Taher Shobeir Khaghani with the religious establishment in Qom. Kurdish leader Shaikh Izzeddin Hussaini, on the other hand, is a Sunni, and has adopted a relatively secular approach, seeing the Kurdish struggle as national and political rather than religious (*see The Middle East, August No 58*).

The Central Government insists that the minorities have been no more oppressed than the people of Iran in general. The minorities, however, see such statements as ignoring the existence of their national consciousness.

In Kurdistan all-out civil war is an increasing possibility, especially since the KDP has been outlawed and the Army has been brought in.

The brinkmanship that seemed to work at the start was based on the assumption that the minorities are more afraid of civil war than the Government is. But with their backs to the wall the Kurds will have to

fight in earnest. In that case other minority groups, like the Arabs, the Beluchis and the Turkomans may feel that a showdown with the regime can no longer be avoided.

The outspoken response of the Turks after the Assembly elections is an indication of this trend for they had hitherto been the most passive of all Iran's minorities and had even been involved in clashes with the Kurds who had mounted a massive demonstration in favour of autonomy.

There is little doubt, however, that Khuzestan is the most vital problem facing the Government. This area is the heart of the oil industry and the centre for much of Iran's new industry, including the steel mills of Ahwaz. It cannot afford chaos there and will pay almost any price to end dissent. This explains the occupation of Khorramshahr in July by revolutionary guards and the subsequent arrest of Shaikh Khaghani. After a week of silence, Khaghani issued a statement from Qom, where he is under house arrest, in which he seemed to have gone back on his earlier views. Several days later, however, he smuggled out a message: "I am a prisoner and statements published in my name are not mine" (*see interview*).

Iran's minority problem is one of the factors affecting relations with its neighbours but other policies adopted by the Government are leading to increasing isolation internationally.

Under the Shah, Iran was firmly in the pro-American and pro-Israeli Camp. The revolution against "dictatorship" and "imperialism" originally gained it the sympathy and support of its neighbours and of the non-aligned countries.

Although Iran criticises both "Western exploitation and consumerism" and "Eastern depersonalising collectivism", Moscow still seems to be the primary target.

The books and publications of the now banned Tudeh Party have been burnt along with the booths selling them in spite of its declared support for the regime. Muhammad Sadati, a leading member of the People's Mujahedin, has been imprisoned on charges of spying for the Soviet Union.

The Soviet Union, as both a secularist and socialist state, is seen as the backer of "godless" Afghanistan, which is considered virtually an enemy country. Communications are non-existent and the two governments accuse each other of subversion and interference. Foreign Minister

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Ibrahim Yazdi has declared that even though Iran does nothing against Kabul "it cannot prevent groups in this country from having relations with the Islamic movement in Afghanistan".

Relations with Turkey are also cool. This is partly because Ankara fears an extension of the Islamic "revolution" and the Kurdish desire for autonomy to Turkey, and partly because of the ideological gap between Turkish Premier Bulent Ecevit's secular, social-democratic policies and Khomeini's vision.

As for the Arab world, Iran's disgust with the Egyptian-Israeli peace treaty has led to a split with Cairo. Relations with Libya are strained, despite the ideological affinities, because of the disappearance of the Lebanese Shiite leader Imam Musa Sadr in Tripoli. The love-affair between Iran and the Palestinians is cooling and Iran has not proved to be the counterweight to Syria and Iraq which the Palestine Liberation Organisation had hoped.

Palestinian disappointment and embarrassment is considerable, as shown by the refusal of the PLO representative in Tehran, Hani al-Hassan to meet the press. The Palestinians' position appears to have been undermined by their long-standing relations with Moscow.

Relations with the Gulf countries have been damaged by the claims of Ayatollahs Rouhani and Khalkhali to Bahrain and their refusal to consider the return to the United Arab Emirates of the islands of Abu Mousa and the Tunbs seized in 1971 by the

Shah. And progressives in the area have been disillusioned by the fact that, after the perfunctory welcome given to a Popular Front for the Liberation of Oman (P.F.L.O) delegation, cordial relations have now been re-established with Sultan Qabous.

But the conflict is deepest with Iraq for a number of reasons. Khomeini has so far proved incapable of controlling Iran's border with Iraq, which has again become an open passage for Kurdish insurgents seeking to reopen hostilities against the Baathist Government in Baghdad. At the same time Iraq is giving moral and possibly material support to the Arabs of Khuzestan.

The duality of power which is causing confusion in Iranian domestic affairs has also spilled over into the field of foreign relations and is affecting ties.

The Middle East was told by Deputy Foreign Minister Tehrani, a young technocrat, "Certainly no Arab country has any desire to claim even an inch of Iranian land, just as Iran has no ambitions whatever towards Arab lands." But immediately afterwards Khomeini's strongman Sadeq Tabatabai alleged, "The aim of separating Khuzestan from Iran is an old dream of our neighbours" (see *interview*).

The ultimate complexion of Iran's foreign and domestic policy must await the outcome of the multifaceted power struggle taking place. Seen both internally and externally Iran seems dangerously poised to become a second Lebanon beset by chronic problems and unable to wipe the slate clean. □

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IRAN

TABATABAI STATES POSITION ON MINORITIES

London THE MIDDLE EAST in English Sep 79 p 27

[Text] Government spokesman and Deputy Premier Sadeq Tabatabai, 43, represents the technocrats of Iran's ruling elite and is generally considered to be the strongman of Iranian politics. His position is reinforced by his excellent links with Qom through his family relationship with Ayatollah Khomeini.

□ Much criticism of the present system is based on the confusion caused by the two power centres, the Government and Qom, which often overrules the former.
○ I don't agree that there are two power centres in Iran, but on occasion there may be a certain lack of coordination in decision-making. It doesn't mean that there is a basic difference of opinion. Neither the people nor the regime were prepared for their quick victory. Problems of communication will gradually be solved.

□ Many people have strong doubts about the draft Constitution, especially about the powers of the president which will be even greater than those of the Shah.

○ As for the president's powers what we have now is a draft constitution which, incidentally doesn't have my full approval. Changes have been proposed and are being discussed. I, and even Dr Habibi who drew up the draft, will fight for strong limitations to the power of the head of state. I am sure the draft will not remain as it stands now. The people are not prepared to accept another dictatorship.

□ One of your major unsolved problems is that of the minorities.

○ The constitution guarantees the rights of

these minorities - language, religion, culture, administration - but certainly not foreign policy, planning and defence. And the minorities don't really want more. What happened in Kurdistan, Khuzestan and what will happen in Beluchistan and elsewhere is the result of the activities of agitators and *agents provocateurs*.

The people down there often don't understand Persian and have difficulty in grasping what the Central Government's envoys tell them. The trouble is that whenever the envoys reach an agreement with the local population and return to Tehran, someone sabotages it with the aim of preventing the Government, through these peripheral upheavals, from concentrating on its central tasks. They cannot bring the Shah back, but they can stop Khomeini from ruling.

The Kurds don't have demands that the Central Government couldn't meet, apart from becoming independent, which they don't want and couldn't afford. But if the Kurds should become totally independent, the people in Khuzestan would want the same. Considering that all our oil comes from Khuzestan it is simply impossible to grant such independence and so all that happens in these regions is more or less sabotage. Khuzestan is our most difficult and complex problem.

In Khuzestan it is not the local population but foreign forces. The aim of separating Khuzestan from Iran is an old dream of

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some of our neighbours and of some leaders of Islamic countries. It is still a dream, although nobody says so and in diplomatic language one talks about "good relations", "good neighbours" and so on. In reality things are totally different.

Are you accusing Iraq of wanting to get back what it calls Arabistan?

○ I say more. If you link these troubles to the oil shortage, which is artificial at least in the US, you might well feel that all this is an attempt to prepare world opinion for military attacks on the oilfields.

This is why we are concentrating on finding a political solution for Khuzestan first, and if it proves impossible we will clamp down militarily.

What about the upheavals in Beluchistan? Who is involved there?

○ There we must pay attention to another world power (the USSR) which has long been trying to reach the warm waters of the Indian Ocean. It will try to get a corridor to the south as long as it is in control of Afghanistan. Of course this has been denied too in the language of diplomacy. But Beluchistan couldn't survive economically on its own, which is why it is obliged to remain linked to the centre. So there too all upheavals are being caused by *agents provocateurs* and saboteurs.

The Pastaran are being accused of irresponsible behaviour.

