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# Near East and South Asia Review



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1 March 1985

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**Near East and  
South Asia Review**

25X1

1 March 1985

	<i>Page</i>	
<b>Articles</b>		
<b>Saudi Attitudes Toward Arab-Israeli Negotiations</b>	1	25X1 25X1
Saudi Arabia is unlikely to support any negotiations that do not address the Arab-Israeli conflict in its entirety, and, if Syria is opposed, the Saudis will not even lend their support in their usual behind-the-scenes manner.		25X1
<b>Jordan and the West Bank: Hussein's Balancing Act</b>	3	25X1 25X1
Over the past two years Jordan's King Hussein has cautiously taken steps to strengthen his ties to the West Bank to increase his leverage with PLO chief Arafat on Palestinian and Arab-Israeli issues and ensure a Jordanian role in future political arrangements in the occupied territories.		25X1
<b>Israel After the 1984 Election: A Conference Summary</b>	5	25X1 25X1
The 1984 election results reaffirmed the dominant role of the Labor Alignment and Likud, but the government will not undertake any major foreign policy initiatives for fear of upsetting the coalition's delicate balance and does not have the political will to launch tough policies to solve the country's economic problems.		25X1
<b>Lebanon's Khomeini: Muhammad Husayn Fadlallah</b>	11	25X1 25X1
Muhammad Husayn Fadlallah, a Shia fundamentalist cleric based in southern Beirut, has become a key leader of the extremist Hizballah movement and could eventually emerge as the dominant Shia figure in Beirut and attempt to incite a revolt among discontented Shias.		25X1

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**Iran: The Clerical Opposition in Mashhad**

15

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Conservative clerics in Mashhad are increasing their opposition to the Khomeini regime and maneuvering to gain support in anticipation of a power struggle following Khomeini's death, but they are hampered by the absence of a positive political program and their belief that clerics should not take a direct role in secular affairs.

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**Islamic Conference: New Leadership, Old Problems**

19

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Newly elected Islamic Conference Secretary General Sharifuddin Pirzada faces formidable problems in advancing the organization's influence and interests, for, even if he gives African and Asian issues more attention, Arab issues will continue to dominate as long as the Saudis pick up the lion's share of the organization's budget.

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**Azad Kashmir: A Portrait of Pakistan's "Independent" Dependency**

21

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Azad Kashmir, the region of Jammu and Kashmir that is under Pakistan's control, has been given a fictitious independence by Islamabad, but, in reality, it is ruled and financed directly by the Pakistani Government.

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**Pakistan: Postelection Economics**

25

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President Zia has accomplished his primary economic goal—maintaining domestic prosperity and denying the opposition a rallying point if the presidential referendum and the legislative elections—but, if the foreign exchange outflow is not checked or substantial new aid not obtained, serious foreign payments problems will emerge.

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**Sri Lanka: Resettlement and Realpolitik**

29

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Colombo plans to begin settling more than 30,000 armed Sinhalese farmers in newly irrigated areas of north and east Sri Lanka in part to strengthen its control in these areas and change the ethnic composition of the local population. Militant Tamil separatists are likely to react with violence against the new settlers.

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**India: Stalling on Punjab** [Redacted]

33

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Prime Minister Gandhi has staked his political reputation on defusing Sikh unrest in Punjab, but, unless he offers concessions to strengthen the hand of moderate Sikhs, the deadlock between the Sikhs and the government is likely to continue and even worsen, to the detriment of Gandhi's image as well as India's stability. [Redacted]

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**India: High Hopes for Probusiness Policies** [Redacted]

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[Redacted]

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Indian businessmen enthusiastically anticipate major reforms in economic policy over the next several months, but Prime Minister Gandhi is still considering his options and so far has announced only a few minor changes. [Redacted]

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**The Press of India** [Redacted]

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[Redacted]

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The press of India is vibrant, sophisticated, has a large readership in many languages, and is the nation's most important mass medium of communication, which, while nationalistic and sensitive to foreign criticism of India, is itself frequently critical of the government. [Redacted]

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*Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views. Comments may be directed to the authors, [Redacted]*

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Articles

**Saudi Attitudes Toward Arab-Israeli Negotiations** <sup>1</sup> [Redacted]

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Saudi Arabia is unlikely to support any negotiations that do not address the Arab-Israeli conflict in its entirety. If Riyadh believes the Syrians are resolutely opposed to negotiations or to a particular negotiating strategy—such as the recent Arafat-Hussein “framework” agreement—the Saudis are unlikely to lend support even in their usual behind-the-scenes manner. Moreover, the Saudis have not and are unlikely to endorse negotiations between Israel and a single Arab state.

moderate Arab leaders, and Riyadh does not want them to make precipitate moves that could jeopardize their political positions.

The Saudis undoubtedly view the framework agreement as having more form than substance, but they believe that the appearance of cooperation among the Arabs is necessary to gain an invigorated US role. Moreover, the timing of the agreement announcement strongly suggests that the Saudis had foreknowledge of it and sanctioned its airing during King Fahd’s US visit.

**The Hussein-Arafat Agreement**

The Saudis probably are encouraged by the recent Arafat-Hussein “framework” agreement to pursue a continued dialogue on Middle East peace. Riyadh believes divisions within Arab ranks hinder progress toward a negotiated settlement to the Arab-Israeli conflict, and a narrowing of differences between Hussein and Arafat is viewed favorably by the Saudis. Riyadh realizes that PLO participation in Middle East peace negotiations is a nonstarter for the Israelis and the United States, [Redacted]

**The Syrian Factor**

Riyadh’s attitude toward peace negotiations is strongly influenced by Syria. [Redacted]

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Nonetheless, Riyadh has a more fundamental reason for ensuring that Syrian interests are protected at each critical juncture of the overall peace process. The Saudis believe that, without the support of the major Arab confrontation state, any movement toward a negotiated settlement is specious and likely to result in failure. Events in Lebanon have demonstrated vividly to Saudi officials the Syrian ability to thwart the efforts of others when Damascus believes its national interests are threatened. As evidence of the importance the Saudis attach to keeping the Syrians informed on important issues, Saudi Ambassador to the United States Prince Bandar traveled to Damascus to brief the Syrians on King Fahd’s US visit before going on to Amman, Baghdad, and Algiers.

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[Redacted] A PLO mandate for King Hussein is one of several key steps in getting negotiations started, in the Saudi view.

Riyadh has urged Arafat and Hussein to come to terms in the past, but Saudi support has been limited [Redacted] The Saudis have influence with both the Jordanians and Palestinians, but they have not used financial inducements—the usual Saudi trump card—to extract concessions. The Saudis believe Hussein and Arafat are important

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<sup>1</sup> The author of this article has followed Saudi political developments for several years, and his arguments are based on his experience and personal opinion, [Redacted]

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Although the Saudis frequently are frustrated by Syrian obstructionism, Riyadh probably sees benefit in the Syrian role. Saudi insistence on the protection of Syrian interests is a convenient way to camouflage Riyadh's own interest in achieving maximum Arab objectives. The Saudis may well use the Syrian role for their own benefit—particularly when dealing with the United States—and at times may only feign dissatisfaction with Damascus. For example, Syrian inflexibility on Lebanon and the Arab-Israeli conflict allows the Saudis to point an accusing finger at Damascus when privately attributing blame and identifying obstacles to progress. At the same time, however, Syrian unwillingness to compromise reassures the Saudis that Arab objectives will not be sacrificed because of external pressure.

Strong Syrian opposition to an Arafat-Hussein joint position is likely to deter unambiguous Saudi backing. Moreover, a demonstrated Syrian willingness to undermine further Jordanian-PLO cooperation—for example, by assassinating moderate PLO or Jordanian officials—probably would prompt the Saudis to avoid supporting the Hussein-Arafat strategy even in their usual behind-the-scenes manner. In these circumstances, the Saudis probably would adjust their approach and seek greater PLO, Jordanian, and US attention to Syrian interests.

#### **A Comprehensive Settlement**

Riyadh believes Arab negotiations with Israel should only be carried on in pursuit of a comprehensive peace settlement that addresses the questions of the West Bank, Gaza, Jerusalem, and the Golan Heights. Riyadh probably believes the momentum of an Arafat-Hussein dialogue could prompt the United States to exert pressure on Amman for bilateral negotiations with Israel. The Saudis would not endorse negotiations between Israel and any single Arab state, however, because the Camp David accords convinced the Saudis that the pursuit of a separate peace is perilous—even for Egypt, the most powerful Arab state. The Saudis believe the United

States violated its commitment to a comprehensive settlement of the Arab-Israeli conflict when it brokered the Camp David accords.

Saudi support for a comprehensive settlement stems in part from an overall Saudi strategy of avoiding involvement in inter-Arab rivalries that could threaten Saudi security. The Saudis probably believe that close identification with the interests of a particular Arab faction increases the risks to them. In encouraging comprehensiveness, the Saudis attempt to ensure that all Arab interests are pursued in negotiations.

The Saudis also are hesitant to support publicly a negotiating formula that is not endorsed by the Arab League. Riyadh's "Fahd Plan," which eventually was adopted by the Arab League in 1982, was a set of principles for peace and not a defined course of action. Without an Arab League stamp of approval, the Saudis would not support openly a joint PLO-Jordanian negotiating strategy even if King Hussein acquired a PLO mandate. The Saudi leadership is well aware that an agreement between two Arab leaders could disintegrate easily upon the removal of one or both of them—a clear possibility if Arafat and Hussein come to terms.



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**Jordan and the West Bank:  
Hussein's Balancing Act** [redacted]

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Over the past two years Jordan's King Hussein has cautiously taken steps to strengthen his ties to the West Bank. Hussein's primary aim is to increase the influence of pro-Jordanian Palestinian moderates who he hopes will help press PLO chief Yasir Arafat to establish joint positions with Jordan on Palestinian and Arab-Israeli issues. Some of the King's advisers—and Hussein himself—also believe that fostering West Bank ties will ensure a Jordanian role in future political arrangements in the occupied territories and enhance the stability of the Hashemite Kingdom. [redacted]

Amman's ability to assume new responsibilities on the West Bank is limited. The Jordanians want to avoid moves that might provoke a confrontation with the PLO or help sustain the Israeli occupation. Moreover, Hussein's non-Palestinian Bank constituents will continue to resist taking on the burden of assisting the West Bank. West Bankers seeking Amman's backing for their efforts to build a cadre of moderate community leaders are likely to be forced to turn elsewhere or rely on their own resources. [redacted]

**Jordan's Role in the West Bank**

The Israeli occupation of the West Bank in 1967 and Arab designation of the PLO in 1974 as the sole representative of the Palestinians eliminated most Jordanian involvement in West Bank affairs. West Bank residents are subject to regulations promulgated by the Israeli military government. Although many West Bank political leaders retain political connections with Amman, the PLO and Yasir Arafat have a far greater claim on the loyalties of West Bankers. [redacted]

[redacted]

Amman, however, continues to provide limited government services to the West Bank. It grants permits and licenses, issues passports for Palestinians traveling overseas, and pays the salaries of West Bank municipal workers hired before 1967. [redacted] since 1979 virtually all Arab subsidies to West Bank municipalities and institutions have been supplied by the Jordan-PLO Joint Committee from funds pledged by other Arab states and administered by Jordan. [redacted]

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**New Steps**

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President Reagan's Middle East peace initiative in 1982 and the internal crisis in the PLO in 1983 encouraged Hussein to revitalize relations with the West Bank. Signs of Amman's increased interest in the West Bank include:

- Recall of Jordan's parliament, suspended since 1976, thus restoring the formal presence in Amman of duly elected West Bank representatives.
- Recruitment of prominent pro-Jordanian West Bankers to lobby the PLO and other West Bank leaders on behalf of PLO cooperation with Hussein.
- Consideration to chartering an Arab-owned bank in Nablus to help rectify irregular financial arrangements resulting from Arab refusal to use Israeli banks. [redacted]

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**The Appointment of Mayors**

Amman has agreed to consider Tel Aviv's proposal to appoint new Arab mayors in key towns to replace men the Israelis expelled or ousted. The Jordanians believe that this could be used to enlarge Amman's role in West Bank affairs. Amman has not yet accepted the Israeli offer because it fears that some aspects are too favorable to the Israelis. Israelis and West Bankers supporting the plan hope that Amman's blessing will

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help deflect charges that the new mayoral appointees are Israeli collaborators. The Israelis would balk at any overt sign of a PLO role in selection of the mayors, but they would probably cooperate if they believe the men chosen by Amman are moderates who might resist PLO or radical Palestinian pressure to openly oppose occupation officials. [redacted]

[redacted] Prime Minister Obeidat told pro-Jordanian West Bankers last fall that the government would use the mayoral appointments (along with the naming of pro-Jordanian chambers of commerce and Islamic officials in Jerusalem) to promote a new leadership group on the West Bank that would advance Jordanian policy objectives. City mayors are the most prominent Arab political leaders on the West Bank. They are also key figures in planning community development projects and channeling Arab funds to West Bank communities. [redacted]

Arafat is probably ambivalent about the scheme. Despite past PLO support for the deposed mayors, Embassy reports suggest that Arafat may support the appointment of acceptable Arab moderates in the belief this would help strengthen his position on the West Bank. Nevertheless, Arafat and other Fatah leaders are suspicious of Jordanian intentions. Fatah officials have cautioned their cadres on the West Bank to protect their claim to leadership of the Palestinians against Jordanian encroachment. [redacted]

