



Directorate of  
Intelligence

~~Secret~~

25X1

**MASTER FILE COPY**  
**DO NOT GIVE OUT  
OR MARK ON**

124

**Near East and  
South Asia Review**

25X1

9 May 1986

~~Secret~~

NESA NESAR 86-011  
9 May 1986

Copy 442

**Page Denied**

Secret

25X1

**Near East and  
South Asia Review** [ ]

25X1

9 May 1986

Page

Articles		Page	
	<b>Will the Persian Gulf States Abandon Iraq's Saddam Husayn? —An Alternative Analysis</b> [ ]	1	25X1 25X1
	The general consensus is that Gulf support for the Iraqi President remains strong and that the cautious Gulf leaders are unlikely to take steps to weaken him as long as the Iran-Iraq war continues. This analysis considers why the Gulf states would want to move against Saddam, what the risks would be, and what actions they might take. [ ]		25X1
	<b>Israel: Prime Minister Peres's Regional Development Plan</b> [ ]	5	25X1 25X1
	Prime Minister Peres has revived the idea of a regional development fund to provide financial aid to key Arab states. The plan has been received sympathetically by major Western donors, but translating this mild encouragement into concrete action appears unlikely in the near term. [ ]		25X1
	<b>Israel: Time for Tax Reform</b> [ ]	9	25X1 25X1
	The Israeli economy has responded vigorously to the austerity measures imposed by the National Unity government last July. With inflation sharply reduced and the exchange rate stabilized, the government must address tax reform and budget cuts to sustain economic growth and stability. [ ]		25X1
	<b>Israel: Fallout From Disarray in the Herut Party</b> [ ]	13	25X1 25X1
	Through no fault of its own, the Likud Bloc's Liberal Party has lost its best chance for ensuring its political survival as a result of the leadership crisis in the Likud's dominant Herut Party. In contrast, Herut's glaring problems appear to have strengthened the political standing of the ultrarightwing Tehiya Party. [ ]		25X1

Secret

NESAR NESAR 86-011  
9 May 1986

Secret



25X1

**Lebanon: Reforming the Presidency and Its Powers** [redacted] 17

25X1  
25X1

The Lebanese presidency and its prerogatives are likely to remain major stumblingblocks to a settlement of the decade-old Lebanese civil war. With the dwindling Maronite Christian community unwilling to loosen its grip on the office, the presidency is losing power and growing increasingly irrelevant. [redacted]

25X1

**The Lebanese Army: Facing the End of the Road?** [redacted] 23

25X1  
25X1

The Lebanese Army, its ranks decimated by desertions of Muslim military personnel, faces its toughest military challenge—the prospect of defending the Maronite Christian enclave against Syria and its Lebanese Muslim allies—and, even if successful, it will continue to disintegrate as real power passes to Lebanon’s Muslim majority. [redacted]

25X1

**Lebanon-Syria: Drugs in the Bekaa** [redacted] 27

25X1  
25X1

Efforts to dominate the lucrative drug traffic in Lebanon’s Syrian-dominated Bekaa Valley have become increasingly complex, with Syrian military personnel, moderate and radical Shia factions, Sunni Muslims, and Christian militias all playing a part. As long as civil war and social disruption continue, there is little likelihood drugs will lose their attraction. [redacted]

25X1

**India: Gandhi Moves Toward Nuclear Option** [redacted] 33

25X1  
25X1

Since he became Prime Minister in November 1984, Rajiv Gandhi has moved gradually toward an Indian nuclear weapons program. By raising the prospect of a nuclear-armed India, he almost certainly hopes to dissuade Pakistan from the pursuit of nuclear weapons and to encourage the United States to take stronger action to restrain Islamabad. [redacted]

25X1

Secret

Secret

25X1

**India: Declining Professionalism in the Indian Army** [redacted] 3725X1  
25X1

A recent open letter from the Chief of Army Staff to all Indian officers warning against careerism, opportunism, and sycophancy suggests that military professionalism has declined to unacceptable levels and probably also reflects Rajiv Gandhi's priorities and recognition that India's economic and social problems are harming the Army. [redacted]

25X1

**India-Pakistan: Gradual Progress on Economic Relations** [redacted] 4125X1  
25X1

Despite high-level official support for improved Indo-Pakistani economic relations, progress is likely to be slow because of bureaucratic resistance on both sides as well as opposition from the Pakistani business community. [redacted]

25X1

**Sri Lanka: Mahaweli Land Resettlement—The Impact on Communal Rivalry** [redacted] 4525X1  
25X1

Prospects for settling Sri Lanka's ethnic conflict are complicated by the competition between Tamils and Sinhalese for allotments of land under the Accelerated Mahaweli Development Program. At stake is apportionment of the newly irrigated land in the sparsely populated dry zone of Eastern Province, a traditional Tamil homeland. [redacted]

25X1

**Sri Lanka: Colombo's Faltering Counterinsurgency** [redacted] 4925X1  
25X1

The Sri Lankan Government's counterinsurgency effort is stalled despite a substantial military buildup, reconfiguring of the national security bureaucracy, and gestures toward political accommodation with Tamil separatists, and its continuing ineffectiveness will feed the insurgency and foster a hardline Sinhalese backlash. [redacted]

25X1

**Sri Lanka: Tamil Insurgent Ranks Grow** [redacted] 5325X1  
25X1

The number of Tamil insurgents has nearly doubled during the last year, but rivalries between insurgent groups and disputes over long-term strategy have limited their effectiveness and territorial gains while undermining the strength of moderate Tamils attempting to bridge differences in negotiations with the government. [redacted]

25X1

Secret

[Redacted]

25X1

**Saudi Arabia: Trouble With French Frigates** [Redacted]

57

25X1  
25X1

[Redacted]

The difficulties the Saudi Navy is experiencing with the recently delivered French frigate Madina constitute a major setback to Riyadh's ambitious naval modernization program. Saudi displeasure with French quality control, training, and general support is likely to jeopardize future French arms sales to the Saudis. [Redacted]

25X1

**Saudi Arabia's Fourth Estate: Potential for Conflict With the Government** [Redacted]

61

25X1  
25X1

[Redacted]

Saudi Arabia's privately owned press is not subject to routine prepublication censorship, but unwritten guidelines are causing friction between it and the government. Heightened social, economic, and political grievances among Saudis over the next several years increase prospects for a serious confrontation, with the press in the lead. [Redacted]

25X1

**Tunisia: Bourguiba Struggles To Strengthen His Grip** [Redacted]

67

25X1  
25X1

[Redacted]

President Bourguiba has undertaken a series of repressive measures over the last several months to cope with increasing political unrest. Although his opponents may be intimidated in the short term, Bourguiba's crackdown could in time lead to greater cooperation among his foes and increasing violence. [Redacted]

25X1

**Briefs**

[Redacted]

25X1  
25X1  
25X1

[Redacted]

25X1

Secret

Secret

[Redacted]

25X1

**Near East and South Asia Review** [Redacted]

25X1

**Articles**

**Will the Persian Gulf States Abandon Iraq's Saddam Husayn? —An Alternative Analysis** [Redacted]

25X1

[Redacted]

[Redacted] they are alarmed by recent trends in the war and that they may be laying heavier blame on Saddam:

25X1

25X1

[Redacted] general consensus—with which we agree—that Gulf state support for Saddam remains strong and that the usually cautious Gulf leaders are unlikely to risk a confrontation or to take steps to weaken him as long as the war continues. The following alternative analysis offers a speculative view on why the Gulf states would want to move against Saddam, what evidence exists to support this view, what the risks would be in such a strategy, and what actions they might take. It also considers the implications of such Gulf state actions for US regional interests.

• Gulf leaders indicated to US officials recently that Iranian successes at Al Faw in February have heightened their fears that Baghdad cannot contain Tehran. This is a major concern for Gulf leaders because they see a strong Iraq as their primary defense against Iranian determination to export its revolution.