○ The Pastaran are a people's militia. They are not completely under Government control but they remain the guardians of the opinion of the majority. That of course conflicts with the opinion of the minority and it is obvious the minority will ideologically be against the Pastaran. The Pastaran are armed, mobile; they understand specific situations and can nip sabotage in the bud.

They are necessary. The people don't as yet trust the army fully. Only six months have passed since the revolution and the committees are without much political

experience. One can't expect ideal results. It is possible that opponents of the Government and Savak agents have infiltrated Pastaran ranks to discredit the militia.

Do you consider anti-Islamic groups counter-revolutionary? What about the Fedayeen who helped to overthrow the Shah?

○ Anti-Islamic groups such as these Marxists have no strategic view. They weren't reasonable and tried to use the prevailing confusion to gain immediate advantages. This could not be tolerated. Our enemies include ideological enemies of the revolution as well as paid agents. They all constitute a security risk.

We had no army, no police, no intelligence service, nothing. This is why we had to leave security to the individual popular groups of committees.

The aim is not so much to persuade the political opponents of the present regime as to suppress the supporters of the previous one. As long as opponents of the regime only express their opinions or form parties, nothing will be done, but sabotage won't be tolerated.

What is your reply to charges of a witch-hunt against the regime's opponents?

○ This is certainly not on the initiative of the Government. We have declared our opposition, for example, to the so-called trials of alleged Savak agents by Iranian students in West Germany. So far, however, the Government doesn't have the necessary power to suppress irregular actions by certain groups. But we intend to grant total freedom to those who think differently from us. The freedom you have in Iran today you don't find anywhere else in the world.

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IRAN

AYATOLLAH DEMANDS JUSTICE FOR ARABS

London THE MIDDLE EAST in English Sep 79 p 29

[Text] *The Middle East* publishes the last interview given by Arab minority religious leader Shaikh Muhammad Taher Khaghani before he was put under house arrest. Khaghani denied any political ambitions and called for the "true application of Islam".

□ Could you explain your recent open letter attacking Prime Minister Mehdi Bazargan?

○ The Arabs of Khuzestan are demanding their legitimate rights from the Government. They want to remain an integral part of Iran and are opposed to secession in any form. The Arabs want their rights under Islam to control local affairs, and to publish and broadcast in their own language. The Government at first agreed but then went back on this.

When the conflict began to grow Governor Madani told me "the Arabs were not behaving properly". He threatened to "deal them a severe blow and to drink their blood like water" if they continued to press their demands.

I told him that the blood of Arabs would not be like water but like a stone that would stick in his guts. He left me angry and determined to take revenge. Later, after my return from Qom, I found that the conflict had sharpened, so I persuaded those in charge of the Arab Cultural Centre in Khorramshahr to close it so as not to provoke the authorities further. The authorities were told, but despite this the centre was attacked and innocent people were killed and injured.

When the fighting became more serious

Madani realised his mistake and apologised on behalf of the Government in Tehran. I asked for those responsible for the attack to be arrested and tried, for compensation to be paid to the innocent victims and their relatives, for the Arab political organisations, the cultural centres to be allowed to reopen and for the demands I had presented earlier to be accepted. But none of the demands were met, so I sent the open cable to Bazargan to tell him that what was being done here was leading to increased tension and the possibility of greater conflict.

□ Governor Madani has said that there are counter-revolutionaries and saboteurs active in Khuzestan and that some of these are using you as a cover.

○ This is an outright lie. The proof of this is that he came to apologise, before God, for what had happened. He said then that the demands of the Arabs would be met. If he is at all honest then he should know that I am a purely religious man and have no political connections with organisations or individuals. Ask him why he never carried out the agreement and ask him to name the people who are "using" me. If he is right then they should be known and brought to trial.

□ Do you have any real hope that the minorities in Iran will get the autonomy they are seeking?

○ I am not a political man. The Government appealed to me to involve myself. I am involved only to stress that, according to the

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on good terms?

○ Karami was the Shah's man. He referred to the Shah as a prophet, writing poems in praise of him. Now that new people have come to power he's hanging on to them. We call such people *intihazziin* (opportunists).

I have known him since he came to Najaf as my student. But I expelled him from my classes because his behaviour was so bad. I do not consider anyone to be an ayatollah if they are not pious.

□ You are always stressing that you are not political, yet in Iran today almost all political questions are being decided by the clergy. How can you avoid being political?

○ I do not go beyond the limits of seeking a true Islamic order. I therefore do not involve myself in political matters, no matter what

laws of Islam and the Sharia, the Arabs have rights which should be recognised.

□ Kurdish leader Shaikh Izzeddin Hussaini has made clear his disappointment with the Draft Constitution. Do its provisions satisfy the demands of the Arabs?

○ I have had nothing to do with the Shaikh Izzeddin Hussaini. The Shiite view on these matters is very different. We look at this problem from the point of view of Islam and we want the true application of Islam. I have lived in this area for a very long time, under the Pahlavis and before, and I have seen the oppression of the people here. I and the other religious authorities rose up against the Shah in the search for Islamic justice, under which no one will be oppressed – not even a non-Muslim.

If the Government treats the Arabs accordingly things will be all right. If not then we will not consider the Government to be Islamic. We have not given up hope even though some Government officials behave contrary to Islam.

□ What is your relationship with Ayatollah Karami of Ahwaz, with whom Governor Madani is apparently

government is in power. If this government accepts my advice and lifts the burden of oppression from the Arabs and also from the Turks, Kurds, Beluchis and others then my objective will have been gained.

If they do not do this then "there is no power mightier than that of God".

□ Several times Governor Madani accused the Arabs here of getting support, including arms, from Iraq, Kuwait and even from the PFLP. Is there any truth in this?

○ I know nothing about this – it is possible that some people, but certainly not many, have done this. But if a true Islamic republic had been formed then none of this would have happened.

□ If Government policy continues as at present would you advise the Arabs to keep their arms or to hand them in?

○ I will not involve myself in this matter. The Arab people once asked me to declare a jihad against the Government and I refused.

□ One general has already offered to lead 3,000 crack troops into Khuzestan. Do you believe the Arabs have the right to resist?

○ This is not my responsibility – I only wish to see the establishment of Islamic justice.

□ Is the only defence for the Arab people to make appeals for a true Islamic republic?

○ I do not know but let me answer with an Arab proverb: "Pressure leads to an explosion".

My last word to you is this: Islam is the religion of human justice for all people, no matter who they are and where they come from. If the rules of Islam are applied then both the nation and the Government will be content; if not there will be trouble. □

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IRAN

KURDS LOOKING TOWARD UNITY

London THE MIDDLE EAST in English Sep 79 p 30

[Text] Developments have finally compelled the Kurds to take a step which logic has suggested for many years, namely to unite their various organisations regardless of international boundaries. The crackdown in Iran (see Cover Story) has put an end to any hope of the Iranian Kurds winning even a moderate measure of autonomy from Tehran. At the same time, the death of Mulla Mustafa Barzani has removed one of the biggest obstacles to cooperation between the Iranian and Iraqi Kurdistan Democratic Parties.

Barzani's son, Massoud, who has taken over the Iraqi KDP is not, it seems, being held responsible for his father's disastrous policy of dependence on the Shah. For even though the veteran leader had come to regret this alliance before his death, it had effectively blocked any coordination with the Iranian KDP which saw it as outright betrayal.

Now, the Iranians, who are not trained fighters, are finding the experience of the Iraqi groups--both the KDP and the Jalal Talabani group--invaluable. And they are also receiving some help from the comparatively well-organised Turkish Kurds who have been constantly crossing the border into Iran, despite eight months of martial law imposed on the Turkish provinces by Ankara.

The political and historical differences between the various Kurdish groups will undoubtedly remain (see THE MIDDLE EAST, May No 55), but for the present they will be subordinated to the overall national struggle. Informed sources said that the desire for Kurdish independence is growing fast and that ideas of attaining autonomy within any of the existing states have been finally discredited by the Iranian events.

At present cooperation is still based on necessity and convenience, but an official of the new, essentially Kurdish exile organisation, the Kurdistan Action Committee told THE MIDDLE EAST that steady progress was being made.

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IRAN

POLITICAL STRIFE SPLITS PARENTS, CHILDREN

London THE MIDDLE EAST in English Sep 79 pp 49-51

[Article by Terry Povey]

[Text] It is obvious that a great deal has changed in Iran during the last year, with more to come. It is a time of instability and upheaval, no less in the homes and the schools than anywhere else. Terry Povey in Tehran has been talking to some of the children who have plenty to say about their role in the overthrow of the Shah and on their future.