**Constraints on Jordanian Policy**

Domestic political considerations and Jordan's meager financial resources also impose severe limits on Amman's ability to satisfy the needs of West Bankers. [redacted] West Bank members of the Jordanian parliament are frustrated and disillusioned by the failure of either the government or their fellow legislators to respond to their appeals to relax restrictions on Jordan River crossings, marketing of West Bank goods, and employment of West Bank residents. Jordanian officials have also flatly rejected West Bank appeals for economic development assistance, claiming that the government has no money. [redacted]

Amman's attempts to foster pro-Jordanian sentiment on the West Bank will require considerable skill in handling its complicated relationships with both the Israelis and the PLO. The Jordanians want to avoid major friction with the PLO so that Hussein's courtship of Arafat will not be disrupted and existing Jordanian support in the West Bank not undermined. Amman will continue to need the funds of the Jordan-PLO Joint Committee to subsidize West Bank municipalities, but these resources are likely to shrink rather than grow because of increasing unwillingness of contributors to continue the payments. According to Embassy reporting, the Jordanian Minister for Occupied Territories told a US diplomat in early 1984 that the fund was currently receiving only \$45 million (the Saudi and Kuwaiti portions) of the original \$100 million pledged. [redacted]

**Jordan's West Bank Prospects**

We believe Hussein is likely to continue low-key efforts to enhance Jordanian commitments and influence on the West Bank, but he may avoid ambitious new schemes while he pursues his dialogue with Arafat. He may reason that West Bank moderates are unlikely to be more persuasive with Arafat than they have been in the past, and attempts to create a larger and more influential group of Jordanian loyalists could provoke a PLO backlash. Although some of his advisers continue to suggest that Hussein might call on pro-Jordanian West Bankers to represent Palestinian interests if he decided to enter peace negotiations without the PLO, we believe that he recognizes this option is unrealistic as long as most Arab states—and most West Bankers—continue to support Arafat. [redacted]

[redacted]

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**Israel After the 1984 Election:  
A Conference Summary** [redacted]

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Leading US academic specialists on Israel met recently to discuss the domestic and foreign policy implications of the Israeli national election of 23 July 1984. In their view, the election results reaffirmed the dominant role of Israel's two major political groupings—the Labor Alignment and Likud—and their growing convergence on key issues. The specialists believe the religious parties retained an important measure of their political influence—despite their largely superfluous position in the present unity government—because of their potentially pivotal role in forming the next ruling coalition. The election outcome also strengthened small leftist parties and the ultranationalist Tehiya-Tzomet party. [redacted]

The election results demonstrated the continued support of most Sephardi Jews for Likud despite widespread dissatisfaction with the party's economic policies, the unpopular war in Lebanon, and the political demise of Menachem Begin. The academic experts noted, however, that their loyalty to Likud is not an indication of support for the party's hardline attitude toward the Arabs and the occupied territories. Rather, the bulk of the Sephardi electorate voted for Likud to consolidate the economic gains made during the previous seven years of Likud rule. [redacted]

The academic specialists believe the Israeli Government will not undertake major foreign policy initiatives during the coming year because of conflicting party interests. In the view of some experts, Peres will shy away from any peace initiative—even one launched by Jordan's King Hussein—to avoid upsetting the government's delicate balance. [redacted]

The economic experts argued that Israel must institute tough, highly controversial policies to solve the country's economic problems. Israel must cut government spending, real wages, and consumption

even at the cost of rising unemployment and reduced living standards. The scholars, however, do not believe that the government has the political will to take the necessary decisions. [redacted]

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**Domestic Political Trends**

According to the academic specialists, Israel is undergoing a crisis of political legitimacy because of the inability of both Labor and Likud to gain broad public acceptance for their interpretations of Zionism. The experts believe the absence of a dominant political ideology may lead Israel to abandon the traditional Zionist goal of being "a light to the nations" and focus instead on being a "normal" nation like any other country. [redacted]

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The absence of a unique Zionist vision is reflected in the growing convergence of Labor and Likud on key issues. Labor today is more conservative than it was during the party's heyday in the early 1970s, and Likud also bears little resemblance to the self-assured, nationalist party it was when Israel invaded Lebanon in June 1982. [redacted]

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**Labor.** The academic specialists agreed that Labor is in its best shape since its defeat in 1977 despite its failure to undertake the leadership and policy changes demanded by many party supporters.<sup>1</sup> Labor has ended the endemic party infighting that plagued it during its seven years in opposition. Peres and longtime rival Defense Minister Rabin are working well together. Other potential contenders for party leadership—such as Deputy Prime Minister Navon and Health Minister Gur—have reined in their ambitions, although they are probably waiting for Peres to stumble. [redacted]

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1 March 1985

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**Likud.** The alliance of the Herut and Liberal parties in the Likud bloc is beset by serious factional and leadership struggles, which led some experts to argue that Likud has practically ceased to function. Finance Minister Moday heads the principal faction in the Liberal Party, but his leadership is challenged by several rivals, including Minister of Science Patt and Justice Minister Nissim. The academic specialists believe a government failure to revive the economy could provide the pretext for a new bid to dump Moday. Prime Minister Peres, meanwhile, is assiduously cultivating Moday in the event the Liberals split and Moday and his supporters join forces with Labor. [redacted]

Herut's leadership struggle received the greatest attention among the specialists, who agreed that Vice Prime Minister Shamir maintains a tenuous hold on the party leadership. Minister of Industry and Commerce Sharon and Deputy Prime Minister Levi are attempting to emulate Begin's populist style in their efforts to undermine Shamir, but neither has attracted the wide popularity Begin achieved. Sharon used his suit against *Time* magazine to portray himself as a victim of the "blood libel" against the Jewish people—a theme manipulated by Begin with considerable success. Levi has opposed extensive budget cuts in social welfare programs to project an image as defender of the interests of all working people, not only of Sephardim. In the view of the academic experts, Sharon and Levi have not been bound by a sense of national responsibility or loyalty to their party's leader or the policies of the government. [redacted]

**The Religious Parties.** The academic experts agreed that the fragmentation of the religious parties has not lessened their likely influence in a future coalition. The national unity government does not depend on the religious parties for its parliamentary majority, but Labor and Likud are wary of alienating them because of the near certain need to gain the support of one or more of the religious parties to form the next government. In our view, Likud is particularly concerned with cultivating the religious parties, but its efforts have been hurt by its inability to deliver on promises of government support for legislation on areas of concern to the religious parties. These parties

sharply criticized Likud when the Knesset recently defeated the religious parties' bill revising the criteria for defining "who is a Jew." [redacted]

The experts disagreed, however, over the importance of religion in Israeli politics. One specialist argued that religion is the most important political and social force in Israel today. Others asserted that it is misleading to view the displays of greater religious observance by some politicians and many Sephardim as an indication of the growing importance of religion. In our view, if it were true that religion is the political touchstone in Israel, this would be reflected in greater support for the religious parties in elections. In fact, the electoral strength of the religious parties as a group has remained fairly stable at 10 to 15 percent of the vote since the first Knesset election in 1949. In the last two elections, they won about 11 percent of the vote. [redacted]

**Other Minor Parties.** According to the academic experts, the election results and the process of forming the national unity government encouraged the coalescence of a new Zionist left bloc and the increased strength of the ultranationalist Tehiya-Tzomet party. In the specialists' view, many traditional Labor and Likud supporters were alienated by the ideological compromises their parties made to woo undecided voters and to accommodate each other and the religious parties within the unity government framework. [redacted]

The loose alliance of two moderate left parties, MAPAM and the Citizens' Rights Movement, has 10 seats in the Knesset and would become an influential partner in a future Labor-led coalition without Likud's participation. Its electoral appeal, however, is uncertain, in our judgment. MAPAM last entered elections as an independent party in 1965, and its traditional base of support in the country's agricultural cooperatives is dwindling. [redacted]

Tehiya-Tzomet benefited in the 1984 election from its co-opting former Army Chief of Staff Eitan and his supporters. It has strong ties with leading figures in Herut—particularly Ariel Sharon—and is a likely future partner in a Likud-led coalition. [redacted]

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**Moving to the Right?**

The academic specialists noted that the fulcrum of the Israeli political balance has been moving to the right in recent years. Nonetheless, it does not necessarily reflect an overall hardening of voter attitudes, in our view. Israeli attitudes on key Arab-Israeli issues—as measured in opinion polls—have remained fairly steady for the past 15 years. Attitudes have fluctuated depending on the political context in which the questions were asked and the popularity of the incumbent ruling coalition. For example, polling data indicate that public opposition to returning the occupied territories is about as prevalent today as in 1969. About 90 percent of the respondents in both 1969 and late 1984 favor returning none or only a small part of the territories, although the trend has moderated slightly as the popularity of Peres and Labor has risen since the election. [redacted]

Nor do the results of recent elections indicate a shift in political power to the right, in our judgment. The portion of the electorate voting for rightwing parties, including Likud, decreased in this election. The center and moderate left parties, on the other hand, drew more support. What has changed since 1977 to enhance the political power of the right wing is the emergence of a religious bloc that finds it easier to deal with Likud on ideological and religious grounds than with Labor. Even so, the religious parties—except for the ultranationalist Morasha—probably would be equally open to cooperating with either Labor or Likud to form a narrow coalition if the unity government falls. [redacted]

**The Sephardi Vote**

Political pundits in Israel and abroad are inclined to see continued Sephardi loyalty to Likud as evidence of their hardline and anti-Arab attitudes.<sup>2</sup> The academic experts believe this is an inaccurate portrayal of the Sephardi electorate. They argue that the strong support of Sephardim for Likud has little to do with their cultural background or anti-Arab character but rather with their present position in Israeli society.

<sup>2</sup> Extensive academic research in Israel and public opinion polls are virtually unanimous in concluding that Sephardim in Israel generally display stronger anti-Arab sentiments and advocate tougher foreign policy options than do Ashkenazi Jews. The hawkish attitudes are consistent across time and within each social and educational category. The most hostile attitudes toward Arabs tend to be displayed by Sephardim of Israel's lower classes. [redacted]

Although Sephardim overwhelmingly supported the then ruling Labor Party in the 1950s and 1960s, they began to abandon Labor a decade ago. They revolted against what many believed was an arrogant and paternalistic system that was contemptuous of their origins and closed to their participation. According to the specialists, the Sephardi vote for Likud in 1977, when Labor was turned out of office, was more a protest against Labor's record than a vote of confidence in Likud. [redacted]

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Sephardim continued to support Likud in the 1981 and 1984 elections largely to consolidate the economic gains made during the previous Likud governments. Those who abandoned Likud in the last election did so because they feared the deteriorating economy threatened those gains. But they did not return to Labor. Rather, the majority voted for the new Sephardi religious party, SHAS. [redacted]

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The academic experts maintain that the anti-Arab attitudes displayed by Sephardim are superficial and have not been reflected by their voting preference for rightwing parties. The experts point out that only about 3 percent of Sephardi voters supported Tehiya-Tzomet in the last election. Moreover, few Jewish settlers on the West Bank are Sephardim. As one expert commented:

*... most of the inhabitants who settled in the West Bank did so out of religious and ideological reasons. The majority of Oriental youth in Israel today are neither religious nor ideological. . . . The anti-Arab attitude in Israeli society is not inherent in the Oriental character, although it became an implicit condition for the Orientals' acceptance in the society. It is more accurate to state that anti-Arab sentiment is shared today by a majority of Israeli youth.* [redacted]

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**Foreign Policy**

The national unity government is unlikely to make bold foreign policy initiatives in 1985, according to the scholars. This is partly the result of the dynamics within the unity coalition, particularly the divergent

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positions of Labor and Likud on the peace negotiations. In addition, the academics noted that the trend toward immobilism in foreign policy is reinforced by Israeli skepticism that diplomacy can succeed in settling the Arab-Israeli conflict. Many Israeli leaders are said to believe that there is little Israel can do on its own to advance the peace process because the other parties to the conflict prefer the current stalemate to the risks involved in reaching an agreement. [redacted]

The experts agreed that Israel's experience in peacemaking since the Camp David accords and the peace treaty with Egypt has added to the sense of disillusionment on the value of peace agreements with its Arab neighbors. This has encouraged public support for greater military vigilance rather than for diplomatic overtures. In the academics' view, Israeli diplomacy will remain on the defensive, particularly if faced with external pressure to be more conciliatory. [redacted]

**The Economy**

The scholars argued that Israel's current economic problems are rooted in economic shocks suffered as a result of the 1973 Arab-Israeli war. Higher defense costs and rising oil prices, for example, should have forced Israeli governments to make painful choices. Continuously rising domestic and external deficits demonstrate, however, that the Israelis chose instead to live beyond their means. Their reluctance to cut back was due, in part, to fear that a recession as deep as that in 1966-67 would lead to increased emigration. [redacted]

The specialists also stressed that the political will to enforce economic austerity is lacking. One expert argued that the complexity of the Israeli economy does not preclude using normal policy measures to combat disequilibrium. The few attempts by the government to use traditional fiscal and monetary policies to rein in the economy were proving somewhat successful before they were cut short by the approach of the July 1984 election. The scholar also was less critical than most economists of some institutional arrangements prevalent in Israel, such as indexing wages to the inflation rate. While indexing has

dampened the government's enthusiasm to attack inflation, it has not been the driving force of inflation, in his view. [redacted]