25X1

25X1

• [Redacted] Gulf rulers are worried that Iran has a military edge over Iraq, that Iraqi military morale is deteriorating, and that Saddam has lost popular support.

• These states are acutely aware of Baghdad's increasingly desperate financial situation and the potential requirement for massive new aid commitments to keep the Iraqis afloat. [Redacted]

25X1

25X1

**Disappointment With Saddam**

[Redacted]

In addition, the recent collapse of oil prices and domestic pressures to cut financial commitments could cause Gulf rulers to seek ways to limit aid to Iraq. All the states face tight budget constraints, and most are drawing down their foreign cash reserves. Furthermore, lower oil prices are making it more difficult to sell oil on Iraq's behalf. Domestic opposition to foreign aid—even for crucial recipients like Iraq—is likely to grow as these states cut spending and impose other economic restrictions.

25X1

[Redacted]

25X1

Although the Gulf states have provided Iraq with firm diplomatic backing and massive financial support—approximately \$25 billion in direct cash aid alone—since the war started, [Redacted]

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**Potential Benefits if Saddam Goes**

Gulf leaders would hope that the replacement of Saddam with a new Iraqi leader would forestall an Iranian victory in the war and perhaps even persuade Tehran to negotiate an end to the nearly six-year-old conflict. Although Iran continues to maintain a hard line on most aspects of a possible settlement, Tehran's only irreducible demand has been the removal of Saddam. His removal could throw Iran off guard and cause disagreement among Iranian leaders on their war policy by eliminating a key rationale for continuing the conflict. [redacted]

A new Iraqi leadership might be better able to pursue a more imaginative and successful military defense of Iraq. This could preserve the crucial buffer between Iran and the Gulf states. It might also ease the near-term financial drain on the Gulf states by winding down the war effort, although an end to the conflict could put more pressure on oil prices if both Iran and Iraq increase output to finance reconstruction. Saddam's removal might also encourage Syria to loosen its ties to Iran, since much of the Damascus-Baghdad rivalry is fueled by personal animosity between Saddam and Syrian President Assad. [redacted]

**Risks in Moving Against Saddam**

The Gulf rulers no doubt recognize there would be significant risks in seeking to unseat Saddam. They are afraid of angering the Iraqi leader, whom they view as a dangerous and vindictive man. We believe Saddam would retaliate against the Gulf ruling families if he suspected they were supporting a move against him. He probably would not hesitate to resort to assassination or terrorism against his Gulf neighbors. [redacted]

The Gulf states also probably recognize that a change in leadership in Iraq would initially have some negative impact. For example, they might have to increase aid substantially for a time to shore up the new Iraqi leadership and help prevent wider internal upheaval in Iraq. Attempts by a new Iraqi regime to consolidate its power and settle old scores could spill over into the Gulf states. Saddam's removal also might be viewed by Tehran as a sign of Arab weakness and thus embolden the Iranians to press the Gulf states and Iraq even harder. [redacted]

We believe, however, that, if the Gulf rulers became convinced Saddam was losing the war, they would see more risk in supporting him than in trying to ease him out. If they reached such a conclusion, they probably would be willing to risk possible retaliation by the Iraqi President or his close supporters in order to prevent an Iranian victory. [redacted]

25X1

**What the Gulf States Might Do**

If Gulf leaders decided to act against Saddam, they would do so indirectly. They tend to prefer a cautious and accommodating approach in dealing with dangerous neighbors. They are likely to begin by sending subtle signals to both Saddam and his possible opponents indicating their new position:

25X1

- They might begin privately to question Saddam's performance and prospects with Iraqi or other Arab emissaries.
- They could drag their feet on aid commitments. More dramatically, but less likely, they might impede Iraqi oil exports through the new Iraqi-Saudi pipeline.
- Their contacts inside Iraq could be used to begin looking for a possible successor with acceptable Islamic and Iraqi credentials and the requisite military appeal. They would want a figure who could pull together an alternative government and might then explore ways to funnel aid directly to him.
- They might begin to stress publicly their commitment to the government and people of Iraq but ignore mentioning Saddam. [redacted]

25X1

25X1

25X1

Should the Gulf rulers decide to work for Saddam's removal, they might decide to put aside their traditional reluctance to deal more directly with the Soviet Union and urge Moscow to apply pressure on Saddam. Gulf leaders have long believed that the war will not end until the superpowers become directly involved, but they probably realize that US influence on the conflict is minimal. Moscow, on the other hand, wields some leverage in Baghdad, largely

25X1

Secret



Secret

because of Iraqi dependence on Soviet weapons. Gulf leaders would judge that Moscow had a vested interest in seeing a friendly government replace Saddam and in doing the Gulf states a favor. [redacted]

US diplomatic and strategic equities in the Gulf region. In addition, Saddam would suspect Washington of complicity in any Gulf state plot against him because of the close links between the United States and the ruling Persian Gulf families. Efforts by Gulf leaders to seek assurances of US protection against retaliation from Saddam Husayn would probably solidify his suspicions. [redacted]

25X1

25X1

Timing would be crucial in any decision to move against Saddam. If the effort was intended to convince Iran that the Gulf rulers wanted a peaceful resolution of the war, then Saddam would have to be replaced before Iran's next major military victory. If it were to come after a large-scale Iraqi military defeat, then Tehran probably would see such a change as a sign of desperation by the Gulf rulers and might harden its position. Ironically, the Gulf states are not likely to make the effort unless Iraq has suffered another serious military setback. [redacted]

[redacted]

25X1

25X1

**Impact on the United States**

Gulf actions that help unseat Saddam would have a mixed impact on US interests in the region. Washington has invested considerable effort to improve ties to Baghdad, and a new Iraqi regime probably would be eager to continue and perhaps even strengthen ties to the United States. If the change led to an end of the war, the strategic threat to Washington's Gulf allies would be diminished. US influence with the Gulf states might decline if the end of the conflict reduced their sense of dependence on the United States. [redacted]

25X1

If the Soviets helped remove Saddam but did not meddle further in Baghdad, the USSR's diplomatic position in the Gulf would improve marginally. Moscow would earn the gratitude of Riyadh and could accelerate slightly the general Arab movement toward normalizing relations with the USSR. The Gulf states will remain suspicious of the Soviets, however, and, ironically, their fear of Soviet meddling might be intensified by a successful Soviet role in changing the leadership in Iraq, even if Gulf rulers supported such actions. [redacted]

25X1

A failed effort also would have mixed repercussions for the United States. It might precipitate internal turmoil in Iraq that could weaken Baghdad's ability to forestall an Iranian victory. This would undermine

.

v

A

.

Secret

**Israel: Prime Minister Peres's  
Regional Development Plan** [redacted]

25X1

Israeli Prime Minister Shimon Peres has revived the idea of a regional development fund to provide financial aid to key Arab states. The plan, which is only in the preliminary stages of development, has been sympathetically received by the United States and has elicited rhetorical support from some European leaders, such as Chancellor Kohl of West Germany and Prime Minister Craxi of Italy. Beyond this mild encouragement, however, the plan faces formidable political and economic impediments. Transforming the initial positive reception to the idea into concrete action appears unlikely in the near term. [redacted]

The fund is envisioned to total \$20-30 billion in aid over a 10-year period. The major contributors to the fund would be the industrialized countries, particularly the Big Seven.<sup>1</sup> Multilateral financial institutions, development banks, businesses, and even individuals—through bond purchases—would also be asked to help. The fund would be used for regional development projects in Jordan, Egypt, Lebanon, Syria, and the West Bank and Gaza. While Israel was originally mentioned as a recipient and a possible partner in some regional projects, Peres has stated that Israel would stand aside if the political consequences of Israeli participation would kill the idea. [redacted]