In prerevolutionary times one of the more noticeable features of Iranian society had been the closeness of the family - and usually the poorer the family the stronger the bonds. A similar structure existed in the school system, where teachers were authoritative, obedience was expected and learning was by rote.

But a new breed of Iranian youth has emerged now, ready to challenge parents and teachers alike. For, during the past year, those same obedient school children took to the streets day and night, often with their whereabouts unknown to their families and sometimes in direct defiance of their parents' wishes.

These children are currently enjoying a sense of victory over both the Shah and their parents. They can boast that they were out fighting for the revolution. And when their elders tell them that it is all over

and things are back to normal, they put up strong resistance against returning to the old ways.

They are very vocal about their role in the fight and have formed strong opinions on where they stand. A number of them spoke to our Iran correspondent; some even accosted him in the street and insisted on telling their story.

Sixteen-year-old Hamid joined the anti-Shah activities in October last year, a few days after the schools had closed in Tehran. It began when he and some friends went to the university to join in one of the demonstrations and were attacked by troops.

"There was a big crowd of us outside the university, which was locked up," he said. "We managed to break in but as we got inside the soldiers came in after us, shooting to kill. They killed 73 students that day. We

ran away but we were so angry we attacked banks and expensive shops on the way."

They returned the next day, slightly better equipped to tackle the troops. Many had things to throw; a few even had molotov cocktails. After that Hamid went to many demonstrations and when the fighting became more serious he presented himself at an air base for training.

"They gave me a gun and told me to shoot at the tanks' driving mirrors," he said. "Someone showed me how to use it but I don't think I hit anything. There were a lot of us firing at the same time.

"After the fighting was over, I became a revolutionary guard in my area. I stayed as one until the religious groups began to pressure the left and then I left."

Amazingly Hamid's parents knew little or nothing of his activities for quite some time. "I

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BARRICADESby **PARVIN (aged 7)**

*I have got two brothers
They were not soldiers
There was fire and smoke
They made a barricade
of stones with their friends
They stayed the night
at the barricades
They destroyed the enemy
at the barricades
They like their barricades
They are not afraid of being
in the barricade or of dying
I like barricades
I like soldiers
This is a barricade
This is a barricade of freedom
Soldiers are not afraid
of being in barricades
They like freedom
Soldiers want Iran to be free
Iranians must wake up
so that we can have
a free Iran
Freedom is something beautiful
and something that we like*

used to come home all muddy and bruised, so I would tell them I had been playing football or simply horsing around with my friends. In the beginning I managed to use this as an excuse to get out, but later it was impossible to hide what I was doing. Then they would argue with me that it was a waste of time and that we could not defeat the Shah and the Americans.

"After one of the big demonstrations my father noticed my face in a newspaper photo and became very angry. They locked me in for a whole day but the next day I was out fighting again."

Hamid continued, "Once we had won, my father's attitude changed for a while. He told all his friends that his son was one of the freedom fighters and was now a guard. But recently,

because of my leftist sympathies, he has been trying to stop me going out again. He knows it is useless, though."

It is the same story in Hamid's school, where the teachers are trying to re-establish the old routine without much success. As Hamid explained, "Just after the revolution things were very free; we could talk openly to the teachers about politics. Now it has quietened down, and as far as many of the teachers are concerned things are back to normal. But they are not really; we just won't accept it. If they refuse to let us out of school for a demonstration, for example, we just climb over the wall. We have cut holes in the barbed wire so it is quite easy."

Parvin was only six when the fighting started. She was still in kindergarten (school starts at age seven in Iran) but even here the effects could be strongly felt. She described what it was like.

"At first we did not know anything except that if there was someone we did not like, or who was bad to us, we called them 'Shah'. Now most of us like the Imam. There is one that calls him a communist, and another that says he himself is a communist and against the Imam, but most of us are with him."

Parvin's is a mixed school and she would like to keep it that way, if only because she likes the challenge of being with the boys. "Since the revolution", she explained, "we play games, boys against girls. We have two sides, America (bad) and Palestine (good). When the boys force us to be America, we tell them that the Shah was a man so they are the Shah. When we fight it feels good if we win."

But the effects go deeper than new games. Now Parvin and her

classmates prepare and distribute their own leaflets on the revolution. "A few of us get together and write a leaflet, then each of us copies it a few times and we hand it round the school. When the fedayeen had to postpone one of their marches we wrote apologising to everyone for this."

When the schools demonstrated in support of Ayatollah Taleghani, for example, Parvin and her classmates were involved. "We held a march in the playground and shouted, 'Khomeini is the leader but Taleghani means more to us.'"

She gave me one of her leaflets as a souvenir (*see margin*).

Among a group of five teenage girls who were eager to talk, two wore the *hejab* (veil), one a *chadour* and two Western dress. Fatimeh, wearing the *chadour*, explained that her father insisted on it. "He was not so bad before the revolution," she said, "but since then he has become difficult about these things. My mother does not mind. Now it has become normal for me to wear it; I would feel strange without it."

All the girls basically rejected the idea of men, their fathers, the clergy, telling them what to wear. Zahra and Maryam insisted that they had chosen the *hejab* out of conviction. As Zahra explained, "The Quran does not say we should wear the *chadour*, just be decently dressed. And we women should decide for ourselves what to wear; we have this right."

They also had definite ideas on marriage. All believed it should be after the age of 20 and not at 13 as had been suggested recently by the clergy.

They are convinced that they are heading towards greater freedom but they are not sure

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exactly how this is to be achieved. As Firouzeh put it, "We have some freedom but Iran is not yet free; we must fight for more." Manliheh added, "We want freedom but not anarchy."

Zahra and Maryam are both supporters of the religious movement, but when asked whether they expected the religious youth movement to fight for more freedom they were not sure where things stood.

"You cannot really ask this question," Zahra answered, "because at the moment we support everything the Imam says and we do not think of anything else. What we do think is that if we support the Imam we will get more freedom as time goes by."

Whatever does happen, however, things are bound to be different. Changes are already under way. It is a time of deep soul-searching, particularly for the more traditional families whose rebellious daughters are

both more religious and more active than they, and whose sons have become soldiers and independent at an early age.

In the schools there is much talk of change, of new methods and books. The teachers are trying to keep a hold over children who are no longer children but young adults often older in experience than they themselves. Those trying to continue the old ways experience outright defiance, and whether it is Muhammad or Marx that is cited the crisis for the teacher is the same.

A pilot scheme for teaching primary school children on a "discovery" basis has already been accepted by the Ministry of Education, indicating that new attitudes are already being formulated.

There is a song that goes in part "... you can't stop the children of the revolution." It will be interesting to see how far this applies to Iran. The record so far bears out the words. ●

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IRAN

NATIONALIZED BANKS LACK FUNDS

London THE MIDDLE EAST in English Sep 79 p 72

[Article by R. Mohan]

[Text] The nationalisation of Iran's banks this year was prompted as much by practical reasons as by ideology. The revolution brought in its wake forces which had largely destroyed the banking sector; the massive looting of bank premises was paralleled by an equally massive movement of funds out of the country by those in a position to take such action. Finally, the continuing strike by large numbers of bank employees meant that the banking sector was in any case largely inoperative and the traditional methods of handling cash through the bazaar had come into prominence again.

In the chaos, when all about were losing their heads, the Central Bank managed to keep a semblance of order. Its staff stayed at their desks for the most part and it has been able to ensure a modicum of control. How much longer this professional concern will be able to survive in an ideological revolutionary situation remains to be seen.

Prerevolution Iran had a total of 37 banks, nine of them wholly owned by the Government, and another six with government capital invested in them. Foreign banks had a share of the equity in a further 14 banks, and the last eight were wholly owned by the Iranian private sector.

It is not really possible to assess precisely what happened to Iran's banks during the revolution. Most bankers agree that a flight of capital started in August and September of 1978, as the riots shook Tehran and other cities, and the evidence suggests that it was the Shah and those around him who were among the first to get their capital out of the country, \$150 million being the commonly accepted total of the Pahlevi family's capital transfers. Others were not slow to follow and bankers estimate that possibly \$6 billion was transferred out by businessmen and top members of the Government.

The situation of many of the banks was made very much more serious by the fact that many of the capital transfers out of the country seem to have been credit transfers against inadequate or even non-existent collateral. When a minister or a prominent businessman instructed his bank to transfer a large sum of money out of the country against his signature there were few bank employees with sufficient self-confidence to refuse to carry out the transaction.