**Facing the Future**

The experts agreed that the nature and outcome of the succession struggle within the Herut component of Likud will be the most important development to watch in Israeli politics in the near term. It will determine whether the party will be identified with the ultranationalist and religious right, retain the loyalty of Sephardim, and secure the support of religious and nationalist parties for future coalitions. One academic argued that Likud's prospects for surviving in its present form are poor unless Moshe Arens succeeds Shamir as leader of Herut. Although Arens's policies are no more moderate than his two major rivals—Sharon and Levi—his leadership style is more likely to appeal to the Liberals. The academic predicted that Shamir eventually will support Arens because of Sharon's and Levi's persistent efforts to undermine Shamir's position. [redacted]

The experts believe that Sharon or Levi or both may bolt Likud if they do not come out on top. Sharon has a natural home in Tehiya-Tzomet, and neither Arens nor Levi would be sorry to see him go. Levi could make the Sephardi TAMI party a force to be reckoned with by rallying his own extensive Sephardi constituency. [redacted]

The future leadership of Peres over Labor and of Moday over the Liberal faction of Likud hinges directly on their ability to demonstrate effective leadership in resolving Israel's economic crisis, according to the academics. If they can turn the economy around, Peres may be able to build a Labor-dominated coalition with those Liberals who would follow Moday out of Likud. A conspicuous failure to prevent economic disaster, on the other hand, could prompt Rabin to try to replace Peres. [redacted]

Without major electoral reform to raise the minimum percentage of the national vote required for a party to

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win representation in the Knesset—currently only 1 percent—the religious and other minor parties have little incentive to merge. Their existence is guaranteed through the patronage and other benefits that Labor and Likud provide. The religious parties, in particular, will continue to play a key role in the formation of coalitions, and their ability to extract concessions on religious legislation is likely to increase, even in Labor-led governments. The experts agreed that in the long run the polarization between the religious and the secular segments of the Israeli population poses a greater threat to national unity and domestic tranquillity than do ethnic divisions. [redacted]

On economic reform, the scholars do not hold out much hope that Israel will make the necessary hard decisions—such as cutting government spending, real wages, and consumption. The government will be constrained, in their view, by the increased unemployment, reduced living standards, and greater emigration that such tough economic measures would be likely to cause. [redacted]

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The scholars believe that Sephardim probably will continue to support Likud overwhelmingly in future elections, given their deep-seated rejection of the Labor establishment. Nonetheless, Sephardi voting patterns may show greater flux in the future if the economic and social gains made in recent years deteriorate sharply. This will not necessarily lead to renewed support for Labor. Sephardim could, for example, set up a new ethnic political grouping under the leadership of Levi and other Sephardi politicians who got ahead in Likud. In their support for Likud and the new Sephardi religious party in the 1984 election, Sephardi voters demonstrated their ability to exploit their demographic advantage to promote their interests. [redacted]

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The experts believe the Israeli Government will not respond favorably to peace initiatives launched by others because of its concern for maintaining the delicately balanced coalition and the domestic consensus. The government probably will conduct much of its foreign relations through discreet, informal diplomatic channels, as has been the pattern in the past [redacted]

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**Lebanon's Khomeini:  
Muhammad Husayn Fadlallah** [redacted]

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Muhammad Husayn Fadlallah, a Shia fundamentalist cleric based in southern Beirut, has become a key leader of the extremist Hizballah movement and is attracting the support of increasing numbers of Lebanese Shias. He visits Iran frequently, maintains ties with high-level members of the Khomeini regime, and advocates the establishment of an Iranian-style Islamic state in Lebanon. He is a charismatic orator who could eventually emerge as the dominant Shia figure in Beirut and attempt to incite a revolt among discontented Shias. [redacted]

Fadlallah was born in 1935 in the Shia holy city of An Najaf in Iraq, but his family came from a village in southern Lebanon. He studied Islamic jurisprudence until 1966 in An Najaf, where he may have come under the influence of Khomeini, who arrived there in 1964. He then returned to Lebanon and began to develop a following among Lebanese Shias seeking a return to Islamic values. [redacted]

Fadlallah's goal is to spark a Shia revolution in Lebanon that would overthrow the present government and replace it with a Shia-dominated Islamic republic. He rejects the National Pact of 1943, upon which the Lebanese political system is based, because it favors Christians over Muslims.<sup>1</sup> Fadlallah argues that Shias now form a majority in Lebanon and should establish a government based on Islamic law. [redacted]

**Increasing Influence**

Fadlallah has become one of the most prominent figures in the pro-Iranian Shia fundamentalist movement in Lebanon. He maintains extensive contacts with Iranian leaders and has traveled to Tehran twice this year and met with Ayatollahs Khomeini and Montazeri, Foreign Minister Velayati,

<sup>1</sup> The National Pact allocates Lebanese Government positions on the basis of the population of each religious sect, according to the national census of 1932. Christians and Sunni Muslims hold most of the key positions. Demographic changes since then, however, have produced a rapidly growing Shia plurality. [redacted]

and Assembly Speaker Rafsanjani. He professes allegiance to Khomeini and his concept of political leadership by a senior cleric and has stated that the Iranian revolution is his model for Shia activism. [redacted]

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Fadlallah operates primarily through the Muslim Students Union, a radical organization that he commands in the predominantly Shia southern suburbs of Beirut. Its members proselytize and propagandize in the name of Islamic fundamentalism. The Union, which functions both as a militia and as a political and religious group, almost certainly serves as a front organization for the covert Lebanese branch of the militant Da'wa Party. [redacted]

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[redacted] last year that the Muslim Students Union had at least 300 full-time members. [redacted]

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Fadlallah's influence, however, extends far beyond the Muslim Students Union. Observers describe him as a fiery orator whose sermons attract large audiences to his mosque in southern Beirut. Poverty, unemployment, and a widespread feeling of political disenfranchisement are making many Shias in the slums of Beirut receptive to Fadlallah's rhetoric. Increasing numbers of them view him as their primary spiritual leader. [redacted]

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Fadlallah has enlarged his base of support through social welfare programs aimed at the Shia masses. The Muslim Students Union, for example, provides financial assistance, schooling, and other charitable programs for poor Shia families. [redacted] Funding for these programs comes directly from Iran. [redacted]

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**Terrorism as a Political Weapon**

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Fadlallah plays an important role in the Hizballah terrorist network that is waging a campaign of violence against US, West European, and Israeli

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NESA NESAR 85-006  
1 March 1985

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Fadlallah conceals his radical ideology behind moderate-sounding language when speaking to members of the press. [redacted]

Daily Star ©

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personnel and facilities in Lebanon. He serves as a spiritual leader and a coordinator of radical Shia activities in Beirut. Fadlallah recently claimed he could put 6,000 armed Hizballah fighters on the streets of West Beirut at any time, [redacted]

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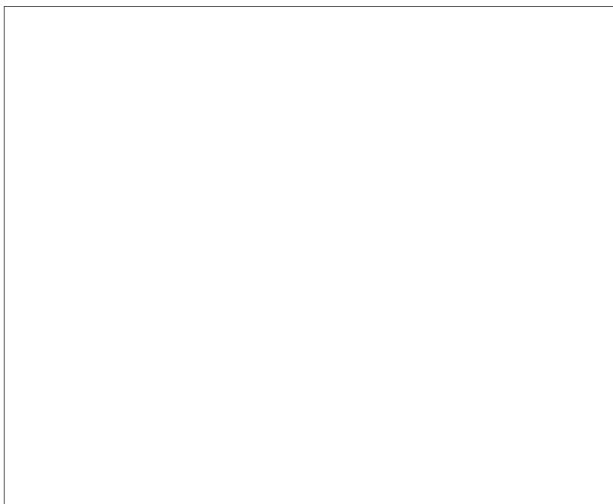
Fadlallah has been linked to nearly all of the major acts of anti-US terrorism in Lebanon during the past four years. Fadlallah and his adherents almost certainly continue to plan attacks against Westerners.

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[redacted]

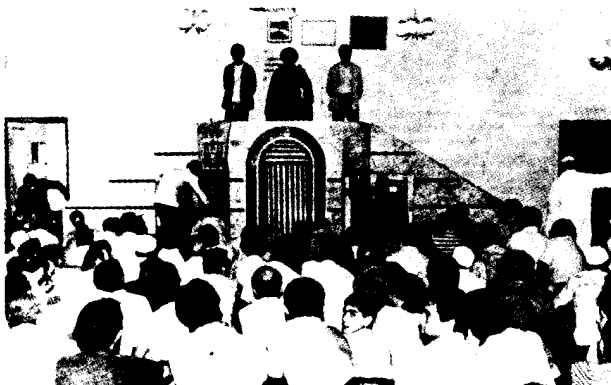
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Fadlallah, flanked by bodyguards, addresses the faithful at his mosque in Beirut. [redacted]

and quiescent—has been spurred to action in recent years mainly by the inflammatory rhetoric and activism of strong religious leaders. Fadlallah's popularity and following almost certainly will grow in the next few years as long as most Lebanese Shias remain bitter and dissatisfied with their political and economic situation. [redacted]

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Fadlallah is a particularly dangerous radical Shia figure because he operates successfully as a fundamentalist religious leader and masks his role as coordinator of terrorism. His pronouncements clearly have the capability to incite young Shias to violence and other forms of radical political activism. [redacted]

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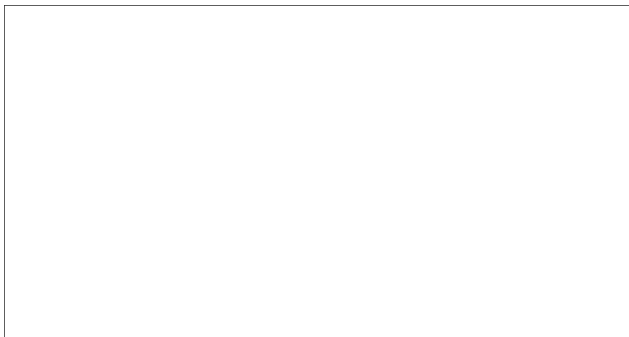
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An analogy between Fadlallah and Khomeini may be premature, but there are important similarities. Fadlallah's role in the Lebanese Hizballah movement is almost as central as that of Khomeini in the Iranian revolution. If the Shia radicals continue to gain strength, Fadlallah may lead the dominant majority political movement in Lebanon within a few years [redacted]

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Fadlallah also works closely with Hizballah leaders based in the Bekaa Valley. He recruits potential suicide commandos from among his followers and sends them to Islamic Amal camps in the Bekaa, [redacted]

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Fadlallah uses terrorism as a political weapon in his quest for an Islamic state. He has thus far targeted foreign interests because his ideology postulates that the first step in the Shia revolution must be the removal of Western influence from Lebanon. It is likely that Fadlallah and his adherents will eventually expand their campaign of violence to include Lebanese Government—particularly Christian—officials and institutions. [redacted]

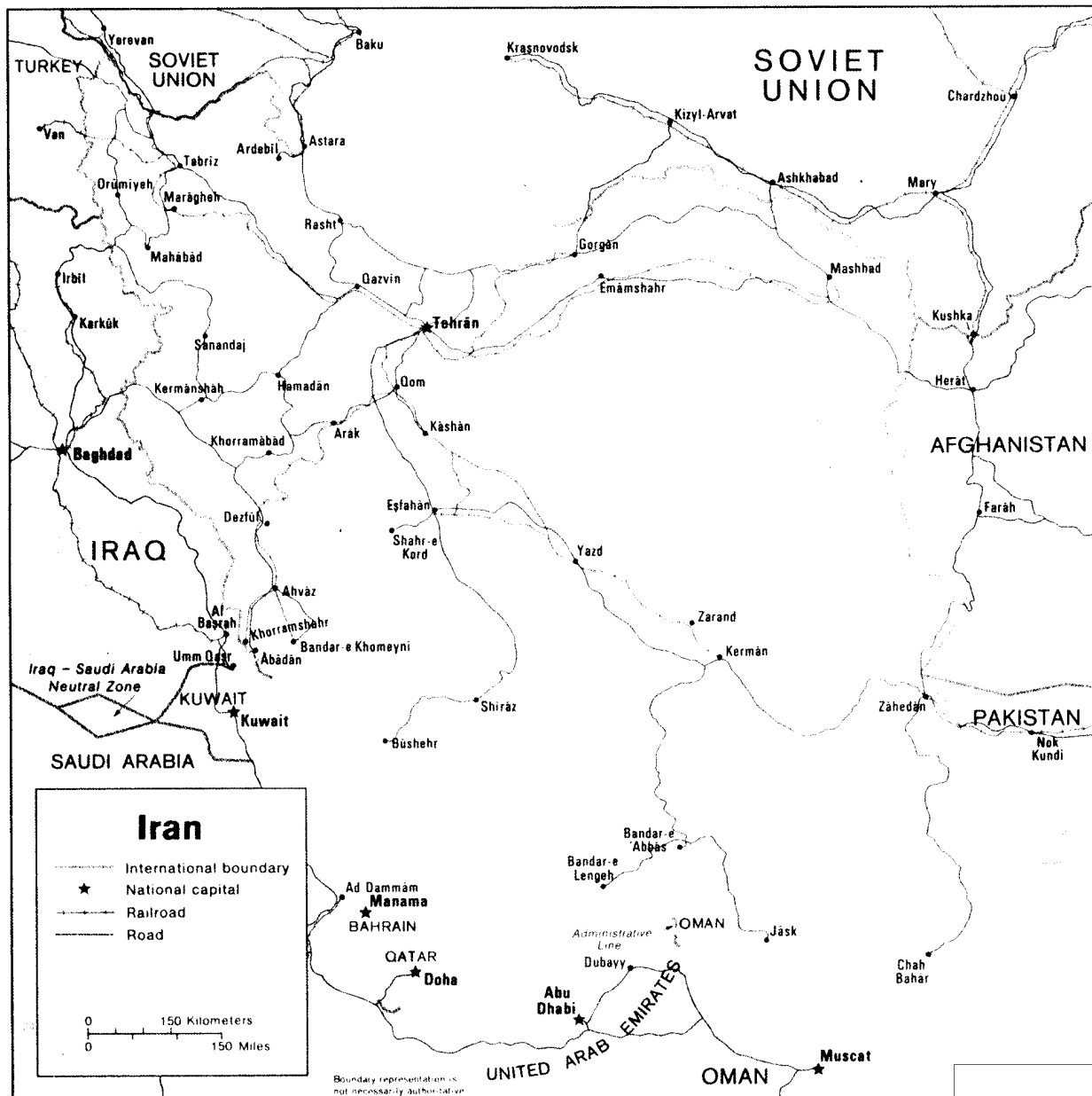
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**Implications**

The continued growth of the radical Shia movement in Lebanon depends to a large extent on the charismatic leadership of clerics such as Fadlallah. The Lebanese Shia population—traditionally passive

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## Iran: The Clerical Opposition in Mashhad

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Conservative clerics in the northeastern Iranian city of Mashhad are increasing their opposition to the Khomeini regime. Led by Grand Ayatollah Tabatabai-Qomi, they are maneuvering to gain support in anticipation of a power struggle following Khomeini's death. The Mashhad clerics want both to block the selection of Ayatollah Montazeri as Khomeini's successor and to promote a regime in which clerics play a more limited role. The regime's efforts to bring traditionally independent Mashhad under control have been a major source of friction.