25X1  
25X1

**The Concept**

The idea of a regional development fund dates back to the Israeli and Egyptian discussions following conclusion of the Camp David accords in 1978. Peres recently reintroduced the idea in light of the drastic fall in oil prices and the current recession in the Middle East. The Prime Minister, like many in his Labor Party and in other relatively dovish groups in Israel, is particularly worried about the political stability of Israel's moderate Arab neighbors, Egypt and Jordan. He is apprehensive that the drastic fall in oil prices will further deepen the current recession in the region by:

- Cutting into export earnings.
  - Causing a fall in Arab aid flows.
  - Reducing the flow of worker remittances.
  - Eventually causing the return of expatriate workers.
- [redacted]

Although details of the organizational framework have yet to be worked out, the idea is to establish an informal international donors group, similar in concept to the World Bank-sponsored consultative groups. Administration of the funds and projects could be carried out on a multilateral or a bilateral basis between donor and recipient countries, with no new organizations being formed. [redacted]

25X1

**The Constraints**

Any regional cooperation scheme that involves Israel immediately raises major political implications. Some donor countries will be reluctant to contribute to any such fund unless assured that there will be no negative reaction from the major Arab states—an unlikely prospect. Recipient countries, particularly Syria, will not want to be associated with any plan even indirectly involving them in cooperation with Israel. There is also the touchy question of development projects in the West Bank and Gaza that would be seen by many Arab states as strengthening Israel's control over the territories. [redacted]

25X1

25X1

Peres suggests that the industrialized countries recycle some of the savings generated by the fall in oil prices into a regional development fund. In his view, investments by the fund would help relieve the economic consequences of the recession, enhance regional economic and political cooperation, aid political stability, and lay the groundwork for progress toward an Arab-Israeli peace settlement. [redacted]

<sup>1</sup> The Big Seven include the United States, the United Kingdom, West Germany, France, Italy, Canada, and Japan. [redacted]

25X1

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

The economic problem of generating funds for the plan is also formidable. All of the major potential donors have budget problems and have undertaken deficit reduction programs that make it difficult to find uncommitted funds. The savings generated by the fall in oil prices will in most cases accrue to private consumers and businesses. The United States has urged the major industrialized countries not to tax away the benefits of lower oil prices but to allow these benefits to flow through the economy in the form of higher growth and lower inflation. Such higher growth and lower inflation, coupled with savings on the civilian and military fuel bill, will ultimately help governments ease the budget crunch. Most governments will be interested in using the savings and increased revenue to reduce their deficits rather than providing new funds for foreign aid. [redacted]

**Arab Reaction**

Potential Arab beneficiaries seem interested in the fund as a new source of development aid, but they are deeply skeptical of Israel's role. [redacted]

Egypt, due in part to its great need for foreign aid and because it has already made peace with Israel, is the Arab country most receptive to the idea. Egyptian officials have expressed doubts, however, that the plan will get off the ground because of a lack of general Arab support for the proposal. [redacted]

Jordan's King Hussein has expressed some interest in the plan and has asked to be kept informed on related developments, but he has cautioned that hopes about prospects for the fund should not be raised prematurely. In addition, Prime Minister Rifa'i has made clear the Jordanian desire that any funds destined for the West Bank be channeled through Jordan. [redacted]

The Syrian press has castigated the regional development plan as an "economic Camp David, whose objectives are to kill Arab steadfastness and to tie the Middle East more firmly to the economy of the West." Privately, Syrian Foreign Minister Shara' has expressed strong opposition to Israel's role but has not excluded Syria's participation. [redacted]

Government officials in Kuwait and Qatar have stated that they believe a political solution to the Arab-Israeli dispute must be found before a regional economic plan would be feasible. Arab League Secretary General Klibi recently expressed a similar view when he publicly criticized the proposal, calling it a maneuver to distract the world from the peace process. [redacted]

25X1

**Donor Reaction**

Reaction to the Peres plan among potential donor states can be summed up as:

- Acceptance of the need for increased aid to the Middle East.
- Some top-level enthusiasm for the idea of a fund.
- A profound reluctance to believe that additional aid funds can be found in governmental budgets.
- Deep skepticism that such a regional plan is politically feasible. [redacted]

25X1

25X1

Japan is in the best position economically to contribute to the development fund. Although running a budget deficit, the Japanese Government has committed itself to doubling its foreign aid over the next two years. The vehicle of a regional development fund would seem to suit Japan's desire to remain a low-key aid donor and would spare Tokyo the need to deal with Israel directly in providing aid funds. The Japanese, however, are acutely sensitive to the political implications of moves in the Middle East, and a negative reaction to the plan by the Arab states would kill prospects for Japanese participation. [redacted]

25X1

25X1

25X1

West Germany, which is incurring a relatively unburdensome budget deficit, is also in a position economically to contribute to a Middle East fund. Finance Minister Stoltenberg, a politically strong member of the government, is committed to a deficit reduction program that he hopes will lead to further tax cuts, so there will be great reluctance to become committed to an extensive new aid scheme. Other West German officials have expressed skepticism about the economic and political feasibility of the plan. [redacted]

25X1

25X1

25X1

Secret

Secret

British officials have stated that the plan is a nonstarter on both political and economic grounds. Given the United Kingdom's current efforts to reduce its budget deficit and the uncertain effects of falling oil prices on government revenue, money for the fund will be extremely difficult for the British to find.

[redacted]

25X1

Italian, French, and Canadian officials agree on the need for greater development aid to the Middle East. Nevertheless, all three are experiencing budget deficits and will be hard pressed to come up with the money to contribute to the proposed fund.

[redacted]

25X1

**Outlook**

Peres's advocacy of the Middle East regional development plan has probably ensured minimal progress over the near term. Under current circumstances, it is unlikely that enough of an Arab consensus can be garnered to make the plan acceptable to the Japanese and other potential donors.

[redacted]

25X1

Peres is not likely to let the plan die, however, and is probably prepared to continue pressing it for quite a while. He will certainly push the idea during his remaining days as Prime Minister in the hopes of getting Likud to go along with it after the October rotation. He will also be able, with less prospects of success, to pursue the plan when he becomes foreign minister.

[redacted]

25X1

[redacted]

25X1

.

v

^

.

Secret

## Israel: Time for Tax Reform

25X1

The Israeli economy has responded vigorously to the austerity measures imposed by the National Unity government last July. Inflation has declined to 1.5 percent per month compared to 12.1 percent a year ago, and the exchange rate has remained virtually stable since last July. The government must address other key economic issues in the coming months—such as tax reform and reducing the government budget—to sustain economic growth and stability. Easing the tax burden would spur investment and aid productivity while encouraging the government to implement real spending cuts. Substantial efficiency costs and tax avoidance associated with the current tax system also could be reduced by simplifying the overall tax structure.

### A Heavy Tax Burden

With government revenue nearly one-half of GNP, the tax burden imposed on Israel's economy is extremely high. This tax burden undercuts the public's willingness to work, influences the decisions of workers who are contemplating whether to actively search for employment, and reduces productivity.

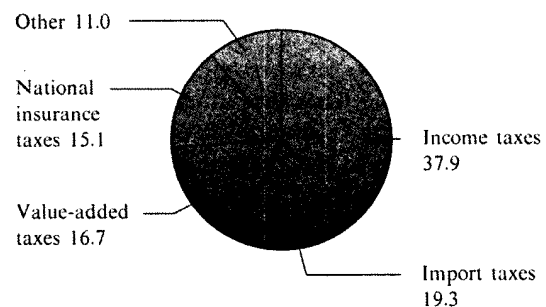
Income taxes, which totaled about \$3.7 billion last year and provided about 40 percent of government tax revenue, constitute one of the heaviest restraints on the economic system. Salaried workers, whose share of total income taxes decreased from 55 percent in 1984 to 41 percent last year, nevertheless continued to be hard hit. A worker who earned 85,000 shekels in April 1984—the equivalent of \$500—watched his nominal monthly wage rise to 700,000 shekels by July 1985, still about \$500. With high marginal tax rates, however, the higher nominal income shifted the worker to a higher tax bracket. Because tax brackets could not be adjusted quickly enough to account for inflation, the salaried worker was worse off.