A report issued by the board of the hitherto prestigious Industrial and Mining Development Bank of Iran (IMDBI) one week after nationalisation admitted that many of the loans made by this bank had been without proper collateral. IMDBI, with 17 foreign banks holding together 14 per cent of its equity, and having a significant reputation in international banking circles, was generally recognised as perhaps the best managed of all Iranian banks. A wholesale bank, it specialised in loans to industry and mining, as its name suggests. The post-nationalisation report, drafted possibly by directors concerned about their own jobs and intent on covering up an unsatisfactory balance sheet, suggested that bad debts to the industrial sector could amount to \$302 million.

If this is the situation of a well organised and well managed bank, the situation of some of the lesser banks is likely to be very much more serious. Some estimates put the total of private-sector bank liabilities at \$50 billion. In this situation nationalisation was clearly the only option open to the Government.

The task now for the management of the nationalised banks, apart from the obvious one of rationalisation and reorganisation, is to attract deposits and to be in a position to finance the new start-up of industry.

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IRAN

INDUSTRY FACES CRUCIAL QUESTIONS

London THE MIDDLE EAST in English Sep 79 pp 70, 71

[Article by Terry Povey]

[Text]

It is not easy to be an industrial manager in Iran today. Nor is it easy being in charge of a joint venture in which a foreign partner is charged with introducing modern technology into the country. As long as the revolution has not run its full course, most industrial projects are operating under a question mark, always assuming that they are operating at all. Major projects started under the Government of the Shah risked being stopped at the whim of a local *komiteh*. Managers in positions of responsibility under the previous government are almost invariably viewed with suspicion, even if they are lucky enough to have kept their jobs.

For example, the General Tyre and Rubber Company of Iran, which somehow had kept going through the worst chaos of the revolution, closed down in the middle of June this year. The reason: the factory's workers believed that the Iranian management, made up wholly of technocrats, was ideologically unsound because of its past association with the Shah's Government, with the American interests which had supplied the original technology and with the Iranian businessmen who had invested

their capital in the venture.

Similarly, the Paykan automobile assembly plant, which up to this time last year was producing a large number of the cars seen on the crowded streets of Tehran, has not produced a vehicle for months because its workers demanded that all the management team should be thrown out.

Iran's steel industry, the heart of the Shah's concept of Iran becoming the major industrial power of western Asia, has not escaped from the indecision and uncertainty which the revolution has brought in its wake.

The industry was built around two major centres, Isfahan and Ahwaz. Isfahan is the home of the country's biggest plant, the 600,000-ton-a-year rolled-steel plant built by the Soviet Union and owned by the Government through the National Iranian Steel Corporation (NISCO). A virtually complete extension would give this plant a theoretical annual capacity of 1.9 million tons. The constraints which would stand in the way of this target being reached are largely managerial.

The steel industry in Ahwaz was partly government-owned and partly in the hands of the

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private sector in the days before the revolution. Now it seems that the government organisation operating in Ahwaz, the National Iranian Steel Industries Corporation (NISIC), will assume responsibility for the whole Ahwaz steel-producing complex. The future of the two hitherto privately owned companies, the Shahriar Industrial Group and the Ahwaz Rolling and Pipemills, has not been made clear, but it seems certain that they will be incorporated into NISIC.

The Ahwaz steel complex was also to no small extent being regarded as a laboratory in that no fewer than six foreign steel concerns, four German, one French and one American, were involved in large projects involving sometimes competitive technology.

Finally, the Shah's planners had started a giant 3 mn ton steel plant at Bandar Abbas and had signed a contract with the Italian Italmimpianti group for its construction. This plant was to make use of iron ore brought from India in the ore carriers of the joint-venture shipping line the Irano-Hind Company as well as ore from Iran's own deposits at Gol-e-Gohar, 320 km to the north of Bandar Abbas.

The plans of the Shah's Government called for steel production in Iran to reach 14.16 million tons a year by 1983. The market for this production

would have been both domestic and regional, with large tonnages being required for the now cancelled IGAT II pipeline to the Soviet Union, for the expansion of the Iranian railway network and for construction generally in the country and in the Gulf.

The second major industrial objective was Iran's petrochemical industry. Some 10 years ago, the Shah's Government thought to use its hitherto-wasted associated gas as the feed-stock for a giant petrochemical plant with an annual capacity of at least 300,000 tons of ethylene and ethylene equivalent. The Government of Iran started negotiations with the Mitsui company of Japan, and the giant Bandar Shahpur petrochemical project was launched (see *The Middle East, July No 57*). The plant, originally scheduled to cost some \$300 mn, was almost complete on the eve of the Iranian revolution, but its total cost is now well over \$3 bn.

Although almost every member of the Iranian revolutionary Government has said that the Bandar Shahpur project was to go ahead, there has been a palpable lack of confidence in the ability of the Government to ensure that the project has the money, the people and the supplies it needs for eventual successful completion and start-up. □

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IRAN

STEEL TARGETS RESHAPED

London THE MIDDLE EAST in English Sep 79 p 70

[Interview with Dr Valiollah Jafari, managing director of NISIC, and Dr Soroush Kamyab, head of Bandar Abbas project, by MIDDLE EAST's correspondent Terry Povey, date and place not given]

[Text]

The Middle East: How do you see Iran's future steel needs and the ability of the industry to meet them?

Dr Kamyab: The production target of 14-16 mn tons a year by 1983 is completely out. The industry couldn't make it and the country, at the present level of economic activity, would not need it: We are planning for an annual production level of 7 mn tons by 1985, enough to meet our own internal requirements.

The Middle East: What is the effect of this revision on the foreign companies involved in steel projects in Iran?

Dr. Kamyab: The Russians remain deeply involved with NISCO in Isfahan, and the various projects with the German firms in Ahwaz are in their final stages, although some of these are likely to be extended in time. There is also the French project for special steels with Creusot Loire, which is at present being evaluated and

which will probably continue on a reduced scale.

The Middle East: What is Iranian steel production like at the present time?

Dr Jafari: Our theoretical production level should be just under 1 mn tons a year, but because of disruptions it is about half that.

The Middle East: And the Bandar Abbas project?

Dr Jafari: This project is still being considered by the Government. We cannot say that it has definitely been cancelled. It may continue under certain conditions. For example, it may be located elsewhere, in Isfahan or in Ahwaz. Also, the contract with Italmimpianti has to be renegotiated so as to be more favourable to Iran. The original agreement was in practice a sort of a barter deal; given the increase in the price of oil, we just cannot continue with it.

The Middle East: How much work has been completed on

the project and what would the likely loss to Iran be if it were cancelled?

Dr Kamyab: About 30 per cent of the equipment has been installed; most of this could be moved. It has been bought on credit from the suppliers against 10 per cent down payment from us.

The Middle East: How does the uncertainty over the Bandar Abbas project affect the Kudremukh mines being developed in India with Iranian state finance and also the Irano-Hind Shipping Company?

Dr Kamyab: The ore from Kudremukh is intended for use at Ahwaz rather than at Bandar Abbas. At Bandar Abbas we originally intended to use ore from Gol-e-Gohar as well as Indian ore in the proportion of about 50/50. Ultimately, we would have used the Gol-e-Gohar ore exclusively. □

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IRAN

JAPANESE PETROCHEMICAL PROJECT GOES AHEAD

London THE MIDDLE EAST in English Sep 79 p 71

[Interview with Kunihiro Adachi, managing director of the joint-venture Iran-Japanese Petrochemical company (IJPC), by Terry Povey, date and place not given]