[redacted]

### Troubles in Mashhad

Opposition clerics sponsored antiregime protests in Mashhad, Qom, and Tabriz last November. The demonstrations were called to commemorate the death of Grand Ayatollah Shirazi, the senior cleric in Mashhad, and to protest the deteriorating economic situation. The government responded harshly against demonstrators in Mashhad, killing between 50 and 200.

[redacted]

During the demonstrations Grand Ayatollah Qomi of Mashhad, one of only five grand ayatollahs in Iran besides Khomeini, publicly called on all Shia clergy to struggle against the Khomeini regime and condemned clerical dominance of the government as un-Islamic. Several relatives of Qomi were arrested in Mashhad for organizing the demonstrations. A respected Iranian political journal recently reported that the ultraconservative Hojatieh society, whose stronghold is Mashhad, has resumed its organizational activities—stopped since Ayatollah Khomeini spoke against it early last year—and declared its support for Qomi. The Hojatieh is said to be strong among bazaaris and regular military officers throughout Iran.

The Hojatieh society probably has resumed its activity now to try to build support in anticipation of a power struggle following Khomeini's death. The

conservatives oppose Khomeini's heir apparent, Montazeri, who they believe will continue Khomeini's policies. The Hojatieh probably is reacting as well to its loss of influence in the Majles (parliament) following last year's election.

[redacted]

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Mashhad long has been a center of opposition to the regime. Qomi and the late Ayatollah Shirazi organized demonstrations there in 1983 to protest economic conditions and what they saw as radical and inept regime policies. Opposition press sources have reported an undercurrent of unrest in Mashhad throughout the past year. Attempts to conduct demonstrations last spring were suppressed by the Revolutionary Guard. US diplomats have learned from a source with family ties in Mashhad that Qomi's supporters in the region have been in a state of unrest since the latest demonstrations in November and are "waiting for something to happen."

[redacted]

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A key feature in the recent demonstrations in Mashhad, and a source of concern to the regime, is the growing role of the bazaar merchants. A Mashhad native told US diplomats in Abu Dhabi that most of the protesters in Mashhad were bazaaris. The regime probably worries that disgruntlement among merchants there will spread to other cities. Bazaar merchants throughout Iran played a key role in bringing Khomeini to power by providing money and other resources. Their unhappiness with the deterioration of the economy and with the regime's strict implementation of Islamic law has been growing, but, until the demonstrations at Mashhad, they have rarely taken to the streets.

[redacted]

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### Ayatollah Tabatabai-Qomi

Qomi has publicly opposed the regime since at least 1981. He delivered a speech that spring in which he labeled all governmental policies as un-Islamic. Qomi

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NESA NESAR 85-006  
1 March 1985

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and Shirazi issued a joint statement that same year accusing the government of engaging in torture, arbitrary trials, and confiscations. Later that year Qomi sent an open letter to the government condemning the ouster of President Bani-Sadr and calling for a boycott of the second presidential election.

[redacted]

Resentment toward Khomeini's actions as well as philosophical differences apparently are important factors behind Qomi's opposition. In February 1979, the month the Iranian revolution took place, Qomi spoke with great bitterness to US diplomats on how Khomeini had "sat under an apple tree in Paris issuing edicts" while he and Shirazi were trying to run Mashhad, where the Shah's government had ceased to function. The fighting in Mashhad during the revolution was probably the most violent in the entire country, including Tehran. Qomi related that during the worst of the fighting against the Shah's troops—some 2,000 were killed in four days—bodies of the victims were stored in his house until they could be washed and secretly buried. Qomi asked, "Where was Khomeini during all this?" [redacted]

While Qomi did not take an active part in planning anti-Shah activities in Mashhad, he supported them, and his son provided active leadership. Qomi had spent several years in jail or internal exile during the 1960s and 1970s for his opposition to the Shah. During the protests against the Shah's land reform in 1963, Qomi hid Khomeini in his basement. [redacted]

Another cause of Qomi's resentment has been the cult of personality built up around Khomeini and the depiction of him as the preeminent cleric in Shia Islam. The title of ayatollah is not a formal one but is based on a consensus of the clerical community. At the time of the Iranian revolution, the consensus of the clergy was that Khomeini ranked lowest among the six most senior ayatollahs, among whom was included Qomi [redacted]

**Tehran and Mashhad: Sources of Friction**

To undercut the influence of opposition clerics in Mashhad, the Khomeini regime has forbidden them to teach at the theological school there, one of the

most important in Iran, [redacted]

[redacted] last year the government became worried about the influence of local clerics on Friday prayer leaders and began having its propaganda office dictate the content of Friday sermons throughout Iran. [redacted]

According to one scholar, Khomeini also has tried to force bazaaris and others throughout Iran to pay their required religious donations to the Friday prayer leaders in each city—who are appointed by the regime—rather than to local clerics of their choice.

[redacted] by last spring contributions to ayatollahs such as Qomi who have spoken out against the regime were increasing sharply, while other ayatollahs who had remained silent were not receiving such support. [redacted]

**Khomeini's Representative in Mashhad**

Following the revolution, Qomi and Shirazi lost much of their political power to a lesser cleric, Hojjat ol-Eslam Abas Vaez-Tabasi, whom Khomeini had appointed as his representative in Mashhad. Tabasi uses his position as superintendent of the Mashhad Shrine of Imam Reza, the eighth Imam of Shia Islam, to try to secure clerical loyalty to the regime. The shrine has property holdings worth millions and receives large sums in donations from the hundreds of thousands who make the annual pilgrimage. Tabasi uses this money to support politically sympathetic clerics throughout Iran. [redacted]

Vaez-Tabasi very quickly antagonized Qomi. Immediately upon assuming his position in 1979, Tabasi began ordering arrests, trials, and executions of those he believed had worked for the Shah's regime or collaborated with it. Within a month such actions by Tabasi and other Khomeini supporters led Qomi publicly to denounce "unauthorized arrests and hasty executions." [redacted]

Vaez-Tabasi has continued to exercise his power in an arbitrary manner. According to exile press reports in 1983, Tabasi's men temporarily kidnaped Grand Ayatollah Khoi's representative in Mashhad for

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allegedly refusing to give money to politically active theological students. Khoi's representative reappeared after three days shorn of his beard—an act designed to insult and humiliate him. Last year, when Tabasi was broadcasting a Friday sermon at the Mashhad television station, he misjudged the intentions of a technician approaching to adjust his microphone and shot and killed him. Station employees went on strike for several days to protest the murder, but Tabasi apparently was not disciplined. [redacted]

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### Outlook

The opposition clerics in Mashhad are likely to become a rallying point for bazaaris unhappy with the deteriorating economic situation and therefore will pose an increasing challenge to the regime. Their ability to organize dissent is hampered, however, by the absence of a positive political program and by their belief that clerics should not take a direct role in secular affairs. The perception that Qomi opposes everything and favors nothing will be an obstacle as well. [redacted]

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The principal aim of Qomi and the Hojatieh society is to block efforts by the radicals to have Montazeri named as Khomeini's successor. Qomi and other senior clerics hope to force the regime to create a leadership council of three to five clerics—an option allowed by the Constitution—after Khomeini dies that would include some senior conservative clerics. Their goal is the eventual emergence of a regime led by capable laymen to whom the clerics would provide only general guidance. [redacted]

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Should central authority break down in Iran after Khomeini's death, Mashhad is likely to be one of the first areas to break free. The city's geographic isolation—1,000 kilometers east of Tehran—and its tradition of independence will make it almost impossible to control without massive resort to force. [redacted]

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## Islamic Conference: New Leadership, Old Problems

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Newly elected Islamic Conference (OIC) Secretary General Sharifuddin Pirzada, a Pakistani Shia, faces formidable problems in advancing OIC influence and interests. Although the OIC conference last December produced some results, notably the return of Egypt to the organization, prospects for the OIC to play a constructive role in the Muslim world's most contentious issues—the Iran-Iraq war, Afghanistan, and the Arab-Israeli dispute—remain slim. Pirzada also must cope with a restless Afro-Asian membership unhappy with the OIC's Arab focus.

### Progress at Sanaa

The OIC foreign ministers' conference in Sanaa, North Yemen, last December was encouraging to the moderate members:

- Egypt, expelled from the OIC in 1979, was restored to full membership despite the opposition of Syria, Iran, Libya, and South Yemen.
- Kuwait led a successful effort to secure passage of a tough antihijacking resolution.
- A consensus was achieved for the first time on a resolution calling for continued OIC mediation of the Iran-Iraq war, although the Iranian Foreign Minister later denied Iran had accepted a new OIC effort.

### New Leadership Style

Pirzada, who served as Pakistan's Attorney General and Minister of Law and Parliamentary Affairs in Zia's government, appears intent on being a more effective leader than his Tunisian predecessor, Habib Chatti. According to the US Ambassador to Saudi Arabia, Pirzada makes a more favorable impression than Chatti, who had a reputation as a dilettante. An aide close to Pirzada lamented that Chatti insisted on making statements on too many subjects and overused the press. A Jordanian delegate said that there also was considerable discussion in the corridors at Sanaa

about corruption in the OIC and the alleged profligacy of Chatti and his Tunisian "Mafia."

### Pirzada and Key Issues

Pirzada believes that his Pakistani origin will make him a more creditable interlocutor in OIC efforts to mediate between Iran and Iraq. A Gulf foreign minister said that, because Pirzada is a Shia, he probably would be more positively received by the Iranians than Chatti, a Sunni and an Arab.

In mid-January Pirzada told the US Ambassador to Saudi Arabia that he was encouraged by the Iranian attitude toward the Sanaa conference. First, unlike the OIC Casablanca summit a year ago, Iran did not boycott the meetings; second, Iranian Foreign Minister Velayati had a more flexible attitude toward discussing conditions for ending the war. Velayati also told members of the Pakistani delegation that the OIC no longer seems so pro-Iraqi. Despite Pirzada's optimism, we judge that any OIC Iran-Iraq peace initiatives are almost certain to fail while Khomeini is alive.

Pirzada has been described as well disposed toward the United States, but he is not likely to stray from the OIC line on Middle Eastern issues. He recently told US diplomats that he was "realistic" about the US role in the Middle East, but his public comments since his election reflect standard Arab views. For example, he said that Israel must withdraw from all Arab territory, including Jerusalem, and the Palestinians must get back their homeland.

Pirzada told the US Ambassador in Riyadh that he was encouraged by his discussions with King Hussein of Jordan and PLO chief Yasir Arafat and was optimistic that the two would agree on a peace plan to present to other Arab states and the United States.

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Despite Pirzada's intentions to seek deeper OIC involvement in Afghanistan, we judge that the conference will remain ineffective because of limited options. On the one hand, Pirzada will avoid offending Soviet-leaning Arab states, and on the other, he is likely to keep in step with the Pakistani Government's measured approach to the Soviet occupation.

#### **African and Asian Discontent**

Some Asian and African delegates claimed that the OIC was concerned only with Arab issues and gave African and Asian concerns and culture short shrift. The delegates charge that, because the Arab League has been unable to convene a summit, OIC meetings have evolved into a forum for discussing Middle Eastern issues. Non-Arab delegates also resented the fact that Chatti remained in office more than a year after his term expired.

The claims of the non-Arab Muslims have some credibility. The final communique issued at Sanaa had no resolutions dealing with the problems of South and Southeast Asia—the home of more than half of Islam's 900 million adherents—and only three on Africa: support of Namibia and condemnation of apartheid in South Africa; emergency food aid to the drought-ridden Sahel; and support for the Federal Islamic Republic of the Comoros:

- Thirteen resolutions dealt specifically with the Middle East, emphasizing Arab-Israeli issues and criticism of the United States.
- Three resolutions were not specific to any region, dealing with hijacking, UNESCO, and closer cooperation between member states.
- One dealt with Afghanistan, calling for "further efforts to safeguard the independence of Afghanistan as a nonaligned Islamic state." The resolution did not mention the Soviet occupation.