Self-employed individuals made a larger percentage contribution to income tax revenues last year than in 1984, but they were still better off than salaried

### Israel: Tax Revenue by Source, 1985

Percent

Total: US \$9.7 billion



25X1

309076 5-86

25X1

workers. The bulk of taxes for self-employed workers was due after the year was over—in contrast to salaried workers, whose taxes are automatically deducted from their paychecks throughout the year. By bundling earnings as much as possible at the beginning of the year while placing expenditures at the end, the self-employed greatly reduced their real tax payments to the government.

25X1

25X1

A strange anomaly in Israel's otherwise burdensome tax system is that many types of unearned income are not taxed. Capital gains, for instance, are not taxed at all. Dividends and most interest income also go untaxed.

25X1

Receipts from the value added tax (VAT)—a tax levied on firms according to the value assigned to a particular good by a firm—yielded the government about \$1.6 billion in 1985 or 17 percent of total tax

25X1

Secret

NESA NESAR 86-011  
9 May 1986

**Secret**

revenue. In effect, the VAT—currently 15 percent—acts as a proportional sales tax on production. Although the VAT is an excellent tax revenue source—since it is relatively easy to collect and limits tax avoidance—it imposes high costs on the economy and Israeli consumers, as firms pass on the tax through higher product prices.

Numerous other taxes have added to the Israeli taxpayers' burden:

- Israelis traveling abroad must pay a travel tax equivalent to \$120.
- New car purchases saddle the normal Israeli buyer with four kinds of taxes that raise the price of a typical \$3,000 car to about \$13,000. New immigrants, who have a three-to-five-year grace period to purchase a car at significantly lower rates, are the only ones able to escape this burden.
- Property taxes, paid to the national government alone, amounted to \$232 million last year.
- Additional tax measures in the recently adopted national budget call for a one-time levy on the combined incomes of retired people and impose new education fees. A "one-time" levy on private automobiles imposed last year was reinstated under this year's budget.

#### The Untouchables?

Given Israel's large annual trade deficit, import taxes are not likely to be reduced in the near term. By imposing taxes on imports, especially durable goods, the government has a viable policy tool through which it can directly discourage consumption and help correct the trade imbalance. Taxing imports has also provided the government with a valuable revenue source, with import tax revenues totaling about \$1.9 billion in 1985.

Given the egalitarian beliefs of Israeli society, national insurance taxes—to fund the country's welfare system—also are unlikely to be cut. These revenues totaled about \$1.5 billion last year.

**Table 1**  
**Comparative Tax Rates** *Percent*  
(except where noted)

	Israel	United Kingdom	United States
Income tax rate on \$10,000	50 50	29	9
Value added tax rate	15	15	0-6 <sup>a</sup>
Auto purchase taxes <sup>b</sup>	300(+)	\$130-140	0-5 <sup>a</sup>
Property tax rate <sup>c</sup>	4.8	RV <sup>d</sup>	Less than 2
Per capita import taxes or customs duties	\$445 <sup>e</sup>	NA	\$50-100 <sup>e</sup>

<sup>a</sup> Local and state sales taxes.

<sup>b</sup> Additional taxes as a percentage of car's original price.

<sup>c</sup> Calculated as a percentage of property's assessed value.

<sup>d</sup> Property tax rate calculated as roughly \$1.73 per dollar of the property's rental value, which is significantly below the assessed value.

<sup>e</sup> Estimate.

#### What To Do?

With inflation currently at manageable levels, the Unity government has an opportunity to examine the incentive effects of the tax system on both investment and labor supply. Such an examination would be an essential preliminary step to major tax reform:

- Average and marginal income tax rates could be reduced. Taxes on capital gains and other nonearned income could be imposed.
- The proliferation of new taxes, such as education levies, travel tax additions, vehicle taxes, and levies on pensioners, could be halted.
- Reductions in other tax rates—such as those on property—could further reduce the tax burden. Taxes on luxury apartments and houses should be reexamined to avoid the current double taxation at the national level and by local municipalities.

25X1

25X1

25X1

25X1

25X1

25X1

**Secret**



Secret

**Table 2**  
**Possible Economic Benefits**  
**From Tax Reform**

	Tax Cuts Only	Tax and Spending Cuts
Real GNP	+	+
Real investment	?	+
Productivity	+	+
Real private consumption	+	+
Inflation rate	+	?
Unemployment rate	-	-
Government deficit	+	-

Key: (+) indicates a variable increase.  
(-) indicates a variable decrease  
while (?) is an uncertain effect.

[ ]

Reducing the number of taxes and settling for broad-based taxes would also increase the efficiency of tax collection. Closing loopholes available to high income individuals should also be taken to reduce the regressive nature of Israel's tax system, which places a relatively heavier burden on lower income individuals. [ ]

#### Tax Reform Benefits

By reducing taxes and easing the overall tax burden, the Israeli economy would probably expand and improve its performance. If tax reductions were combined with an appropriate cut in real government spending, productivity would benefit through greater work effort while investment growth would be encouraged. With more money to spend, real private consumption would increase, spurring real GNP. The unemployment rate might initially increase from the average fourth-quarter 1985 rate of 6.6 percent—depending on how reductions in government spending were implemented—but it would ultimately decline with the expanding economy. [ ]

By reducing taxes without a corresponding cut in government spending, the economy would not perform as well. Productivity would increase in response to the tax cut, but investment growth would be uncertain

because the government would still be competing with the private sector for the same funds. Real GNP should increase as taxes are cut. This, however, would probably be accompanied by a higher inflation rate because the government would be forced to finance an even larger budget either by printing more money or by borrowing in capital markets. [ ]

25X1

#### Outlook

To implement tax reform, the government must first reduce its expenditures. The government, however, failed to make real cuts in the recently adopted 1986/87 budget. Instead, the budget offers a variety of new taxes. [ ]

25X1

Prospects for initiating tax reform also appear dim as Labor and Likud seek to position themselves favorably with the electorate. Because tax reform must be accompanied by real government spending cuts entailing a cutback of government services, neither party wants to be linked with tax reform at this time. [ ]

25X1

25X1

The resignation of Finance Minister Moday further hinders tax reform efforts because his replacement, Moshe Nissim, is a low-key Likud loyalist who does not wish to rock the boat. Any action on comprehensive tax reform is likely to be deferred at least until October when Likud is scheduled to regain control of the Prime Minister's portfolio and when Likud may reappoint Moday Finance Minister. In the interim, only piecemeal measures are likely to be adopted. [ ]

25X1

25X1

[ ]

25X1

25X1



Secret

25X1

## Israel: Fallout From Disarray in the Herut Party [redacted]

Through no fault of its own, the Likud bloc's Liberal Party has lost its best chance for ensuring its political survival as a result of the leadership crisis in the Likud's dominant Herut Party. The Liberals' scheduled merger with Herut, which would have guaranteed them one-third representation in Likud executive institutions, has been indefinitely postponed because of the conflicting interests of the rivals for Herut leadership. Likud leader Shamir welcomes the integration of the two parties in hopes of benefiting from the Liberals' added support, but his Herut rivals—Deputy Prime Minister Levi and Commerce Minister Sharon—oppose giving the Liberals a say in determining the Herut leadership. Liberal Party leaders have little leverage to compel Herut to live up to its prior agreement, and some may consider bolting and making the best deal they can for themselves with other parties. [redacted]

In contrast, Herut's glaring problems appear to have strengthened the political standing of the ultrarightwing Tehiya Party. Recent public opinion polls show Tehiya's popularity has increased at the expense of Likud and [redacted] Kach Party. Tehiya's leaders nonetheless probably are concerned that the disarray in Herut may have weakened public support for the political right wing in general and reduced Likud's ability to form a narrow coalition that would be committed to the aggressive platform of Tehiya and other rightwing parties calling for the annexation of the occupied territories. [redacted]