- [Text] **What is the status of the Bandar Shahpur project today?**
 Before work stopped in the revolution, the project was 85% complete. The Government collectively, and individual ministers, have said several times that they want to see the project finished. In the new budget, provision has been made for the money needed from the Iranian side to continue with the project, about \$175 mn, that is 50% of the total needed.
- In the past you had many Japanese employees in Iran. How many are there today?**
 About 20 engineers. The Prime Minister, Mr Bazargan, has personally cleared every one of our people with the Ministry of Labour. We are at present recruiting additional staff in Japan - we may need as many as two or three thousand. But it is not easy for us to recruit enough Japanese experts to work in Iran.
- How many Iranians do you employ?**
 When work was at its peak we had 5,000 Iranians employed on manual jobs.
- The new Iranian chairman of IJPC, Mr Rahim Abedi, says that you are not using and training enough Iranian staff.**
 You must understand the language difficulty and also the inevitable lack of experience among Iranians in the petrochemical industry. What we have tried to do is to divide the project into sectors, some of which are completely Iranian and some of which are completely Japanese. Our main problem with our Iranian staff is the lack of middle management. Some middle management staff have left the country; others are not acceptable to the revolutionary *komitehs*. We are trying to train the Iranians we have to fill the available positions.
- How do you see the market for production from the IJPC when the plant becomes operational?**
 The plans are huge, and about 50% of Bandar Shahpur's annual production of 300,000 tons of ethylene is to be earmarked for the domestic market. The problem is that although the best equipment available in the world today has been imported from West Germany there is no skilled staff available to make use of it. The balance of the production, the 50% not taken by the domestic Iranian industry, will be taken by Mitsui for sale to the Asian market.
- Won't you ultimately be competing with Saudi Arabian production?**
 No, because we shall be meeting the needs of our own customers in Asia. Also, although we cannot arrange it openly, for legal reasons, in fact there is an informal market-sharing agreement between the major world producers, for example Union Carbide, Hoechst, ICI, Dupont and BP.
- The international market is anxious that Mitsui should control exports from Iran. They do not want petrochemicals to be sold like crude oil and thus upset the world market. You could describe the relationship between the major producers as one where the world market is "spiritually divided" between the major producers.
- Do you think that IJPC will ever make a profit for Mitsui?**
 I firmly believe that in time we shall make a profit - provided that Iran continues to supply the joint venture with cheap feedstock, natural gas and naphtha.

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KUWAIT

RECORD VOLUME OF BOND ISSUES SUBSIDES

London THE MIDDLE EAST in English Sep 79 pp 32, 34

[Article by B. T.]

[Text]

The euphoria over the success of the Kuwaiti dinar bond market in 1978 evaporated a little this year as the fragility of the supporting money markets was again revealed and funds flooded out into the dollar in the first four months of 1979. The euphoria last year was certainly justified. It was the sort of year the participants in the market had been awaiting and predicting for some time. There was a record volume of new issues of KD154 million in 18 issues. Three of these, worth KD32 million, were for local borrowers.

And the last month of 1978 saw the return of the triple-A borrower in the shape of the City of Oslo, an event that had been eagerly awaited since the Oesterreichische Kontrollbank did a KD5 million three-year note issue in 1974.

Oslo's issue was much more ambitious than that, illustrating how far the Kuwaiti market had developed in those four years. Its KD10 million of 7½ per cent bonds were dated 1980, the longest maturity so far done in the Kuwaiti sector of the Eurobond market.

The Oslo issue was the start of a string of first-class names to enter the market: Finnish Mortgage Banks and the Norges Kommunalbank, then the first foreign corporate names, Occidental International Finance (though that company carries only a triple-B rating), Banque Nationale de Paris and Mitsubishi. The queue had to some extent been waiting for some time. The unfortunate thing was that just as Oslo started it moving market conditions started to become less attractive.

Most of the queue nevertheless kept going, perhaps urged on by their lead managers, the Kuwaiti investment companies, who, having waited so long for such an event, were not going to be deterred by adverse changes in the market. Only one potential issuer is known to have dropped out: the City of Helsinki, which postponed its borrowing continually in the first half of 1979, hoping for conditions to improve.

The others who went ahead met with a varied response. Those with a triple-A tag were assured of a good response from a market starved of such quality paper. Most previous issuers had been Third World governments or state entities, such as the Algerian state shipping company, a Moroccan refinery concern and the Republic of the Philippines.

One banker in Kuwait remarked: "Oslo could almost have been done at any coupon. The big institutional investors just couldn't get enough of it." Two of the major investors in Kuwait are the Kuwait Fund for Arab Economic Development (KFAED) and the Arab Fund for Economic and Social Development (AFESD). For them the major concern is quality rather than yield on the securities they invest in.

For those concerned with yield, however, the KD sector started to become less attractive just about the time that the Oslo issue was done.

As the dollar began to become stronger on the foreign exchanges and US interest rates were pushed up, people with capital in Kuwait, as elsewhere, concluded that the time was right to switch assets into dollars.

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At the same time the Iranian turmoil was turning into full-scale revolt. Both factors caused an outflow of capital from Kuwait and the Arabian Peninsula generally. On top of these factors, the Kuwaiti Government had been restricting its own spending and thus staunching the flow of new dinars into the economy.

All this meant a tightening of liquidity in Kuwait. Rates reflected this, shooting up briefly to 50 per cent in January before settling down around the 8 per cent mark until May. In this period the yield curve was either very flat or actually inverse. Bonds that yielded less than 8 per cent were not therefore terribly attractive to a Kuwaiti who could get 8 per cent on a short-term bank deposit. They were also not very attractive to the commercial banks, which had to fund themselves at a rate higher than the yield on the bonds.

The difficulties of placing some of these bonds with final investors was apparent from the performance of the bonds in the secondary market. The Occidental issue, for instance, was priced at 99½ in May.

Soon after trading started it was down to 97-97½. By the end of May trading was at 95½-96½. Even the Banque Nationale de Paris KD10 million 10-year issue at 7½ per cent took some placing. And that had a powerful management group behind it: Kuwait Investment Company, BAIL, Manufacturers Hanover Ltd., National Bank of Abu Dhabi, National Commercial Bank and Salomon Brothers International. And short-term rates had eased a little by the time the issue was launched at the end of May. Nevertheless the BNP issue was significant for the number of non-Kuwaiti houses it brought into the management group.

The presence of both Manufacturers Hanover and Salomon - though that to some extent reflected relationships with the borrower - was a healthy development for the Kuwait market, because it indicated the widening range of institutions outside Kuwait that are prepared to operate in the market. Merrill Lynch had earlier started making a market in KD bonds. Before that, European Banking Company was the only house in London that claimed to operate in the KD secondary market.

The growth of the secondary market has been a major factor in encouraging a better class of borrower to enter the Kuwaiti market. Before the formation of the Arab Company for Trading Securities (ACTS), in the Spring of 1977, there was no real secondary market. Even now there are a small number of institutions which take large chunks of each new issue. Often the bonds go straight into their vaults, so that a lot of issues are more like private placements than public, traded issues.

But ACTS has undoubtedly widened the range of those investors prepared to trade bonds in the secondary market, bringing in some individuals and adding depth to the market.

Before ACTS arrived on the scene, spreads on trades were wide (1-1½ points) and the amounts that could be dealt in small (up to KD25,000). Since the company started operating, spreads have come down to the normal ¼ per cent for the Eurobond market and dealing amounts have risen to KD100,000.

As a result of these refinements in the secondary market, institutions in Kuwait have been encouraged to trade their portfolios and invest more funds in trading, pushing up prices and turnover. According to William Hahn, the senior securities trader of ACTS, the volume of his company's secondary market activity in 1978 reached KD142 million. This, he pointed out, is "almost equal to 50 per cent of the total outstanding and virtually equal to the total new issue volume for the year. In addition, the average size of trade (KD98,000) was extremely high by normal Euromarket standards".

The other attractions for borrowers on the KD market have been the strength of the dinar and the interest rate differentials with the dollar.

The dinar's value is based on a basket of currencies which the Central Bank of Kuwait does not disclose. The consensus among bankers in Kuwait, however, is that the basket is 50-55 per cent dollar, with a large proportion of yen and Deutschmarks in the remainder. Certainly the dinar stayed close in value to the dollar compared with the massive rises registered against the dollar by the Swiss franc, yen and DM in

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1978, though it did naturally appreciate a little before the end of 1978. Any real revaluation is unlikely, however, because the KD is not an international currency. Nor is the Government keen to allow this to happen because too many local interests and too many Third World countries (which have been granted aid in dinars by the two development funds in Kuwait) would suffer as a result. And as William Hahn has pointed out, "there are no real benefits to be derived from a revaluation", because the most important cause of inflation in Kuwait would not be overcome. That is "the imbalance between supply and demand and the current structural problems which cause the imbalance".

The interest rate differentials had grown quite dramatic by the time of the Carter dollar support package last November. Liquidity in the KD market had become more and more pronounced as institutional investors kept their funds in Kuwait rather than taking them out of the country.

The resulting pressure on rates allowed Oslo to borrow at 7½ per cent when 9½ per cent would have been the going rate in the dollar bond market.