We believe that non-Arab states will view Pirzada's statements in a recent press conference in Bangladesh as indicating interest in their regions. Pirzada said that, although the Iran-Iraq war, the Middle East situation, and Afghanistan had top priority, other problems such as the Ganges water dispute and Bihari refugees in India were among the issues also needing prompt attention.

Pirzada's recent choice of a Malaysian—former Ambassador to France Rahman Jalal—instead of a Turk, as the assistant secretary general to represent Asia indicated his willingness to pay more attention to issues outside the Middle East. We believe that nomination of the Turk would have been seen by Asians and Africans as "business as usual."

In addition to the Asian position, Pirzada filled two other assistant secretary general positions. (The only holdover is Fuad al-Khatib, a Saudi, as the assistant for political affairs.) Pirzada avoided annoying the Saudis—the OIC's chief financial backer—by selecting a Mauritanian, instead of a Libyan, to represent the Arab region. To represent Sub-Saharan Africa he named the candidate from Guinea-Bissau, who had been agreed upon at Sanaa.

#### **Prospect**

We believe that, even if Pirzada establishes a new leadership style at the OIC, the conference will not be able to assume a major role in key Third World issues. Pirzada will probably give Asian and African issues more attention, but Arab issues will continue to dominate as long as Saudi Arabia picks up the lion's share of the OIC budget. Increased Asian and African Muslim disaffection would further undermine the effectiveness of the organization.



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**Azad Kashmir:  
A Portrait of Pakistan's  
"Independent" Dependency**

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Azad Kashmir, the region of Jammu and Kashmir that is under Pakistan's control, has been given a fictitious independence by Islamabad. In reality, it is ruled and financed directly by the Pakistani Government. Some Kashmiri activists are agitating for complete independence from both Pakistan and India, but it is likely that Pakistan will retain control over Azad Kashmir. Elections for Azad Kashmir's parliament, scheduled for April 1985, will not change Islamabad's dominant role.

**A Legacy of Partition**

Azad ("Free") Kashmir, an arc-shaped area of approximately 13,000 square kilometers with a population of 2 million, is the part of the former princely state of Jammu and Kashmir that was seized by Pakistan during the 1948 war with India. Pakistan has since insisted that only a UN-sponsored plebiscite should determine the fate of all Jammu and Kashmir. Thus, while India has absorbed its portion of Kashmir and made it one of India's 19 states, Islamabad has never formally annexed its section, insisting that all of Jammu and Kashmir is disputed territory.

The boundary between Azad Kashmir and Indian-held Kashmir has been the scene of numerous border incidents and shootings between Pakistani and Indian troops stationed on the 1971 cease-fire line. Although few casualties have resulted from these incidents, border tensions heighten Pakistani sensitivities to the Kashmir dispute. Mountainous terrain and adverse weather work against a major escalation of hostilities in the area.

**Arrested Political and Economic Development**

Since 1947, Azad Kashmir has been allowed the trappings of independence by Islamabad, pending resolution of the Kashmir dispute. Azad Kashmir has been granted, for example, its own president, assembly, supreme court, constitution, flag, and anthem. Its "capital" is in Muzaffarabad.

Internal policy is dictated by Islamabad; Pakistani President Zia-ul-Haq has the power to remove and replace the state's president. Although Azad Kashmir's cabinet ministers are native Kashmiris, most of the senior civil servants are from other parts of Pakistan. A Ministry of Kashmir Affairs in Islamabad coordinates relations between Azad Kashmir and the Pakistani Government.

Islamabad has paid little attention to the economic development of Azad Kashmir, and the area lags other parts of Pakistan. From 1947 to 1965 it was excluded from federal development funds because of its "independent" status. Local tax and customs revenues flow directly to Islamabad, and the local budget is provided entirely by the Pakistani Government.

Foreign aid donors are reluctant to undertake development projects in Azad Kashmir because of its unresolved political status. Only China and Poland have undertaken projects in the area.

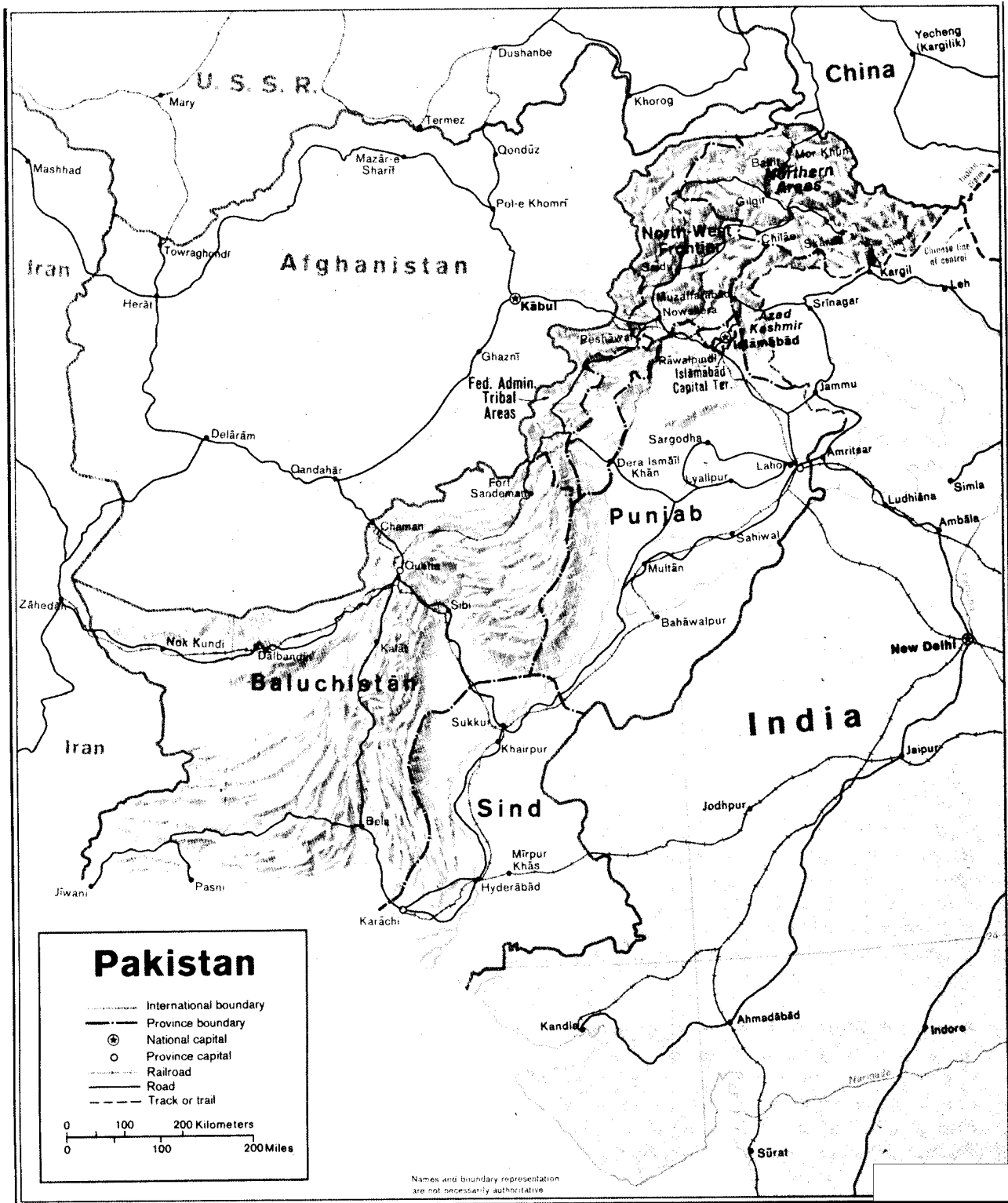
**Open Politics**

Although Azad Kashmir's 40-seat Assembly has been dissolved since 1977 because of its support for the late Prime Minister Zulfikar Ali Bhutto, Zia has refrained from extending martial law there. His ban on political parties does not apply to Azad Kashmir. To apply martial law and the party ban to Azad Kashmir would, in Pakistan's view, imply that it has incorporated the state, thus implicitly recognizing India's annexation of its own portion of Kashmir.

Azad Kashmir's two dominant political parties are the All Jammu and Kashmir Muslim Conference (AKMC), led by Sardar Abdul Qayyum Khan, and the Azad Kashmir Peoples' Party (AKPP), headed by



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Pir Ali Jan Shahau. The AKMC is a conservative, religious-based party, while the AKPP is a branch of the opposition Pakistan People's Party. Both parties call for the "liberation" of Indian-held Kashmir and its incorporation, along with Azad Kashmir, into Pakistan.

An offshoot of the AKMC is the Kashmir Liberation Organization (KLO), formed in 1984 and headed by retired Lt. Gen. Faiz Ali Chishti. The KLO, according to US Embassy sources, seeks to organize international support for Kashmiri self-determination. Although it has advocated nonviolent methods, Embassy sources of undetermined reliability allege that the KLO has approached Western governments for arms and material aid.

According to US Embassy sources, Islamabad will allow elections for Azad Kashmir's Assembly in April 1985, after the national parliamentary election is over. These sources say that Zia has assured local politicians that the Assembly elections will be held on a party basis.

The most likely winner in any Azad Kashmir election is the AKMC. US Embassy reports indicate that Sardar Abdul Qayyum Khan has a high reputation among local inhabitants and that his party is much better organized than the AKPP. Islamabad would probably welcome an AKMC victory since the party has supported Zia's Islamization program.

#### **Kashmiri Separatism**

While politics in Azad Kashmir is still dominated by the AKMC and the AKPP, US Embassy reports suggest that there is growing separatist sentiment among the local populace. Although traditional Azad Kashmir political groups call for eventual unification of all of Kashmir with Pakistan, separatists are calling for complete independence from both India and Pakistan. Organized movements have formed, some of which espouse armed revolt to achieve their goals.

The most extreme of these movements is the Kashmir Liberation Front (KLF), which advocates the use of force to achieve an independent Kashmiri state. The KLF claimed responsibility for the abduction and murder of an Indian diplomat in London in 1984. India retaliated by executing the imprisoned Maqbool

Butt, founder of the KLF. The popularity of Kashmiri separatists is growing, especially among the young, according to US Embassy sources.

The KLF's efforts to liberate Kashmir will be aided by the increased arms that flowed into Pakistani-held Kashmir throughout 1984, according to US Embassy sources. Most of these weapons probably originate from Afghan refugees and insurgents located in Pakistan's North-West Frontier Province.

The KLF is not strong enough to threaten Indian or Pakistani control of their respective portions of Kashmir, but the increased availability of arms may encourage it to strike at targets and stir up agitation among the Muslim majority in Indian-held Kashmir. This, in turn, would lead to more border incidents in the Kashmir region. We expect Islamabad to maintain its surveillance of the KLF and other separatist activities to keep border tensions with India to a minimum.

#### **Implications for Indo-Pakistani Relations**

Pakistan will continue to assert control over Azad Kashmir while maintaining the fiction that it is independent. Pakistan still officially demands that a plebiscite be held in all of Jammu and Kashmir, but since 1971 it has minimized the issue in favor of stabilizing relations with India. We do not believe that the Zia government will more vigorously press Pakistan's claim to the disputed territory.

India is very unlikely to give up control of its portion of Kashmir, which it considers to be an integral part of the country. In New Delhi's view, surrendering Kashmir would encourage separatists in other parts of India and weaken its strategic position against both Pakistan and China. Moreover, Kashmir is the ancestral home of the Nehru family.

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## Pakistan: Postelection Economics

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President Zia, we believe, has accomplished his primary economic goal—maintaining domestic prosperity and denying the opposition a rallying point in the presidential referendum and the elections for the national and provincial assemblies. His economic record has been generally strong, and preliminary data indicate the economy is growing at a record pace this year.

Zia, however, will have to contend with several economic problems in the postelection period. An antiquated tax system, heavy subsidies on food and other basic commodities, increasing defense spending, and the domestic debt burden are leading to greater government budget deficits. With remittances now declining and spending on imports rising rapidly, Pakistan's current account also is deteriorating. If the brakes are not applied to the foreign exchange outflow or if substantial new aid is not forthcoming, serious foreign payments problems will emerge in the next 18 months.

### Economic Performance Under Zia

The government is predicting record real growth of 9.9 percent in FY 1985<sup>1</sup>—up sharply from the 3.5-percent growth in FY 1984 and well above the 6-percent annual average of FY 1978-83. The relatively poor performance in FY 1984 primarily reflected bad weather, some mismanagement in the agricultural sector, and shortfalls in public- and private-sector financing. Government concern over lingering problems in the economy became apparent last November when Planning and Development Minister Mahbubul Haq announced that the five-year economic development plan for 1984-88 would be replaced by a “rolling” three-year plan.

A spectacular recovery this year in agriculture and last year's poor performance makes the official economic growth estimate for this year plausible.

<sup>1</sup> The Pakistani fiscal year ends on 30 June.