### Merger on Hold

The most recent round of Herut infighting in early March has indefinitely postponed its merger with the Liberal Party to form a unified Likud Party. The merger agreement, which was worked out by Levi and former Defense Minister Arens last January, guaranteed the Liberals control for the next five years of one-third of the positions in all unified party institutions—including the Central Committee, which will choose the next leader of Likud and its candidate for the premiership before the next election. At the

end of five years, party institutions were to be chosen from among the entire unified Likud Party, and the remnants of the Liberal Party would have no guaranteed representation. [redacted]

Shamir and Arens probably would like to proceed with the merger in hopes of benefiting from the added support of the Liberals, who tend to support the Shamir camp. The US Embassy in Tel Aviv reports, however, that Levi—and presumably Sharon—oppose the merger because it would give the Liberals a say in choosing the Likud leader and because they fear it would tip the balance of party power in Shamir's favor. The Embassy quotes one Levi aide who said that the Deputy Premier is not about to repeat the mistake he made in agreeing to the recent integration into Herut of another small party, La'am. La'am's 9-percent share of the delegates to the Herut convention played a key role in the defeat of Levi's candidate for chairman of the convention. Levi aides have warned of a major blowup in Herut if Shamir tries to push the Herut-Liberal merger through the current Central Committee. [redacted]

### Options for the Liberals

The Liberals are considering their options as a result of the disarray in Likud. Party head and former Finance Minister Moday, who helped negotiate the merger agreement with Herut, has staked his Liberal Party leadership on the deal's successful conclusion, and he continues to lobby hard for its approval by Herut. This decision, however, is beyond his control so long as the leadership of Herut is bitterly contested. Even though Shamir and Arens would like to bring the Liberals into the party, it is not likely that they can overcome Levi's and Sharon's opposition unless Shamir regains control over the Herut convention or the new Central Committee. Nor is the issue of the merger one on which any of the Herut rivals appears willing to stake his future. [redacted]

Secret

NESA NESAR 86-011  
9 May 1986

25X1

25X1

25X1  
25X6

25X1

25X1

Secret

The Liberals may offer to renegotiate the merger terms in hopes of enticing Herut to approve it. They may accept some whittling down of their representation in the Knesset list and in the Central Committee, leaving them with little or no influence on key Herut or Likud decisions. Levi has said that in principle he would welcome the integration of the Liberals into Herut as long as they are not guaranteed Knesset seats or Central Committee slots.

Some disenchanted Liberals are considering leaving the 21-year partnership with Herut if the merger does not become a reality. Among the possibilities being discussed are:

- *Forming an independent Knesset list.* As a bloc of 12 Knesset seats, the Liberals might gain some leverage to extract better terms from Herut or to position themselves to benefit from competitive bidding from other parties in the current Knesset. This leverage probably would disappear, however, if faced with an imminent national election because of the Liberals' poor prospects of gaining more than two or three seats in parliament if they go to elections alone. Herut leaders probably would not regard seriously a Liberal threat to bolt under these conditions.
- *Joining the Liberal Center Party.* The current bloc of Liberal Knesset members already has rejected associating with the new Liberal Center Party, recently formed by a few Liberal mavericks. Some might be tempted to reconsider this option, particularly those like Science Minister Patt, who are in disfavor with Moday and whose inclusion on future Likud Knesset lists is in doubt.
- *Aligning with Labor.* Liberal Party kingpin Moday has ruled out an alignment with Labor in a narrow coalition even if the Liberals' merger with Herut is not realized, but Israeli media reporting suggests some Liberals have discussed this possibility with senior Labor Party officials. During the recent Cabinet crisis over Moday's departure from the finance portfolio, Tourism Minister Sharir of the Liberals was reported to have explored privately this option with Prime Minister Peres. Sharir denied the rumors, but other Liberal Knesset members like

---

### *Israel's New Liberal Center Party*

*In early January, Liberal Party members opposed to their party's continued alliance with Herut officially broke away and established the new Liberal Center Party. Among the new party's leaders are the popular mayor of Tel Aviv, Shlomo Lahat; the head of the Jewish Agency, Arye Dulzin; and former Energy Minister Yitzhak Berman, who resigned from the government of former Prime Minister Begin in the wake of the war in Lebanon. The party's platform calls for shifting to a free enterprise economy that would reduce government regulation and simplify the tax structure. On foreign policy issues, the party is inclined toward territorial concessions in exchange for peace agreements with Israel's Arab neighbors. Lahat told US officials recently that he was prepared to return to King Hussein all of the West Bank except East Jerusalem on condition that Jews be allowed to settle in all of Palestine. He also said he would negotiate with PLO Chairman Arafat even if he did not agree to the conditions of recognizing Israel, renouncing terrorism, and accepting UN Security Council Resolutions 242 and 338.*

25X1

---



25X1

Patt who are in disfavor in the party might be more inclined to align with Labor. They would face opposition from Labor Party activists, who would object to guaranteeing the Liberals positions on Labor's list of candidates for the next election—the probable cost of the Liberals' cooperation in a narrow Labor-led government. The Embassy reports Labor supporters are already grumbling about party bosses having promised a disproportionate share of Labor's next Knesset list to former Defense Minister Weizman's Yahad Party, and they are not inclined to give away more seats to newfound allies.

25X1

### **Herut's Loss May Be Tehiya's Gain**

The ultranationalist Tehiya Party, which advocates the immediate annexation of the occupied territories,

Secret

Secret

has done well in recent public opinion polls at the expense of Likud and of Rabbi Kahane's Kach Party. The polls indicate that Tehiya could double its current five seats in the Knesset if an election were held now.

although he realized it was unlikely that new settlements in the territories would be established.

25X1

[redacted]

**Outlook**

25X1

The Embassy reports that Tehiya leaders believe the power struggle in Herut is likely to benefit Tehiya's popularity further. They recognize, however, that public opinion polls can be deceptive, and they are trying to build a broader based constituency that will help them hold their strength against the attractions of Likud on their left and Kach on their right. At Tehiya's national convention in mid-April, it attempted to broaden its appeal by completing the integration of former Chief of Staff Eitan's Tzomet movement into Tehiya and by proposing that Palestinian refugees in the occupied territories be resettled in Arab countries. Both of these actions were intended, in our view, to strengthen Tehiya's appeal to anti-Arab sentiments in Israel without going to the extremes of the Kach Party. Tehiya leaders also addressed a broad range of issues—including negotiations with Egypt on the Taba border dispute and relations with the United States—in an apparent effort to show that Tehiya is interested in more than just settlements in the occupied territories.

Until Herut gets its house in order, its merger with the Liberals will remain on hold, and the Liberals will be left with no good options. The best chance they had for ensuring their political future is the one they apparently have lost through no fault of their own: merger with Herut with a guaranteed one-third of all positions in party organs, including the next Likud list of candidates for election to the Knesset.

25X1

The Liberals' principal problem is that their electoral appeal is limited, and, therefore, they have little leverage to force Herut to abide by its previous agreement or to negotiate a new favorable agreement. Under these conditions, individual Liberals may break off from Likud and make the best deals they can with other parties.

25X1

Tehiya, on the other hand, can bask in the glow of its heightened popularity, but it is uncertain whether its newfound appeal can withstand the test of an election campaign. Tehiya's leaders have to be concerned that the disarray in Herut may have weakened public support for the political right wing in general and undermined Likud's ability to put together a narrow coalition. If this is the case, Tehiya's enhanced standing may be only transitory and will not have brought it any closer to achieving its objective of establishing more settlements in the occupied territories.

25X1

Party leader Ne'eman told Embassy officers recently that in his view Herut's failure to heal its internal differences has made it less likely that Peres will hand power over to Shamir in October and could lead to the breakup of Herut. Should Herut split, Ne'eman believes an electoral alliance between Tehiya and the Shamir/Arens faction would be a natural development because of their common views on retaining the occupied territories. Ne'eman does not regard Sharon's commitment to keeping the territories as genuine, citing as evidence the widely known story that a decade ago Sharon had offered to join hands with a former Labor Knesset member favoring withdrawal from the territories.