The borrowers who use the dinar market fall roughly into two categories: those that need any funds they can raise anywhere, usually because they have already borrowed heavily in other markets – or because they are not acceptable to other markets (most of

the Third World countries fall into this group), and those from the developed world that have large financing requirements but are sophisticated in selecting their markets (like Oslo) and those who have contracts in the region and need to hedge future payments in the dinar or any other local currency.

The Korean Development Bank issue earlier this year was typical of this last type. The bank sought the dinars on behalf of Korean contractors working in Kuwait. The Occidental issue is thought to have been done to hedge Saudi riyal receivables from contracts the company has in Saudi Arabia. The thinking behind it was that the riyal, like the dinar, is linked to a basket – in the Saudi case the IMF's Special Drawing Right – in which the dollar is predominant. The two currencies should therefore move roughly in parallel.

What the KD market most needs now – apart from a better-developed money market in which the Central Bank controls liquidity properly – is another active market-maker like ACTS. There was talk last year of one of the other big Kuwaiti investment companies setting up a trading operation, but nothing has so far come of it. Until such a development occurs, the Kuwaiti secondary market will be monopolised by ACTS which might not be able to cope if there was ever a sudden rush to liquidate bond positions.

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LIBYA

BRIEFS

PROSPECTIVE TRIP THROUGH AFRICA--Col Qadhdhafi has written to certain African chiefs of state to announce his intention to undertake, some time during the year, a trip through black Africa. The purpose of this trip will be to study conditions for a reconciliation among Muslims of the continent. Among others, Nigeria, Mali and Togo responded favorably. Emperor Bokassa I has also signaled his agreement to the proposal. [Text] [Paris VALEURS ACTUELLES in French 20 Aug 79 p 11]

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SUDAN

INTERVIEW WITH SUDANESE ATTORNEY GENERAL

London THE MIDDLE EAST in English Sep 79 pp 36-37

[Interview with Hassan Turabi, attorney general, by Pascale Villers Le Moy, date and place not given]

[Text] In Sudan, as in the rest of the Arab world, Islam is gaining in influence and the once banned Muslim Brotherhood is now represented in the Government. Former Brotherhood leader Dr Hassan Turabi, who has just been appointed Attorney General, spoke to Pascale Villers Le Moy before his appointment about the role of Islam in Sudan. Dr Turabi, who rarely grants interviews, is a member of the Sudanese Socialist Union (SSU) Politbureau and of the Government's Committee on Islamisation. He is also brother-in-law to Sadeq al-Mahdi.

As former leader of the Muslim Brothers in Sudan can you describe the history of this movement and its relations with the Egyptian Brotherhood?

O In the 1940s, a small group of students formed the Movement for Islamic Liberation to counter the Movement for National Liberation of the Communists, who at the time had control of the students. The Sudanese Communists were closely linked to their Egyptian comrades, so in their attacks they associated us with the Muslim Brothers in Egypt.

In 1954 we adopted the same name, although we had only cultural ties with the Egyptian movement. In Egypt the Brothers had to compete with the national secular parties and so became a mass organisation, but we were an elitist movement. We made alliances with the traditional parties, which were also based on religious sects.

Under General Abboud (1958-64) the parties were banned but we continued to

work underground and our influence surpassed that of the Communists. We took the initiative in the October Revolution, although the Communists joined later and secured good positions in the post-revolution period. After 1964 we became a political organisation with an Islamic Charter, and we more or less compelled the traditional parties to adopt the principle of an Islamic Constitution.

In 1966 we persuaded Parliament to dissolve the Communist Party. It was only the second time in history that a Communist Party had been dissolved in a liberal democracy. We made a parliamentary alliance with the Umma Party, which was based on the Ansar sect of the Great Mahdi.

We wanted to adopt a Constitution containing many Islamic provisions, and this would have given us some power. We could have exerted pressure not only by appealing to religion but also to the Constitution. Nimairi's May takeover, however, took us by surprise and we were the first to be put in

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jail, as the new Government was dominated by Communists. Then we joined the National Front in opposition, with Sadeq al-Mahdi's Umma Party and Sherif al-Hindi's National Unionists.

Since the National Reconciliation of July 1977 you are the only leader who has co-operated completely with the Government. Why?

Reconciliation was rather unpopular with the Muslim Brothers at first. But we explained that it was in our interest to work from within to achieve our aims, and the change of policy was accepted because we have a good organisation and a democratic system of decision-making. This is also why we never split up like the National Unionists and the Umma.

As long as President Nimeiri keeps his word and allows us to function and to propagate Islam, we are satisfied. It is to our advantage to support Nimeiri, for whoever replaced him might be less tolerant or less religious.

What has been your influence since the reconciliation?

Frankly, the result has been disappointing. No measures have been adopted to enforce Islam. The special committee set up for this purpose has been working very slowly. Some legislation has been presented to the Assembly without success, including the prohibition of alcohol and gambling and the suppression of payment of interest in banking.

Our real success has been at the social level, and as long as Islam is progressing socially it will ultimately find political expression. I know that this country will become Islamic, either gradually or by a coup.

Doesn't that justify the Southerners' fears?

The fear in the South about Islamisation is a survival of the prejudice against the North. As Christians or Animists the Southerners have nothing to fear from Islam. The Muslim Brothers have worked very closely on many occasions with the Southerners, notably with the Sanu party in the Constituent Assembly after independence. We were the first to advocate regional autonomy for the South.

An Islamic state is not a state of Muslims, but a state which leaves private life to the

individual. Its laws, however, are drawn up according to the Sharia.

The Christians have no special law. Christ advised them to follow the Roman Law, and there is no reason for them to feel offended if law becomes Islamic. According to Islam, they would anyway be granted freedom of religion, of education, of propagation of the faith and even some local autonomy for non-religious affairs. But we don't want politics and economy to be separated from religion.

Being Islamic doesn't mean not being African; Sudan will remain a crossroads between the Arab and African worlds. It could even revive the consciousness of Muslims in other African countries. Muslims form the majority in Ethiopia, the totality in Somalia, 65 per cent in Tanzania, the majority in Mozambique and 65 per cent in Nigeria - there are 56 million Muslims in Nigeria against only 35 million in Egypt.

In Sudan we have completely eliminated secularism. The May Revolution now accepts Islam in principle even if not in practice. But we are conscious that Nimeiri alone was responsible for the conversion, and that there are, unfortunately, very few genuine Islamic elements in the Government.

Do you see yourself as a possible Khomeini?

In our movement personalities are not important. It is the party which is important. You should ask 'would the Muslim Brothers in Sudan stage a coup similar to that of Khomeini?' Perhaps, but we may not need to do so. In Iran the circumstances were different. Islam was suppressed; it had to explode. We in Sudan can express ourselves. But if this changed and the regime became hostile to Islam, then we would make a revolution. As long as President Nimeiri is in power there is no danger of that.

How important for Sudan is the Communist threat which Nimeiri often mentions?

I don't think that the Communists constitute a serious threat to Islam in Sudan. Before, they could have taken over by force, as they had a very well organised party. But we beat them on their own ground, recruiting our members from their usual

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supporters: students, Government officials, Army, labour. Communists today could be a threat only if they made an alliance with external forces.

□ Do you believe in the multi-party system?

○ It just doesn't work in Sudan. We tried it twice and failed. Theoretically it gives more liberty than a political system where everyone must accept a certain point of view, but it usually creates a political vacuum. Differences develop that lead to a coup. But we are trying to change the nature of the SSU to make it an organisation broad enough to allow discussion.

□ What are the chances of Sadeq al-Mahdi becoming a political leader?

○ Whether he accepts it or not, Sadeq is the religious leader of the Ansars (46 per cent of the Sudanese population). Traditionally the Ansars are the agents of an Imam to whom they must be loyal and for whom they must die. But they have had no Imam since the last one died after the 1970 revolt when some 3,000 Ansars were killed by Nimeiri's soldiers. Sadeq is popular among them because he was the late Imam's second in command, the leader of the Umma and, later on, of the National Front outside Sudan. But he wants to be a national leader and not leader of a particular group.

The Ansars didn't understand why he joined the Government, and later on, why he withdrew over the Camp David issue. But Sadeq will come back. He will still have a role to play as an intellectual and a political leader of integrity. But Sadeq's ambition is known, and Nimeiri knows that there is only one seat at the top.

□ What do you think of Sudan's foreign policy?

○ Unfortunately, the leadership in Sudan has always been relatively weak internally, so that it could not properly free itself to exert influence abroad. With internal political stability and a better economy, it could be different. We have been chosen as

mediators not because we are strong, but because we are neutral; and we are neutral because we cannot afford to offend anyone.