Growth in the agricultural sector, which accounts for about one-fourth of GDP and employs over half the work force, is predicted to rise 12.6 percent in FY 1985 following a 6.2-percent drop in FY 1984:

- Government and industry officials estimate the cotton crop may reach 970,000 metric tons, more than double last year's disastrous harvest.
- Favorable weather has encouraged government officials to predict record wheat and rice harvests. A recent government decision to increase the procurement price for wheat this April should prompt farmers to use costlier inputs—particularly fertilizer and pesticides—resulting in increased yields.

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The government also is projecting an 11.5-percent growth in industrial production.

- The bumper cotton crop should buoy domestic cotton processing and textile manufacturing, the country's largest industry.
- The Planning and Development Minister claims new capacity in the jute, vegetable oil, beverage, and electronics industries will boost output.
- Several new oil discoveries are creating a miniboom in the domestic petroleum industry. Oil output averaged almost 26,000 b/d in December, twice the average for 1983.

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Preliminary evidence indicates consumer price increases may be in the double-digit category this year, but the government has done a relatively good job of shielding the domestic population from higher prices for basic items. It has released commodities from government stocks and imported basic items in short supply. Islamabad has absorbed most of the increase in the cost of imported cooking oil. Heavy subsidies on wheat prices continue. No announcement

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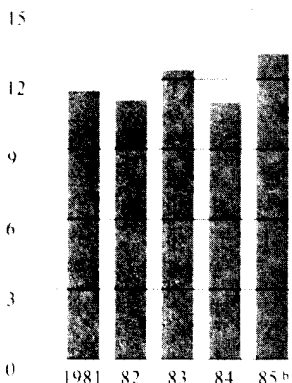
NESA NESAR 85-006  
1 March 1985

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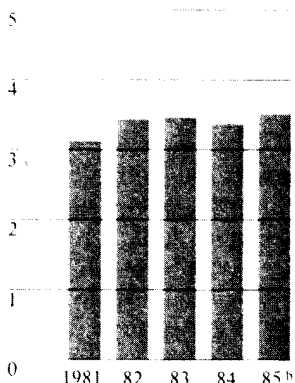
**Pakistan: Agricultural Production, 1981-85<sup>a</sup>**

Note: scale change

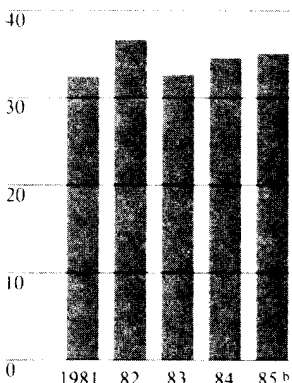
**Wheat**  
Million metric tons



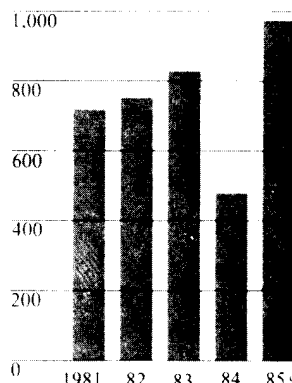
**Rice**  
Million metric tons



**Sugar Cane**  
Million metric tons



**Cotton**  
Thousand metric tons



<sup>a</sup> Data are for fiscal years ending 30 June of the stated year

<sup>b</sup> Forecast

<sup>c</sup> Estimated

[Redacted]

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has been made on how much, if any, of this year's proposed higher wheat procurement prices will be passed on to the consumer. [Redacted]

effort to provide jobs for its rapidly growing population. The lack of domestic funds for development also hinders the utilization of foreign aid, most of which is tied to projects that require some government funding. There currently is a large backlog in the aid pipeline. [Redacted]

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**Cost of Buying Stability**

Because the government steadfastly refuses to either reform the tax structure to bring in new revenue or expand the money supply, the budget deficit continues to grow. The deficit in FY 1984 was 24 percent higher than in FY 1983, and we expect it to rise again this year. The US Embassy reports that fixed expenditures such as defense and debt servicing are taking half the current budget. Pressure on the budget is causing spending cutbacks in education and in routine maintenance of the country's infrastructure.

The government probably will find the deficit even more difficult to finance over the next year. Declining overseas worker remittances and the move to interest-free "Islamic" banking probably will reduce funds available to the government. Recently, about half the deficit, for example, has been financed through small savings deposits in government-sponsored schemes that paid attractive rates of interest. [Redacted]

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[Redacted]

Expenditures on food subsidies, military spending, and debt service have also cut into development programs. Development spending, which has been declining as a share of the total budget since Zia took power, fell in real terms last year. With the slowdown in capital investment, Pakistan is losing ground in its

**Bad News for Balance of Payments**

Pakistan's foreign payments position is deteriorating rapidly because of a projected record trade deficit, declining remittances, and a growing debt service

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**Pakistan: Balance of Payments<sup>a</sup>**

Million US \$

	1981	1982	1983	1984	1985 <sup>b</sup>	1985 <sup>c</sup>	1986 <sup>d</sup>
Current account	-991	-1,610	-554	-1,028	-1,038	-1,650	-1,600
Trade balance	-2,765	-3,450	-2,989	-3,334	-3,482	-3,700	-3,500
Exports (f.o.b.)	2,798	2,319	2,627	2,668	3,126	3,000	3,600
Imports (f.o.b.)	5,563	5,769	5,616	6,002	6,608	6,700	7,100
Net services and transfers	1,774	1,840	2,435	2,306	2,444	2,050	1,900
Worker remittances	2,095	2,224	2,886	2,737	2,740	2,400	2,400
Long-term capital (net)	581	746	1,276	882	999	1,000	1,200
Gross disbursements	956	1,092	1,301	1,234	1,418	1,420	1,600
Amortization	-516	-492	-386	-542	-520	-520	-550
Other	141	146	361	190	101	100	150
Other and short-term capital	772	629	390	-34	-236	-250	-300
Financial gap	-362 <sup>e</sup>	235	-1,112 <sup>e</sup>	180	275	900	700

<sup>a</sup> Fiscal year ending 30 June of the stated year.<sup>b</sup> Government projections made last October.<sup>c</sup> CIA projection.<sup>d</sup> CIA projection that assumes no new import quotas, debt rescheduling, or significant new foreign assistance.<sup>e</sup> Surplus for the fiscal year.

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burden. In the first half of FY 1985, Islamabad drew down foreign exchange reserves by an estimated \$700 million.

the same time, import costs rose by 15 percent—mainly because of price increases—pushing up the trade deficit.

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Pakistan's foreign debt repayment burden is likely to exceed \$1 billion this year. Most of this is owed to the consortium of Western countries and multinational institutions that have lent money to Pakistan at concessional rates; the United States is the major contributor. In addition, payments to the International Monetary Fund are projected at \$225 million, and interest payments on US Foreign Military Sales (FMS) credits will grow to an estimated \$66 million.

**Remittances and Overseas Workers**

Remittances received through the banking system for the first half of FY 1985 were 13 percent below the same period in FY 1984. A Planning Ministry official believes the decline has bottomed out for the year, but, even if he is right, we estimate that remittances will still fall about \$500 million below the peak in FY 1983. According to the Minister of Planning and Development, Islamabad did not anticipate the decline in remittances or a return of overseas workers. In fact, the five-year plan assumed an average annual growth in remittances of nearly 9 percent and a net outflow of workers.

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Despite a push, export earnings during the first half of FY 1985 dropped by over 6 percent from the first half of FY 1984. About half the drop was attributed to the lingering effects of the disastrous crop in FY 1984. At

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Some government planners are now assuming a net return of 10,000 to 15,000 workers annually of the 1.5-2 million Pakistanis working abroad, but the recent rate of return suggests that the planners are too optimistic. Nearly 70,000 Pakistani workers left Saudi Arabia last year, and another 10,000 have left thus far this year. [redacted]

[redacted] Another study shows that returnees from Abu Dhabi exceeded new hires during the first nine months of 1984 by 50 percent. [redacted]

Although most of the returning workers are not likely to find good jobs, they probably will not be a serious political liability. They are small in number compared to the total work force, and most of them have some savings. A massive return of workers is not likely, because Saudi Arabia as well as the other Gulf states still need a large foreign work force to maintain a high standard of living, and the Pakistani military plays an important role in many of these countries. [redacted]

#### Domestic Prosperity

Economic conditions were not a major political issue in the presidential referendum or the elections for the national and provincial assemblies, in part because a large segment of the population is relatively prosperous:

- Zia's consumer-oriented spending policies have reduced the burden of potential price increases for most of the population.
- Farmers have enjoyed rising incomes because of good weather and higher government procurement prices.
- The economic health of many lower-class Pakistanis continues to be sustained by family members in the Middle East.
- Bazaar merchants, traders, and owners of cottage industries and service establishments have seen their fortunes improve because of the growing purchasing power of the Pakistani population. [redacted]

#### The Coming Financial Crunch

The improving domestic economy will probably give Pakistan only a little breathing room with its foreign payments problems. Increased exports are not likely to completely compensate for declining worker remittances and a growing debt service burden:

- Cotton is in ample supply worldwide, and global textile competition is holding down prices of cotton textiles.

- Because the wheat crop will not be harvested until spring, it will be mid-1985 before export gains can be realized.
- Rice export earnings will be limited because prices in Asia have been falling.
- Some of the import savings from increasing domestic oil production and declining world crude oil prices will be offset by rapid growth in domestic energy demand. [redacted]

Thus, Zia must soon turn his attention to resolving the country's balance-of-payments problems if Pakistan is to avoid a financial crunch. If reserves fall at the pace of the first half of FY 1985, they could be down to \$300 million by the end of the fiscal year—equivalent to less than three weeks of imports. [redacted]

We believe that, before the end of FY 1986, Pakistan will need additional foreign assistance to shore up its shaky international payments position or will have to institute a domestic austerity program including a cutback in imports. The Planning and Development Minister has already made veiled comments about balance-of-payments problems when giving his good news about economic growth. [redacted]

Pakistan recently requested an advance on its 1985 FMS loan to avoid falling behind on FMS interest payments. In a related move, Islamabad indicated a willingness to accept concessional financing for future FMS loans after rejecting earlier US proposals on the grounds of preserving its nonaligned status. The decision came too late to be considered for the funds they expect to receive in 1986. [redacted]

Zia probably will first approach the United States for additional financial assistance if the foreign payments situation continues to deteriorate. If Pakistan turns to the International Monetary Fund and other Western aid donors, they probably will insist Islamabad move faster to reform its tax structure, increase domestic energy prices, and reduce consumer subsidies—issues deferred by Zia in his quest for domestic tranquillity. [redacted]

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**Sri Lanka:  
Resettlement and Realpolitik**

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Colombo plans to begin settling more than 30,000 armed Sinhalese farmers in newly irrigated areas of north and east Sri Lanka, in part to strengthen its control in these areas and change the ethnic composition of the local population. Announcement of the settlement scheme in late January put another nail in the coffin of a politically negotiated resolution of Sri Lanka's ethnic tensions. Militant Tamil separatists are likely to react with violence against the new settlers, resulting in another round of bloodshed.

Several factors influenced Jayewardene's decision to make public his plan—hinted at for several months:

- Tamil militants rejected his proposal for settling communal problems in late December.
- Insurgent attacks against Sinhalese civilian targets escalated through January.
- Athulathmudali made a much-publicized trip to Washington to discuss security matters, thereby emphasizing US interest—and potential involvement—in Colombo's efforts.

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Colombo's resettlement plans risk international censure. The lands involved in the resettlement scheme are included in a massive international development program designed to improve the living standard of a large portion of the country's agrarian population, both Sinhalese and Tamil. The decision also underscores longstanding Tamil claims that Colombo has withheld the benefits of international development programs from the Tamil community. Colombo may hope to use the threat of politically motivated settlement as a bargaining chip in requesting anti-insurgency assistance from the United States and other aid donor countries.

Although Athulathmudali touted several successes by the security forces during the first two months of 1985, insurgent control of the north and east has increased in recent weeks. The Jaffna peninsula has been closed to foreigners since 19 January, and Sri Lankan citizens now must have passes to travel anywhere in the north. Distribution of food, gasoline, and other supplies has been disrupted, and there is no likelihood of a quick resumption of rail or private traffic.

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**Development and Political Coercion**

Jayewardene has toyed with the idea of using allotment of Mahaweli lands as a lever against the Tamil insurgents for nearly two years, according to diplomatic reporting. Colombo permitted conservative Buddhist nationalist groups to recruit and settle tens of thousands of landless Sinhalese peasants in the Mahaweli area following the communal riots of July 1983 to test the waters but backed off later in the face of massive protests by local Tamils. Illegal Sinhalese encroachment continued through 1984, however, and provided Jayewardene with the opportunity to solve the problem by decreeing that all future settlers on state lands would be chosen according to ethnic group affiliation in order to maintain communal harmony

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**The Plan**

In January, President Jayewardene announced that, after a three- to four-month preparation period, the government would begin gradually moving Sinhalese farmers into the newly opened sections of the Mahaweli Project bordering Tamil majority areas. Security forces in the region will also be increased, according to Minister of National Security Lalith Athulathmudali, and specially trained members of a new Special Task Force drawn from the national police will take over anti-insurgency responsibilities for the region. The settlers will be trained in small arms and provided with weapons.