[redacted]

25X1

25X1

Ne'eman hopes that if Shamir assumes the premiership in October, he will invite Tehiya into the unity coalition and give it a Cabinet seat. Ne'eman told his Embassy interlocuter that he would work to get more government funding for existing settlements,

25X1



Secret

**Lebanon: Reforming the Presidency and Its Powers** [redacted]

25X1

The Lebanese presidency and its prerogatives are likely to remain major stumbling blocks to a settlement of the decade-old Lebanese civil war. Lebanon's dwindling Maronite Christian community is unwilling to loosen its grip on the office. The President's powers constitutionally are designed to be balanced by those of the Council of Ministers, headed by a Sunni Muslim Premier, but precedence practiced under the unwritten National Pact of 1943 gives the Christian community a marked political and psychological advantage over Lebanon's Muslims—a major cause of the civil war. Syria and its allies in Lebanon are demanding revisions in the President's power, while the Christians are hinting at a new power-sharing agreement between Christian and Muslim leaders. With no solution in sight, the presidency is losing power and growing increasingly irrelevant. [redacted]

Gemayel's grip on governmental institutions outside the Christian enclave probably will continue to weaken. Presidential authority is now mainly symbolic, limited to administrative functions devoid of substance. Despite its fragmentation, the government continues to perform essential services for all parts of the country. Salaries of government and military personnel continue to be paid by the Treasury, even though many employees refuse to report to work for security or personal reasons. All rival militias accept as legitimate such state services as road building, electrification of neighborhoods, and water and telephone services, if they are rendered equally in various regions of the country. [redacted]

25X1

**The Presidency Then and Now**

Before 1975, the official start of the civil war, Lebanese presidents dominated the country's political system and the distribution of its benefits. The Lebanese executive enjoyed disproportionate influence over the legislative and judicial branches of government. This preeminence was magnified by political fragmentation in the religious communities, which undermined the positions of political parties. Political parties in Lebanon operated in an ideological vacuum, allowing the President to intervene in parliamentary elections on behalf of politicians sympathetic to the President's desires. [redacted]

The President views his role in providing essential services as a means for maintaining some control over vanishing state authority. One of the most durable governmental institutions is the Bank of Lebanon. The bank continues to influence the monetary market virtually unaffected by the political chaos surrounding it. Recently, however, there has been growing discussion of duplicating the bank's functions in East and West Beirut, which would further erode Gemayel's standing. [redacted]

25X1

25X1

**Inside the Maronite Canton**

Even among the Christians, sectarian, family, traditional, geographic, and economic cleavages are so sharp that a virtual parity of power exists between the two major actors—Gemayel and Samir Ja'Ja, commander of the Christian Lebanese Forces militia. Ja'Ja joined forces with President Gemayel on 15 January and violently ousted his rival Elie Hubayqa, former commander of the Lebanese Forces.

25X1

Ever since the civil war began, presidents have found it increasingly difficult to influence events. They can neither stop the war nor can they devise a credible reform acceptable to the rival militias. President Amin Gemayel is rendered helpless because of his inability to transform sectarian interests into national policies. Gemayel's power is so eroded that he cannot travel outside of the Christian ministate northeast of Beirut for fear of being killed by his opponents. [redacted]

[redacted] Ja'Ja is forging links between the Lebanese Forces and Gemayel's supporters to ensure support for the militia within the government. [redacted]

25X1

25X1

25X1

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

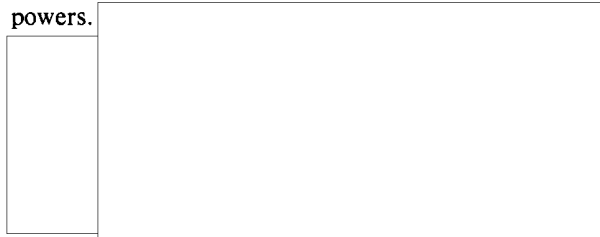
**Key Christian Contenders  
for Political Power**



Gen. Michel Awn [redacted]

The precarious relationship between Ja'Ja and Gemayel illustrates Gemayel's increasing reliance on Christian factional groups to augment his dwindling powers.

25X1



25X1  
25X1



Christian Militia  
Commander, Ja'Ja [redacted]

Despite the decline of the presidency, Christians continue to view the office with great respect. The presidency provides the Maronite Christians with a political identity and a sense of security. Most Christians believe that, although political reforms are needed, such reforms should not be granted at the expense of the presidency. Christians believe that they may eventually be reduced to second-class status if they make concessions on presidential powers. According to the US Embassy in Beirut, a highly placed Christian Phalange Party official stated that even sharing presidential powers is unacceptable because it may lead to chaos. [redacted]

25X1

25X1



Minister of Telecommunications,  
Joseph al-Hashim [redacted]

**The Presidency and the Army**

Lebanese presidents must increasingly rely on the allegiance of key Army brigade commanders to remain in office. Loyalty of the current Army commander, Michel Awn, is necessary but not sufficient for President Gemayel's political survival. [redacted]

25X1  
25X1

Awn as a professional soldier occasionally finds himself at odds with the President. [redacted]

25X1  
25X1



[redacted] Awn is politically ambitious and may covet the presidency, [redacted]

25X1  
25X1  
25X1

[redacted] Awn someday may pose a threat to Gemayel's presidency. [redacted]

25X1  
25X1

Secret



Secret

Any attempt by Awn to wrest the presidency from Gemayel would need the support of both the Lebanese Army and the major Christian militia chiefs, especially Ja'Ja. [redacted] relations between Ja'Ja and Awn have dramatically improved since the ouster of Elie Hubayqa last January. [redacted]

Ja'Ja recognizes the preeminence of the Lebanese armed forces and is willing to increase his cooperation with its officers. Awn in return is impressed with Ja'Ja's leadership ability. [redacted]

#### The Presidency and Political Reform

We doubt that any political formula could solve the continuing civil war. Major peace efforts, however, continue to center on finding a way to devolve the presidency. The most important effort was the Syrian-sponsored Tripartite Agreement signed in Damascus in late December 1985 by rival Lebanese militia leaders Elie Hubayqa, Walid Jumblatt, and Nabih Barri. Gemayel refused to endorse the agreement, claiming that it would severely curtail his powers. The agreement would have reversed the constitutional roles of the President and the Council of Ministers by increasing the powers of the latter—especially the Prime Minister—and leaving the President with a mostly ceremonial role. [redacted]

The Syrians insist that their efforts to end the Lebanese civil war would have succeeded but for the opposition from Gemayel, Ja'Ja, and former President Camille Chamoun. The Syrian regime continues to call for the resignation of President Gemayel and is pressing the Christians to agree to sign the Tripartite Agreement. There are no precedents for a President resigning, however, and Amin seems determined to stay. Syria lacks the support in the Lebanese parliament to oust Gemayel. It could seek his assassination, as it did his predecessor Bashir Gemayel, but it has no one ready to take his place. [redacted]

To counter the increased Syrian pressure following the ouster of Hubayqa, the Christian community has been forced to develop alternatives to the Syrian plan. Foremost among these is a novel proposal that would rotate the presidency, the premiership, and the speaker of parliament among the major sectarian

contenders. The new proposals, sponsored by five leading independent Maronite members of parliament, are cast as a revision to the Tripartite Agreement and have received initial approval from key Christian politicians and militia leaders. Besides recommending that the presidency be rotated, the new proposals—unlike the Syrian-sponsored accord—aim at restructuring the existing distribution of offices among the country's religious communities, while the Syrians have pushed toward full deconfessionalization of the Lebanese political system. The US Embassy in Beirut reports that Lebanese presidential adviser Elie Salem sees great benefit in such a proposal, but he cautioned that this will not ease the deep animosities among the rival factions. [redacted]