In the Ethiopian-Eritrean dispute, Sudan could have been very influential, but the various liberation groups are now more influenced by Syria, Iraq and the Communists. Sudan has been trying to unify the fronts, unsuccessfully so far. It will be very difficult, especially as the two main groups are ideologically opposed. There are Islamic, Christian, Baathist and Communist elements among them, which is confusing.

The Eritreans pretend to be independent of the superpowers or of any religious affiliation, but they cannot be. However, Sudan will always be sympathetic to them, and the Arabs will always back them because, fundamentally, they are Arabs and mainly Muslims.

□ What do you think about the integration with Egypt?

○ We thought that reconciliation would relieve the pressure that compelled Nimeiri to ally Sudan closely with Egypt (The opposition forces were based in Libya and Ethiopia). But reconciliation was very slow and a close link with Egypt still seems important for the security of the regime. Therefore the Camp David agreements cannot be judged on their merits.

The Muslim Brothers stand for more cultural integration with Egypt. We don't even mind an organic integration. Our country is big enough and there is a population problem in Egypt. Of course, the Egyptian politicians have always been influenced by the concept of sovereignty over Sudan, but the ordinary Egyptians think the Sudanese are just other Muslims. Sudan has always been subject to Egyptian influence and many Sudanese are half Egyptian.

Sudan will not be able to support Egypt openly, as it cannot afford to be boycotted or to lose the support of the Saudis, because it depends too much on their economic help. □

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SUDAN

BRIEFS

CHOLERA EPIDEMIC IN THE SOUTH--Current estimates have some 100,000 persons threatened by cholera in the environs of Juba where an epidemic had already struck 300 individuals by the end of July. Some 40 of these victims died. The World Health Organization [WHO] is currently combatting the epidemic. Great Britain has decided to give this organization 12,500 pounds sterling in the form of tetracycline, oxytetracycline and water purification tablets to aid in the campaign. [Text] [Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 24 Aug 79 p 2327]

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UNITED ARAB EMIRATES

BANKING SECTOR FACES POLITICAL, FINANCIAL UNCERTAINTY

London THE MIDDLE EAST in English Sep 79 p 40

[Article by Ann Fyfe]

[Text] The successful outcome of the political manoeuvrings which permitted the new UAE Government to be announced in July has generated optimism that the question marks over the UAE banking sector prospects may soon be dispelled. First and foremost among these questions is the fate of the Central Bank.

Meanwhile the new Government's avowed intentions to improve living standards and revive the economy is likely to create more lending opportunities than have been open to bankers in 1977 and 1978. Property and trade, which traditionally offered most lending openings, dried up in these two years as a source of banking business because of the political and economic inertia. As the need for new projects and imports was satisfied, construction and trading activity declined--an entirely predictable process not meriting the term "recession"--which was nonetheless applied to it.

In the case of the UAE however, future economic expansion and resulting banking prospects have to be viewed with two fundamental constraints in mind: the fear of inflation and the probably greater fear of continued immigration, which virtually every new project, whether infrastructural or industrial, makes necessary in this manpowerless society.

In the spring of 1978 the UAE's 54 banks and 11 representative offices were granted a relaxation of the severe "corrective measures" enforced a year earlier to curb reckless growth in money supply, bank credit and inflation. As a result of the original measures, money supply grew only 10.7 percent and bank credit by 21 percent in 1978 compared with the 70 and 80 percent movements recorded in 1976. The relaxation was cautious however, and lack of lending opportunities on the whole prevented bankers from exploiting it. At the end of 1978 construction accounted for 33.7 percent of all bank lending (50 percent in Abu Dhabi and 24 percent in the Dubai sector) and trade for 36 percent (40 percent in the Dubai sector and 29 percent in Abu Dhabi).

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Property, however, is no longer an attractive proposition for bankers as supply outstrips demand. Landlords with unlettable property on their hands, together with their worried bankers, were able to lobby earlier this year for a real estate bank and this institution was duly announced. With a Dhs1 billion capital the Real Estate Bank was to take over 25 percent of the commercial banks' loans to property and refinance them at softer rates (property loans then totalled Dhs4 billion or Dhs6 billion including loans already refinanced by the Currency Board).

The new bank subsequently got lost in the political uncertainties and its statutes were never finalised. Now that a political settlement has been reached, it will presumably surface again in one form or another, and though it will not be able to recreate a property boom, it should enable merchants to restart their general activities by relieving them of a proportion of their debts.
Trade

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too, is no longer growing by the huge leaps of the mid-70s; total UAE imports in 1977 and 1978 were Dhs20.2 billion (\$5.3 billion) and Dhs20.5 billion (\$5.4 billion) respectively. Against this stagnant background, contractors and suppliers have generally preferred federally financed projects and contracts to the private sector.

Shaikh Rashed on his appointment as Prime Minister committed his Government to improving living standards in the remote, relatively neglected areas away from the main coastal towns. This can only be done by spending money. He also undertook to restimulate the economy - particularly its productive sector - all of which sounds encouraging to bankers.

But there are a number of interests to be balanced against each other here. First, the Currency Board wants no let-up in the fight against inflation, which it says was down to 15 per cent last year as a result of its tight-money policy. Then the Ministry of Planning wants greater co-ordination in industrial projects while the National Assembly wants restimulation of the economy and a halt to immigration at the same time. Nonetheless, the atmosphere is considerably more optimistic since Shaikh Rashed's appointment than for some years.

Whether a central bank is about to appear is not yet known. There is no point in having a central bank unless it enjoys centralised control over the major part of the various Emirates' incomes. The existing Currency Board has long complained of being starved of foreign-exchange deposits by the individual Emirates - a serious state of affairs indeed in a country that is so dependent on imports and whose currency is at the mercy of international exchange-rate fluctuations. Strong rumour suggests that the Emirates have indeed agreed to hand over 50 per cent of their oil revenue to the

Federal treasury, but there is no official confirmation or denial.

Before the commercial banks can start lending again they need to improve their deposit bases. In many cases among the newer smaller banks deposits are very small and lending capacity is therefore severely limited. Deposit famine is endemic to some extent where so many banks are in competition, but it has been exacerbated by recent outflows of cash consequent first upon the strengthening of foreign currencies, and second upon the shock waves of the Iranian revolution. All the Gulf states are in the same boat in this respect. In an attempt to win deposits the banks have in mid-79 raised their interest rates to depositors, in some instances to over 10 per cent, the highest ever offered in the Gulf states.

Apart from the political *démarches* and resulting economic optimism on the one hand and the enforced rise in interest rates on the other, the third feature of 1979 has been the failure of the Bahrain/Qatar/UAE currency-parity scheme, much hailed at its birth in 1978 (when the dirham was unlinked from the dollar) as a first step towards greater Arab currency unity. The fluctuating dollar forced first Qatar and then the remaining partners to go their own ways in revaluing.

It would be perilous to predict at this point how these issues will develop, what powers the central bank will turn out to have, how expansionary the long-delayed 1979 budget will be, how Shaikh Rashed will redeem his promise to restimulate the economy, how concern over the value of the dirham will find expression and how the banks will gear up to increased lending opportunities. But this is the time to be on the look-out, as the features which have characterised the UAE banking scene for the past two years no longer apply.

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WESTERN SAHARA

DIPLOMATIC SOLUTION OF SAHARAN WAR SEEN AS DIFFICULT

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[Text]

By annexing the Mauritanian-held part of the former Spanish Sahara, King Hassan of Morocco has undoubtedly escalated this simmering desert war, and brought nearer the possibility of war with Algeria, which is continuing to back the Saharan liberation front, (Polisario). Mauritania has made clear its desire to withdraw from the conflict by ending its occupation of the territory and also its defence pact with Morocco.

King Hassan had no choice but to seize the territory when Mauritania agreed to cede it to Polisario. Any sign of weakness or hesitation could have been disastrous for the King, who has staked everything on "recuperation" of the Sahara. He told a recent press conference that he would fight Polisario "to the end".

Nevertheless, despite the clear provocation of the annexation King Hassan has been at pains to leave open a way for negotiation with Algeria in an attempt to avoid all-out war. For example, he has depicted Libya as the real villain of the piece (and the force behind Polisario), and has said that in the event of war between Algeria and Morocco both sides would be so exhausted that the real victor would be Tripoli.