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NESA NESAR 85-006  
1 March 1985

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**The Mahaweli Project**

*In 1985 Sri Lanka is realizing the first benefits of the Mahaweli Project, one of the world's most extensive development programs. Named after the largest river in the area, the program calls for damming and diverting most of the major rivers of the eastern half of the island, impounding their waters, constructing large hydroelectric facilities, and developing subsidiary downstream systems to support irrigation and water needs of several hundred thousand farmers.* [redacted]

*The areas to be developed formed part of the classical Sinhala kingdoms of Anuradhapura and Polonnaruwa. Drought, malaria, and foreign domination had driven most farmers from the area centuries ago, leaving the region uninhabited except for a few tribal groups and wild animals. With the restoration and upgrading of the ancient irrigation system, the area is expected to provide more than 500,000 tons of paddy rice annually, potentially making Sri Lanka one of the region's largest rice exporters.* [redacted]

*The United States, in coordination with the International Monetary Fund, the United Nations, and the World Bank, has been one of the largest supporters of the project and has played a critical role in the development of the portion that will be first opened for settlement. The US contribution to this portion has been more than \$200 million, mostly for preparing downstream infrastructure for the resettlement of local farmers displaced by the construction and for the expected influx of new settlers to the region.* [redacted]

scheme particularly sensitive. Political control of this section has passed back and forth between Tamils and Sinhalese for centuries. Tamil separatists claim that the low-lying lands from north and east of Anuradhapura to south of Batticaloa form the heart of the eastern section of the traditional Tamil homeland, and their propaganda describes the area as an essential part of the proposed independent Tamil state of Eelam. The region also includes the strategically important port at Trincomalee. [redacted]

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On the other hand, the Sinhalese majority is raised to consider the region as the cradle of Sinhala culture. Sinhalese schools use history texts that refer to the great Sinhala kings who repulsed invasions by Tamils from south India and the kingdom of Jaffna in these areas. [redacted]

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We believe Jayewardene and Athulathmudali hope to use armed Sinhalese settlers to disrupt the Tamil insurgents' increasing control of the eastern portion of the country. The proposed agricultural villages will serve as a first line of defense against further insurgent encroachment in the area and facilitate extending Colombo's military dominance of the troubled region. The program has three further effects of almost equal importance to Jayewardene:

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- Dividing this Tamil-dominated area with bands of Sinhalese villages.
- Demonstrating to his Sinhalese constituency that Colombo is taking a hard line toward the Tamil insurgents while guaranteeing the fruits of development for the Sinhalese.
- Signaling Tamil separatists based in southern India as well as New Delhi that Colombo is willing to institute drastic, long-term measures to defeat the insurgency. [redacted]

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**Implications for the United States and Other Project Donors**

We believe Colombo expects a negative international reaction but probably calculates that organizations and countries—including the United States—providing financial backing to the Mahaweli Project will not jeopardize its overall success by condemning the settlement scheme. Colombo may even hope that

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Under these conditions the Sinhalese, who comprise nearly 75 percent of the population, will eventually dominate the Mahaweli Project lands and be able to divide the region currently claimed by the Tamil minority as their traditional homeland. [redacted]

The allocation of state lands in Sri Lanka historically has been an emotionally charged issue, with the area in Jayewardene's recently announced settlement

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the settlement scheme. Colombo may even hope that the project's success will make donor governments more willing to aid efforts to contain the insurgency.

[redacted]

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At the same time, in discussions with US officials in Colombo and again during his January visit to Washington, Athulathmudali held out the possibility that Colombo could be persuaded not to implement the plan if the insurgency is brought under control between now and the planned arrival of the first settlers in late April. We believe he intended to imply that the right kind of anti-insurgency aid from the United States could help head off this drastic measure. [redacted]

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**India: Stalling on Punjab** [redacted]

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Prime Minister Gandhi has staked his political reputation on defusing Sikh unrest in Punjab, but we believe he confronts major obstacles, some of which result from his government's stance. The absence of conciliatory moves from New Delhi has heightened Sikh alienation, with the growing breach between the government and moderate Sikhs and sporadic violence by Sikh extremists complicating prospects for negotiating Sikh demands. Unless Gandhi offers concessions to strengthen the hand of the moderates, the deadlock is likely to continue and even worsen, to the detriment of Gandhi's image as well as to India's stability and its relations with Pakistan and the United States. [redacted]

advertisement for the party, carried nationally in both the vernacular and the English-language press, raised thinly veiled questions about Sikh patriotism. [redacted]

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New Delhi's foot-dragging on negotiations, in our view, has further diminished Sikh confidence in Rajiv's professed good intentions. Their concern appears to be justified. [redacted]

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[redacted]

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**The Extremist Factor**

The continuation of sporadic violence by Sikh extremists in Punjab, despite the massive presence of government security forces, is both an embarrassment to New Delhi and a threat to Sikh reconciliation. It could also force New Delhi to halt the phased transfer of security responsibilities from the Army to paramilitary troops. Since December there have been attacks on two Sikh high priests who indicated their willingness to hold talks with New Delhi, as well as sabotage. The ability of the extremists to strike in virtually every district of Punjab probably reflects at least tacit support for their activities among many Sikhs in Punjab. [redacted]

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**Growing Rift**

Differences between Sikhs and the national government have broadened since Rajiv Gandhi succeeded his mother. Independent public interest groups have charged that Congress Party officials helped instigate Hindu reprisals against Sikhs after her assassination. The US Embassy in New Delhi reported that even progovernment Sikhs saw Rajiv's unwillingness to authorize an official investigation as a decision to barter justice for Hindu votes in this month's state elections. [redacted]

Sikh outrage was compounded when three of the politicians allegedly involved were permitted to run for parliamentary seats as Congress Party candidates, and two subsequently were given important party posts. [redacted]

Several widely publicized incidents associated with Rajiv's national election campaign doubtless have also alarmed Sikhs. Gandhi allowed the Sikh mayor of Delhi, a member of the Congress Party, to be shouted down at a public meeting in November. [redacted]

In our view, the vacuum left by the detention of moderate Sikh leaders since last June, together with the ability of the extremists to target proponents of conciliation, is once more giving radicals the upper hand. US Embassy reporting notes that the disenchantment of Sikh moderates with the government probably will make them even less willing to oppose the extremists. [redacted]

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[redacted] Some Congress election posters depicted Indira Gandhi's assassins in turbans that identified them as Sikhs. A full page political

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The five high priests of the sacred Golden Temple in Punjab, whose recent emergence as political spokesmen breaks a tradition of priestly aloofness from politics. [redacted]



India Today ©

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### New Delhi's Equities

Gandhi is aware that, to maintain his credibility, he will have to show progress toward defusing Sikh unrest in Punjab, which he has described as the leading threat to India's unity and security. As opposition leaders have been quick to point out, the Congress Party's landslide parliamentary victory in December affords Gandhi little excuse for failure. [redacted]

Gandhi's image as an evenhanded secular leader also rides on his ability to conciliate the Sikhs. His campaign promise to work for an end to communal and caste strife has focused attention on the issue. Although Rajiv probably has written off Sikh support for the near term, the minority Muslims and untouchables whose votes contributed to the Congress Party's landslide victory are likely to see his handling of the Sikh issue as a benchmark of his attitudes toward all minorities. Some Hindus also have publicly appealed to Rajiv to put the equitable treatment of Sikhs before other political considerations. [redacted]

We judge that New Delhi's concern over the strategic implications of Sikh unrest in a key state on the border with Pakistan will continue to provide the

major impetus for Gandhi's attention to the issue.

[redacted] statements by senior government officials echo Indira Gandhi's suspicion that Islamabad has taken advantage of and even instigated antigovernment activities in Indian Punjab. Both Indian and Pakistani officials have acknowledged that Pakistan's alleged involvement with the Sikhs remains the major obstacle to improved relations. [redacted]

The Prime Minister doubtless also is concerned about the adverse effects of the Army's occupation of Punjab on military morale. Senior officers have publicly voiced fears that the Army's prominent security and political role since last summer has antagonized the majority Sikh population in a potential staging area on the border with Pakistan. [redacted]

Gandhi also has reason to worry about the effect of the Army's involvement in Punjab on combat readiness. [redacted]

[redacted] the Army's national security duties in Punjab were interfering with its primary national

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Harchand S. Longowal,  
leader of the Akali Dal  
Party, remains in  
detention. [redacted]



Liaison ©

defense mission. India may have hoped the large seasonal exercises close to the border with Pakistan that began in January would remind Islamabad that the Indian military's combat capabilities have not been weakened by its policing duties in Punjab. [redacted]

The effect of Hindu-Sikh tensions on Sikhs in the military—where they comprise about 11 percent of the enlisted ranks and at least 20 percent of the officer corps—could be one of the most important problems resulting from the Army's role in Punjab. Revolts in June by some 1,000 Sikh troops across the country raised New Delhi's fears that the loyalties of Sikh military personnel were divided. Since the armed forces are having difficulty retaining skilled personnel, India's military leaders would certainly view with dismay a sudden increase in resignations by Sikhs from the military—particularly the officer corps. Such concerns may explain recent reports that the military has given some Sikh officers the promotions due them, after initial delays. [redacted]

#### Government Response and Options

We judge that Gandhi's decision—despite the far-reaching implications of Sikh discontent—to delay action on the issue until after the state elections in March in part reflects his calculation that consolidating Congress Party control over key states is immediately attainable, whereas progress on the Punjab problem will be slow at best. Gandhi's public moves since the national election in December have been limited to appointing a Cabinet-level commission

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#### Sikh Demands

The objectives of Sikh demands have varied from secession to economic, political, and religious concessions that would increase Sikh dominance in Punjab. Demands articulated by moderate Sikh leaders before the government's crackdown in Punjab last summer included:

- Annexation of Punjabi-speaking areas of adjacent states.
- Sole control for Punjab of Chandigarh, the state capital now shared with Haryana.
- Formal declaration of Amritsar as a holy city.
- Sole control of river waters now shared with neighboring Haryana and Rajasthan.
- Separate religious codes for Sikhs, who are now governed by Hindu marriage and property codes. [redacted]

Other demands supported by many Sikhs include:

- The grant to Punjab of total autonomy, with New Delhi retaining control only over defense, foreign policy, communications, currency, and railways.
- Reversal of New Delhi's 1980 decision to recruit Army personnel on the basis of a state quota system. The Akali Dal alleged the new rule would reduce Sikh representation from its current 15 percent to 1.5 percent. [redacted]

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to explore options and reiterating his refusal to negotiate longstanding Sikh demands for more autonomy in Punjab. [redacted]

In our view, New Delhi probably is working behind the scenes for further moves immediately after the state elections. [redacted]

that the government may hold trials in March of Sikh extremists arrested in the course of last year's crackdown in Punjab. Over the past two months, government representatives have undoubtedly visited the jailed Akali Dal leaders for exploratory talks, but

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it is doubtful that they will be receptive to government contacts so long as they remain jailed and isolated from one another. [redacted]

A conciliatory gesture by Rajiv after the state elections could still ease tensions and facilitate resumption of a dialogue. Indian commentators have suggested that Rajiv could, for example:

- Publicly exonerate the Sikh people of responsibility for his mother's assassination if—as seems to be the case—the investigation implicates only three individuals and disproves earlier rumors of a broad Sikh conspiracy.
- Initiate an impartial investigation of the November riots.
- Ensure that Sikh victims receive promised compensation.
- Grant Sikh demands that Chandigarh—which serves as the capital of both Punjab and Haryana states—be ceded outright to Punjab.
- Unconditionally release moderate Akali Dal leaders detained under special national security provisions since June.
- Drop his insistence that Sikh demands for greater autonomy be omitted from all negotiations.
- Hold preliminary talks with a range of moderate Sikhs, including the five high priests, members of the temple management organization, former Congress Party politician Amrinder Singh, and the Akali Dal leaders, to bolster their unity.
- Expeditiously announce new state elections as a first step toward restoring civil rule in Punjab—even at the risk of an Akali Dal victory. [redacted]

Most observers agree, however, that New Delhi will have to deal cautiously with Sikh demands for greater state autonomy lest they set off a chain of similar demands from around the country. The status of

*UK-based Jagjit S. Chauhan, self-proclaimed leader-in-exile of the Sikh nation of Khalistan, whose extradition is sought by New Delhi.* [redacted]



*India Today ©*

Punjab will have to be resolved as part of the broader issue of states' rights now under government review. [redacted]

#### **Prospects**

We judge that, unless New Delhi demonstrates enough flexibility on Punjab to win the good will of Sikh moderates, Gandhi's efforts to restart negotiations are likely to fail. The government's unwillingness so far to distinguish between moderates and extremists almost certainly will work to the advantage of the latter. At any rate, disarray among the moderates could give extremists a virtual veto over prospective talks. [redacted]

More sporadic violence is likely, and prolonged delays in restarting a dialogue could greatly increase the magnitude, reviving the specter of civil war in Punjab and spreading Hindu-Sikh tensions throughout India. If the government responded to increased trouble by returning Punjab to full Army control, Sikh support for the extremists probably would grow, as would the risk of assassination attempts against senior government officials, including Gandhi and President Singh. [redacted]

Renewed strife in Punjab probably also would strain relations with the United States, Pakistan, Canada, and the United Kingdom. New Delhi would probably press Washington, Ottawa, and London to curb

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proextremist activities by their Sikh residents. More violence almost certainly would rekindle Indian fears of Pakistani involvement. Sikh extremists might welcome such an end to the good will generated in New Delhi by Pakistani President Zia's announced intention of bringing Sikh hijackers to trial in early March.