25X1

25X1

25X1

Responding to the Christian initiative, Prime Minister Karami and former President Franjiyyah, both foes of President Gemayel aligned with Syria in Lebanon, have put forward yet another reform initiative to break the deadlock over the Syrian-sponsored accord. The US Embassy reports that this proposal may open the door for a compromise. Franjiyyah calls repeatedly for the isolation of Gemayel, but he is reluctant to agree to reducing presidential powers. [redacted]

25X1

25X1

25X1

#### The Succession Dilemma

We believe that the sudden death or resignation of Gemayel would add even deeper uncertainties to the Lebanese crisis. There is no obvious successor to Gemayel who could pull Lebanon out of its misery. Syria is not likely to attempt to replace Gemayel with former President Franjiyyah or possibly with General Awn because neither is likely to yield to Syrian demands on reducing presidential powers. [redacted]

25X1

Among the possible alternative candidates would be former President Charles Helou, parliamentarian Edward Hunayn, former presidential candidate Raymond Edde, or Joseph al-Hashim, currently the Minister of Telecommunications. Helou and Hunayn are ardent Maronites. Helou often supports Lebanon's identification with Arab causes, but, like Hunayn, he

25X1

Secret

Secret

**Possible Compromise Christian Presidential Candidates**



Former President Charles Helou [redacted]

would probably resist attempts to reduce the community's political standing vis-a-vis its Muslim counterparts. Edde has not been implicated in any atrocities in the civil war, but his self-imposed exile in Paris and his opposition to both the Lebanese Christian militias and Syria reduce his possibilities for success. Hashim is a skilled Maronite politician who advocates Christian resistance against Syria and its factional Lebanese allies. He could emerge as a viable presidential candidate from the Christian community as a compromise nominee between Ja'Ja and Awn.

25X1

[redacted]

25X1



Former presidential candidate Raymond Edde [redacted]

It is conceivable that a non-Maronite Christian may be Syria's alternative to Amin. A Greek Orthodox Christian such as former Lebanese Ambassador to the United Nations Ghassan Tueini could be selected as a compromise and as a last resort. Tueini lacks the political backing that could render his candidacy serious. He is known to have opposed the original entry of Syrian troops into Lebanon in 1976, an attitude that puts him at odds with the current Syrian leadership.

25X1

25X1



Edward Hunayn [redacted]

We do not know what would happen if Gemayel were suddenly deposed. We believe that the centralized presidency is fading because of the ascendancy of Shia and Druze power. Selecting a Muslim president is also a distant possibility, but this would entail drastic revisions in the 1943 National Pact, as well as the Syrian-sponsored Tripartite Agreement—a move unacceptable to Damascus.

25X1

25X1

**Prospects**

A major part of the stalemate in Lebanon revolves around the inability of the religious communities to agree on political reforms, especially those dealing with redistribution of presidential powers. The Christian community is committed to maintaining its hold on the increasingly powerless but symbolic presidency while pledging itself rhetorically to accomplish vague political reforms. The Druze and Shia militias undoubtedly will continue their quest for an increased share of the political pie.

25X1

Secret

Secret

Attempted political compromise worked out at the behest of Syria is likely to be resisted by all factions. The Christians will not accept any reduction of presidential powers or the election of a non-Maronite Christian as president. Druze and Shia Muslims will most certainly object to the continuation of a Christian presidency and will continue to vigorously seek an overhaul of the existing political structure.

[redacted]

Forcing Gemayel to resign or ordering his assassination is likely to throw Syrian policymakers even deeper into a quandary, since no Christian or Muslim leader has the political or military influence needed to replace Amin or effectively rule the country. [redacted]

President Gemayel must rely on outside political support to balance his relationship with Syria. We believe that Gemayel will continue attempting to outmaneuver Damascus by increasing his political contacts with European leaders. In the last few months Gemayel has made a series of state visits to European capitals designed to portray him as the legitimate head of the Lebanese state. [redacted]

Gemayel's maneuver may have bought him some time. The Syrian regime seems to be taking care to avoid the appearance of complicity in a possible overthrow of Gemayel as head of state. Gemayel will continue to be vulnerable, though, to Damascus's main contention that by refusing to sign the Syrian-sponsored agreement, he is violating his role as the leader of all Lebanese and is representing only the extreme views of the Christian minority. [redacted]

Constitutionally, Gemayel could be forced to resign only if found guilty of violating the Constitution or of committing high treason. A two-thirds majority of the parliament is required to force a resignation. In light of the fact that parliament has not convened for months even to deal with routine matters because of the volatile circumstances in Lebanon, it is unlikely that it will meet to impeach Gemayel. Any attempt to muster a two-thirds majority will fail because no foreign or domestic group will succeed in forming a coalition that could last long enough to bring charges against the President. [redacted]

25X1

25X1

[redacted]

25X1

25X1

25X1

25X1



Secret

**The Lebanese Army:  
Facing the End of the Road?**

[redacted]

25X1

The Lebanese Army, its ranks decimated by desertions of Muslim military personnel, faces its toughest military challenge—the prospect of defending the Maronite Christian enclave against an assault waged by Muslim and leftist militiamen supported by Syrian artillery and possibly air units. Since President Amin Gemayel and the Lebanese Christian community rejected the Syrian-backed Tripartite Security Agreement last January, the Army and the Christians have been increasingly isolated and confronted by Syria and its allies. Moreover, Damascus has vowed to retaliate against the Christian Lebanese Forces militia, which it blames for mid-April bus bombings in Syria that killed or seriously wounded at least 100 soldiers.

[redacted]

The Army's growing cooperation with the hardline Christian militia since January has exposed the myth of its multiconfessional unity—which Army commander Michel Awn used to maintain was its *raison d'etre*—and virtually guarantees that Damascus will seek vengeance against both groups. Senior Lebanese Army officials have privately acknowledged their inability to repulse a determined Syrian assault, and the US defense attache describes their attempts to make light of the situation as “gallows humor.”

**The Army's Disintegration**

Since February 1984, when Muslim militias took control of West Beirut, most of the Army's Muslim personnel have succumbed to threats from their militant coreligionists and have either joined Muslim or Druze militias or simply stopped reporting for duty. Today, nearly 90 percent of the personnel attached to the Army's five “loyal” brigades are Christian. In contrast, the other four brigades are largely Muslim and outside the control of Army headquarters. Ironically, the Army has kept deserters on the payroll for more than two years lest Muslim militiamen carry out their threats to block the transfer of funds from West Beirut—the location of the Ministry of Finance

and the largest branch of the Central Bank—to Army headquarters in East Beirut so that no one in the Army is paid.

25X1

Muslim officers still in the Army have long been unresponsive to General Headquarters due to pressures from the antigovernment militias and Damascus. Early this year, the Army's Chief of Staff, Abu Dargham—a Druze—called on the Army to remain neutral in internal Lebanese conflicts and avoid fighting with Syrian surrogates. Although the statement angered Army commander Michel Awn, it had little effect on the essentially Christian ranks of the Army.

25X1

**Estranged Muslim Brigades.** At least 9,000 Army personnel, assigned to the four predominantly Muslim brigades, are stationed in areas outside the Gemayel government's control and either are responsive to Syrian directives or cooperate closely with local militias. The 1st Brigade is garrisoned in the Syrian-controlled Bekaa and has received light weapons, vehicles, and a few tanks from Syria.

25X1

[redacted]

25X1

25X1

25X1

The predominately Sunni 2nd Brigade is based in Tripoli, where it is cut off from Lebanese Army support and control. It was deployed along major thoroughfares in that city as part of the Syrian-brokered security plan that ended the heavy fighting last fall.