King Hassan's new conciliatory attitude is an indication of Morocco's weakness. He has said that it will not be clear for at least six weeks, whether it will be war or peace, but that prospects for peace may even have been improved by Morocco's actions. This suggests that he is hoping to negotiate a settlement with Algeria.

For the moment, the King has once more adroitly managed to rally the nation behind him - right across the political spectrum. But this superbly played theatrical device has not solved Morocco's persistent social, economic and political problems. Nor should it be seen as a long-term success.

The US has recently been hesitant about its support for Hassan, whom it fears may go the same way as the Shah of Iran and Nicaragua's President Anastaso Somoza. A Congressional fact-finding mission has been visiting Morocco, Algeria and Mauritania to decide whether Washington should put its money on the King and alter its arms strategy to provide Morocco with the weapons it badly needs to win the Saharan war. But intelligence reports indicate that military disenchantment is increasing in Morocco, and that a coup is a distinct possibility.

The US would not like to see a radical regime in Morocco and will back Hassan as long as his position is relatively secure. But equally it cannot afford another Iran-type fiasco which could irreparably damage its already tarnished image in the Middle East.

The abortive military uprisings which took place in Morocco in 1971 and 1972 led Hassan to curb the military's power, but this has had the negative effect of increasing resentment. The armed forces are angered by the lack of promotions, and above all by restrictions on their activities in the Sahara. Only the national fervour for "recuperation" of this territory has prevented overt protest, especially among younger officers, over

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deteriorating living standards and escalating prices.

The Algerians at present have every reason to sit and wait. They scored an impressive diplomatic victory at the OAU summit which came out strongly against Morocco and in favour of Polisario and are likely to strengthen their position further at the Non-Aligned conference in Havana. They may even gain a two-thirds majority if and when they take the Saharan case to the UN.

If King Hassan refuses to make concessions, Algeria could be forced to take some more direct action. President Chadli would prefer to preserve Algeria's international reputation as the most responsible North African Arab state and to pursue the Saharan cause diplomatically. But his position domestically is not completely secure and he is under pressure from National Liberation Front (NLF) leader Salah Yahyaoui to adopt a harder line on the Saharan issue. If all other avenues are closed he may be obliged to indulge in a policy of sabre-rattling against Morocco's takeover of the Sahara or even to undertake limited military action in support of Polisario.

The French, for their part, have been keeping a very low profile in recent weeks despite their obvious interests in the region. They are anxious to alienate neither Morocco nor Algeria, but like the US they do not want to drop King Hassan entirely, as there is no obvious successor and chaos would almost certainly follow his overthrow.

But Paris is deeply concerned about

Mauritania, which is a vital plank in its West African strategy. France wants Mauritania to remain an independent state and would have to oppose any Moroccan attempt to take it over. Diplomatic sources told *The Middle East* that it had already intervened once to prevent such a development.

Yet King Hassan has urged Polisario to "return to Mauritania" as they are "all Mauritania oppositionists", either to take it over or to help it. The King has also said that Algeria should now turn to Mauritania, to obtain its long-desired outlet to the Atlantic.

So far, Polisario is the main loser in the affair. It is bitter about what it sees as Mauritanian treachery in pulling out from the Sahara before the Saharans could install themselves, leaving the way free for Morocco to take over. They suffered badly in the battle of Bir Anzaren against Moroccan forces who prevented them from taking over Dakhla, the capital of Mauritanian Sahara.

The latest events have brought Algeria and Morocco to the fore. As one diplomat put it "the affair is, and always has been, essentially a proxy war between Algeria and Morocco".

Contacts between the two states are continuing, but a diplomatic solution will be difficult to achieve, since compromise would seriously embarrass both governments domestically.

Meanwhile, the big powers wait on the sidelines to see which way the wind is blowing. None of them wants to back a loser. □

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YEMEN ARAB REPUBLIC

WEST GERMAN UNIVERSITY PUBLISHES POPULATION STATISTICS

London THE MIDDLE EAST in English Sep 79 p 89

[Text]

Western organisations and media are often scathing about the quality of statistics emanating from Middle East countries, and it must be admitted that there are deficiencies and distortions in some of them.

Yet when a Middle East country does prepare an accurate census and publish its results, many Western organisation and journals seem to fail to notice it. The Government of North Yemen undertook a population and housing census in February 1975 and followed it up with demographic and cartographic surveys.

The census and its associated surveys were carried out with the assistance of the Swiss Government and a team of Swiss experts. The results upset a large number of existing ideas about the population of North Yemen and the number of Yemenis working in Saudi Arabia, for example. Yet few authorities and journalists seem to have taken heed of these results.

The Middle East conducted a simple straw poll and asked a number of people who claimed some knowledge of the Middle East what they thought North Yemen's population was and

how many Yemenis were working in Saudi Arabia. Population estimates still varied from 6.5mn to 15mn, with the numbers working in Saudi Arabia ranging between one and two million males.

The detailed results of the census and surveys have now been published in Europe by Tuebingen University in West Germany*, though the broad results were available in Sanaa some four years ago. The important figures are:

1. The in-country population amounted to 4,705,000 people in February 1975;
2. The population is very young; 47% of the people were under 15 years of age at the time of the census;
3. There were about 400,000 short-term emigrants working outside the country, mostly in Saudi Arabia, at the time of the census;
4. About 150,000 to 250,000 Yemenis are living permanently outside the country.
5. Some 72% of the labour force works in agriculture.
6. The in-country population would have passed 5,000,000 in 1979.

What about those 1.5mn Yemenis supposedly working in Saudi Arabia? Even the Central

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Planning Office in Sanaa had estimated in 1975 that there were 1,234,000 living outside the country with 1mn of these in Saudi Arabia. The census findings show that this estimate was incorrect. If the total population in 1975 was 5mn, there could not have been more than 1.5mn males in the 15-59 age group. It was apparent that nowhere near 100 per cent of this group was working outside the country.

The census showed almost 940,000 males and 1,220,000 females in the 15-59 age group. The difference of 280,000 is a measure of the numbers working outside the country. This figure is substantiated by the numbers of passports issued, and projections suggest that there are probably about 500,000 Yemenis working outside their country at present, or about 50% of the total labour force. The Central Bank of Yemen figures showed that Yemeni workers in the fiscal year 1976/77 remitted over 4,500mn Yemeni rials (about \$1bn) home, or about \$2,000 a head.

The census and its accompanying surveys suggest that the remittances were spent in three

ways: in the purchase of a wide range of consumer goods, in paying bride prices (the bride price has increased enormously over the last few years and now amounts to between 20,000 and 50,000 rials) and investment in housing, agriculture, small businesses and motor vehicles.

One result of the large migration of labour to Saudi Arabia is an extremely serious labour shortage at home, especially in agricultural areas. This fact, coupled with the comparatively low prices of imported food, is having a serious effect on agricultural production.

The survey report is an invaluable source of demographic and social information on the YAR, including education and employment, settlement patterns and population distribution.

*Population Geography of the Yemen Arab Republic, The Major Findings of the Population and Housing Census of February 1975 and of Supplementary Demographic and Cartographic Surveys, by Hans Steffen. Beihefte Zum Tuebinger Atlas Des Vorderen Orients. Dr Ludwig Reichert - Wiesbaden.

Tabulation of the major census findings by province
(February 1975)

Province	Area sq km	Inhabitants		Sex ratio M/F	Dwellings		Short-term emigrants		
		number	density I/sq km		number	density I/H	number	density E/sq km	E rate Ex 100/(1+E)
Sanaa	20,440	831,949	41	0.95	137,099	6.1	41,675	2.0	4.7
Taiz	10,570	882,063	83	0.84	178,074	5.0	75,289	7.2	7.8
Hodaida	13,570	695,631	51	1.03	150,817	4.6	35,052	2.6	4.7
Saada	12,810	176,606	14	0.90	32,595	5.4	13,692	1.1	7.1
Hejja	9,540	413,374	43	0.96	77,078	5.4	20,773	2.2	4.8
Al-Mahwit	2,170	181,011	83	0.86	32,220	5.6	13,339	6.2	6.8
Maarib	39,890	69,840	2	0.95	13,900	5.0	2,301	0.1	3.1
Dhamar	8,640	468,786	54	0.87	88,064	5.3	33,712	3.8	6.7
Ibb	6,430	813,203	126	0.88	157,891	5.2	73,385	11.4	8.2
Baida	11,170	172,873	16	0.82	34,166	5.1	22,431	2.0	11.4
	135,230	4,705,336	35	0.91	901,904	5.2	331,649	2.5	6.5

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