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**India: High Hopes  
for Probusiness Policies** [redacted]

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Indian businessmen enthusiastically anticipate major reforms in economic policy over the next several months. Prime Minister Rajiv Gandhi is still considering his options, however, and so far has announced only a few minor changes.' [redacted]

image among foreign businessmen who remember the well-publicized forced exit of Coca-Cola in the late 1970s [redacted]

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Rajiv Gandhi's public statements hint at substantial liberalization of government restrictions on private industrial production. He told businessmen recently that the "problem will not be with government constraints . . . this government . . . [will be] moving faster than you." Some industrialists already report that bureaucratic approvals can be obtained more quickly than in the past. According to the publisher of a major business magazine, Rajiv's economic advisers are unusually receptive to advice from outside the government. New Delhi's initial decontrol moves, however, have been limited. For example, paper and vehicle manufacturers may vary their product mix without seeking official permission but only if no additional investment or foreign support is needed. [redacted]

Whatever the reduction in government restrictions and increase in exposure to foreign competition, the central government will retain a major economic policy role under Rajiv. Embassy officials report a consensus among businessmen, economists, and journalists that Rajiv should not and will not completely abandon the interlocking system of controls and regulations in the Indian economy. We believe businessmen will become even more dependent on official decisions if, as rumored, government financial incentives for production and exports are restricted to industries that bureaucrats believe are most likely to succeed. Moreover, Rajiv has recently instructed the Planning Commission to retain ambitious targets for public-sector investment, even though he recognizes that financial resources are limited. [redacted]

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Speculation about radical changes in foreign trade policy is rampant in the Indian press and business community. A new government study recommends additional subsidies and concessional loans for export industries such as commercial vehicles, machine tools, and diesel engines, but it also welcomes imports that compete with domestic production. Rajiv told a business group that he prefers to provide protection from imports through tariffs rather than through licensing and will move quickly to streamline import procedures for the electronics industry. New Delhi is even considering a controversial proposal that would permit Indian bottlers to buy Pepsi-Cola soft drink concentrate. The government hopes to improve India's

As the new government moves to more specific economic policy recommendations, unrealistically high hopes among businessmen will probably be deflated. Both Rajiv and his Finance Minister have already hinted that new taxes will be imposed, and some businessmen apparently have been shocked by the discovery that payoffs to government officials no longer influence excise tax recommendations. Moreover, Rajiv's proposed campaign against tax evasion, even if only temporarily effective, will limit the funds available to businessmen. In addition, press reports suggest that New Delhi is reconsidering its late 1984 decision to permit private manufacture of some telecommunications equipment and is investigating television manufacturers who have evaded voluntary price controls. [redacted]

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**The Press of India** 

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The press of India is vibrant, sophisticated, has a large readership in many languages, and is the nation's most important mass medium of communication. India inherited from the British a well-developed press with relatively high journalistic standards, adequate equipment, technical skills, and a working distribution system. The press is nationalistic and particularly sensitive to foreign criticism of India, especially when it involves national security, but it is itself frequently critical of the government, generally on domestic issues.

majority of the daily newspapers throughout the country and accounted for a large percentage of the circulation of dailies in metropolitan areas.

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**Newspapers and Periodicals**

The number of Indian newspapers and periodicals and their circulation have grown steadily since independence. According to the 26th annual report of the Registrar of Newspapers, as of 1981 there were 19,144 newspapers and periodicals—1,264 of the newspapers were dailies, 5,624 were weeklies, and 12,256 were periodicals.

The central and state governments published 597 newspapers and periodicals in 1981, and political parties published 111. The largest number of government publications—117—was concerned with news and current events, followed by social welfare, agriculture, commerce and industry, education, literature and culture, and transport and communication.

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**The Hindi and English Press**

Compared to most developing countries, India has an unusually sophisticated press. This is especially true of the leading English-language papers, which subscribe to wire and photo services, maintain staffs of first-rate feature writers, and buy articles from abroad.

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The Hindi press has the largest circulation. Newspapers in Hindi had a circulation of 13,984,000 (27.4 percent) in 1981 followed by the English-language press with a circulation of 11,039,000 (21.6 percent). Four of the 12 leading dailies were in English, compared to two each in Hindi, Bengali, and Malayalam, and one each in Tamil and Telugu. Registered periodicals and newspapers were published in 87 languages. Press in other languages had a circulation of less than 10 million copies.

The English daily press concentrates primarily on national and international news but also provides regular coverage of sports, women's features, and commercial activities. Crime, entertainment, and human interest are generally given only limited attention. Most newspapers, particularly the larger publications, gear their reporting to the interests of middle- and upper-class educated urbanites who form the bulk of their readership. The newspapers with the widest circulation tend to be relatively conservative.

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Newspapers owned by joint stock companies claim the largest part of India's circulation (38.4 percent) in 1981, although the majority of publications in India are individually owned. Four of the major groups are the *Times of India* group, *Indian Express* group, *Hindustan Times* group, and *Ananda Bazar Patrika* group. In 1981 the four largest chains distributed a

The Hindi daily press at one time had a reputation for sensationalism, but many Hindi publications have become more sophisticated and devote substantial

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**Table 1**  
**Major Newspapers and Periodicals**

	Language	Location	Circulation <sup>a</sup>	Comments
<b>Daily newspapers</b>				
<i>Indian Express</i>	English	Delhi, Chandigarh, Bombay, Bangalore, Madras, Madurai, Hyderabad, Cochin, Ahmedabad, Vijayawada	533,727	Relatively conservative, generally pro-Congress, pro-West
<i>Malayala Manorama (Malayala Delight)</i>	Malayalam	Kottayam, Cochin	506,567	Pro-Congress Party
<i>Times of India</i>	English	Bombay, Delhi, Ahmedabad, Lucknow	503,858	Probusiness, somewhat critical of the United States
<i>Ananda Bazar Patrika</i>	Bengali	Calcutta	396,224	Nationalistic, nonpartisan, anti-Communist
<i>Navbharat Times (New India Times)</i>	Hindi	Delhi, Bombay	377,985	Belongs to <i>Times of India</i> , leading Hindi-language paper
<i>Mathrubhumi</i>	Malayalam	Calicut	351,441	Pro-Congress, anti-Communist
<i>The Hindu</i>	English	Madras, Bangalore, Coimbatore, Hyderabad, Madurai	348,547	Conservative, generally pro-West
<i>Jugantar (New Epoch)</i>	Bengali	Calcutta	325,585	Neutralist, sensationalist, pro-Congress
<i>Thanthi (Telegraph)</i>	Tamil	Bangalore, Madras, Coimbatore, Salem, Cuddalore, Madurai, Tiruchi, Tirunelveli, Vellore	280,492	Sensationalist, tabloid type, generally neutralist
<i>Eenadu</i>	Telugu	Tinupati, Visakhapatnam, Vijayawada	271,647	Pro-N. T. Rama Rao
<i>Hindustan Times</i>	English	Delhi	257,749	Objective, relatively liberal, nationalist
<i>The Tribune</i>	English, Hindi, Punjabi	Chandigarh	236,338	Moderate
<b>Weeklies</b>				
<i>Malayala Manorama</i>	Malayalam	Kottayam	589,956	Weekend edition; literary and cultural
<i>Kumudam (Lotus)</i>	Tamil	Madras	579,559	Literary and cultural
<i>Rani</i>	Tamil	Madras	385,297	Literary and cultural
<i>Blitz</i>	English	Bombay	353,766	Tabloid news weekly, generally pro-Communist, anti-West
<i>Employment News</i>	Hindi, Urdu, English	Delhi	280,000	Labor trends
<i>Sunday Loksatta</i>	Marathi	Bombay	276,583	Probusiness, pro-West
<i>Ananda Vikatan</i>	Tamil	Madras	256,386	Literary and cultural
<i>Dharmayug (Religious Era)</i>	Hindi	Bombay	212,433	News and current affairs; weekend edition of <i>Navbharat Times</i>
<i>Chitralkha</i>	Gujarati	Bombay	210,000	Similar to <i>Life</i> magazine
<i>New Age</i>	English	Delhi	205,000	Central organ of the Communist Party of India

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Table 1 (continued)

	Language	Location	Circulation <sup>a</sup>	Comments
<b>Daily newspapers</b>				
<b>Other</b>				
<i>Chandamama</i>	Hindi, Gujarati, Telugu, English, Kannada, Bengali, Punjabi, Assamese	Madras	452,000	Children's monthly
<i>Manohar Kahaniyan</i>	Hindi	Allahabad	359,522	Monthly, scandal and crime stories
<i>Sarita</i>	Hindi	Delhi	280,688	Women's fortnightly
<i>India Today</i>	English	Delhi	192,477	Fortnightly, similar to <i>Newsweek</i>

<sup>a</sup> 1981 data.

coverage to political, economic, religious, and ethnic affairs at the national, regional, and local levels. They still, however, give relatively little coverage to international affairs. The Hindi press, generally less well endowed than the English press, often takes more journalistic liberty. The Hindi press reflects the pro- or anti-government viewpoints of owners of individual publications. [ ]

#### Regional News Agencies

There are a number of news agencies and regional news services supplying news features and background material to Indian newspapers. The four leading press services are the Press Trust of India (PTI), Hindustan News (Hindustan Samachar—HS), the United News of India (UNI), and Samachar Bharati. The PTI and UNI supply news in English, and the other two operate in Hindi and other Indian languages. [ ]

PTI started its operation in 1949. Over 200 newspapers in India subscribe to the PTI service, as do All India Radio, central and state governments, commercial establishments, universities, and public institutions. Press Trust of India also operates the Non-Aligned News Agencies Pool for India. The UNI started its operation in 1961 and has recently started a Hindi service. Like PTI, the UNI maintains a

resident correspondent in Moscow but appears less prone to Soviet influence. Both PTI and UNI depend largely upon arrangements with foreign international news agencies for collection of news from abroad. [ ]

#### The Communist Press

The Communist Party of India publishes 28 newspapers and controls two major news services—the India Press Agency (IPA) and the Central News Service (CNS). Among the more popular newspapers and periodicals that carry Soviet-inspired stories are *Daily Patriot*, *Daily National Herald*, *Weekly Blitz*, *Weekly Link*, *Weekly News Age*, *Weekly New Wave*, *Weekly Peoples Democracy*, *Weekly Current*, and *Daily News Today*. [ ]

The Soviets maintain frequent contact with elements of the Indian press. The news agency PTI has a news exchange program with TASS, keeps a resident correspondent in Moscow, and is a frequent conduit for the placement of Soviet disinformation. A favorite tactic is to plant a story in a friendly newspaper; have the TASS representative in India pick up the story for the Soviet media; and then have Indian news agency correspondents in Moscow (PTI in most cases) close

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**Table 2**  
**Newspapers and Periodicals**  
**by Language**

	Daily Newspapers	Triweekly and Biweekly Newspapers <sup>a</sup>	Total Newspapers and Periodicals <sup>a</sup>
Hindi	409	26	5,329
English	105	8	3,583
Urdu	128	7	1,299
Bengali	41	8	1,463
Marathi	120	17	1,098
Gujarati	39	3	696
Tamil	99	4	804
Malayalam	101	2	766
Telugu	31	1	546
Kannada	77	3	611
Punjabi	22	1	407
Oriya	10	0	255
Sindhi	4	0	62
Assamese	3	2	71
Sanskrit	2	0	30
Bilingual	31	12	1,506
Multilingual	8	1	350
Other	34	3	268

<sup>a</sup> 1981 data.

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the loop by printing the story in India—often in reputable newspapers. The Soviets pay particular attention to the vernacular press, which is more vulnerable because of its weak economic base. The Soviets provide the vernacular media with material, bribes, lavish entertainment, and the promise of paid advertising either from commercial firms trading with the USSR or directly from the Soviet Embassy. The Soviet Union and other Communist countries offer senior journalists visits to the Soviet Union and Eastern Europe with side trips to more sought-after places like London and Paris. Other inducements include the promise of scholarships to the sons and daughters of low-ranking journalists, promises of jobs within the country through Soviet and Communist Party contacts, and a regular supply of duty-free goods [Redacted]

### Press Relations With the Government

Press freedom is guaranteed under Articles 13 and 19 of the Constitution. The press has the right to publish proceedings of Parliament without being subjected to censorship or the fear of civil or criminal action.

Article 19, which guarantees the right to freedom of speech and expression, was suspended in June 1975 when Indira Gandhi's government declared a state of emergency. Earlier that year, New Delhi enforced a merger of the existing news agencies to facilitate news censorship, and Samachar, the state news agency, was established. Precensorship was declared illegal by the courts in September 1975, and censorship of foreign correspondents ended in September 1976. In 1978 Samachar was dissolved and the earlier news agencies reestablished. In March 1979 a National Press Council was established to uphold freedom of the press and maintain and improve journalistic standards. [Redacted]

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In normal times, the government exerts considerable indirect influence over the news media. New Delhi generally prefers subtle persuasion to more direct measures, such as newsprint supply regulations and restrictions on industrial and communication hardware. Many small publications, in particular, rely heavily on government press releases and background stories to fill much of their space. The government has encouraged the growth of small and medium-size newspapers through control of import licenses for newsprint, the placement of advertising, and financial arrangements [Redacted]

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The Press Information Bureau (PIB) is the main agency used by the government to inform the people about its policies and programs. PIB serves dailies, periodicals, news agencies, and radio and television organizations, both Indian and foreign; arranges publicity for government policies, programs, and activities; provides feedback on how these policies and activities are received; and advises the government on information policy. PIB issues material in English, Hindi, and 16 other languages. [Redacted]

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