25X1

Another brigade outside the Army's control is the predominantly Shia 6th Brigade in West Beirut. The brigade's ranks are swollen with Shia Army deserters, many of whom fight alongside relatives in the Shia Amal militia or have ties to other Shia groups. For example, a cousin of the brigade commander, Col. Abd al-Halim Kanj, is a radical Hizballah cleric in

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**Lebanese Army Brigades**

25X1

	Commander	Approximate Personnel Strength	Confessional Composition	Area of Operation	Comments
1st	Col. Ibrahim Shahin	1,500	Shia	Southern Bekaa Valley	Syrian controlled
2nd	Col. Yahya Raad	1,700	Sunni	Tripoli	Syrian controlled
3rd		Disbanded			
4th		Disbanded			
5th	Col. Khalil Kanaan	1,800	Christian	Bikfayya and East Beirut	Loyal to Army Headquarters
6th	Col. Abd al-Halim Kanj	5,000-6,000	Shia	West Beirut	Close ties to Shia Amal militia; some Syrian support
7th	Col. Antoine Sawan	1,300-1,500	Christian	Junyah area	Loyal to Army Headquarters
8th	Lt. Col. Kallas	1,500	Christian	Green Line, East Beirut	Loyal to Army Headquarters
9th	Col. Ghassan Georges Ged	700-1,000	Christian	East Beirut	Loyal to Army Headquarters
10th	Col. Nassib Eid	900-1,200	Christian	Suq al Gharb	Loyal to Army Headquarters
11th	Col. Amine Kadi	1,100	Druze	Hammana	Loyal to Druze leader Jumblatt
12th		Probably disbanded			

charge of a mosque near Beirut International Airport. During the recent evacuation of the remaining US citizens in West Beirut, Awn advised US Embassy officials against using the 6th Brigade to escort the Americans to the Green Line because its troops could not be trusted; he recommended Druze militiamen instead. [redacted]

The Druze 11th Brigade in the Shuf area near Beirut is responsive only to Druze leader Walid Jumblatt. Its troops, although drawing Army pay, probably have merged with the Druze militia. [redacted]

Only remnants of a fifth estranged brigade—the 12th—still exist and are located primarily in Sidon. [redacted]

**Semi-autonomous Christian Brigades.** Although the “loyal” Christian brigade commanders support Awn, they complain about the lack of direction from Army headquarters and have had to become virtually autonomous in overseeing the operations of their brigades. Since last summer, [redacted]

[redacted] they have assumed almost complete control of their recruiting, training, maintenance, and supply programs. Last October, for example, they complained to Awn about the lack of spare parts, noting that their brigades had to sell surplus items to buy spare parts on the open market. Their procurement problems exposed disorganization and corruption among logistic personnel and spurred

25X1

25X1

25X1

25X1

Secret

Secret

efforts to modernize recordkeeping procedures at the warehouses. Further complicating the Army's supply situation are its financial difficulties and inability to locate shippers willing to bring military equipment into the port of Beirut. For these reasons, its sizable orders from the United States for spare parts and various types of vehicles have been on hold since late 1984. [redacted]

**Closer Ties to Hardline Christians**

Since January the loyal brigades have worked increasingly closer with the Lebanese Forces militia, providing artillery support for each other and sharing ammunition. The improved relations between the Lebanese Army and the Christian militia are widening the rift between Lebanese Muslims and Christians and may persuade Muslim militias to put aside their differences, at least temporarily, and jointly battle the Christians. Muslim militia leaders also may become more receptive to Syrian inducements—persistent since the ouster last January of the pro-Syrian Lebanese Forces chief, Elie Hubayqa—to launch a major assault on the Christian enclave. Damascus has told reluctant surrogates, such as the Druze, that it will increase their arms shipments if they cooperate in the attacks. Although cooperation between the Army and the Christian militia strengthens their collective defensive ability, it also ensures that any Syrian retaliation against Lebanese Forces militiamen for the bus bombings will also be directed against the Army. [redacted]

Closer cooperation between the Lebanese Army and the Christian militia strongly suggests that Awn has abandoned all hope of a confessionally mixed Army and instead is embarked upon building an entirely Christian force. Hubayqa's successor as leader of the Lebanese Forces is Samir Ja'Ja, whose reputation as a ruthless Christian militiaman frequently was at odds with the Army's goals in the past and caused most Lebanese Muslims to hate and fear him. Under Ja'Ja's leadership, the militia has sought acceptance by the Army as a reliable ally in the form of a reserve or National Guard force, [redacted]

[redacted]

**Damascus Seeks Revenge**

Lebanese Christians are waiting for the ax to fall. Damascus is carefully choosing the time and the means to force acceptance of the Tripartite Agreement and to avenge the April bombings. If the Lebanese Forces' new relationship with the Lebanese Army strengthens their resistance, Damascus will increase the military pressure. [redacted]

[redacted] On the ground, Syria probably will rely on surrogate forces to directly engage the Christians and use its own troops in the area to intensify the artillery barrage against the Christian heartland. If the Christians' defense proves stronger than anticipated or Syrian surrogates fail to cooperate, direct Syrian intervention in the fighting cannot be ruled out—particularly if Israel fails to respond militarily to such unprecedented Syrian moves as airstrikes against Christian targets. [redacted]

Before resorting to using its own troops, Syria almost certainly will try to persuade more powerful Muslim militias, such as the Druze and the Shia Amal, to join forces with smaller Syrian surrogates, such as the Syrian Social Nationalist Party militiamen and various Palestinian elements. Druze militia officials have told US Embassy officers in Damascus that Druze leader Walid Jumblatt firmly rejected Syrian appeals. Shia Amal militia leaders, already dependent on Syria for arms and money, did not dare to refuse Damascus outright and simply failed to respond. Both militias probably want to avoid incurring casualties in what they view as an essentially Syrian vendetta. [redacted]

Syria would have more influence over the Druze were it not for the militia's new military assistance ties to the Soviet Union. With approximately 6,000 fighters, the Druze militia is the best equipped and best organized Lebanese militia. Within the past year, Druze militiamen have received military training—including helicopter flight training—in the Soviet Union, and Soviet arms shipments have come directly through the new Druze port at Khaldah rather than [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

**Secret**

the former overland route through Syria. The Khaldah port, opened in June 1985, has a maximum capacity of 200 tons a day, according to one estimate.

[redacted]

25X1

**Outlook**

Given the present alignment of forces—small surrogates reluctantly heeding Damascus, more powerful ones reluctant to become involved, and the Christians pooling their resources—the predicted Syrian assault probably will batter, but not destroy, the Christian forces. Deeply rooted Muslim distrust and bitterness toward Ja'Ja almost certainly will force out the few Muslim personnel still active in the Army. Although the Christian forces may survive the Syrian assault, their cooperative efforts could serve only to delay the gradual passage of real power in Lebanon from the Maronite Christians to representatives of the Muslim majority. [redacted]

25X1

[redacted]

25X1

**Secret**



Secret

**Lebanon-Syria:  
Drugs in the Bekaa** [redacted]

25X1

Farmers in Lebanon's Syrian-dominated Bekaa Valley, long major suppliers of Middle Eastern hashish, are turning increasingly to opium poppies as a cash crop. The increase in narcotics profits resulting from the shift to poppies is profoundly changing political and social relations in the Bekaa's largely Shia Muslim community. Efforts to dominate the lucrative drug traffic in this area have become increasingly complex, with Syrian military personnel, moderate and radical Shia factions, Sunni Muslims, and Christian militias all playing a part. The continued political anarchy in the country has heightened the attraction of drug production and trafficking as one of the few reliable sources of income for Lebanese in the area. [redacted]

opium poppies. Press accounts estimate that 80 percent of the Bekaa's agricultural workers are involved in drug-related agriculture. [redacted]

25X1

Ba'labakk, the largest city in the Bekaa, is the headquarters of the loose confederation of Shia extremist groups known collectively as Hizballah ("Party of God") and is the marketing center for much of the drugs produced in the region. The Bekaa has long been the center of Iranian influence in Lebanon. Iranian military advisers regularly work with Shia radical leaders in joint training exercises in the valley. Moreover, the Hizballah general command is colocated with the headquarters of the main Iranian Revolutionary Guard contingent at the Shaykh Abdallah Barracks southeast of Ba'labakk. [redacted]

25X1  
25X1

Although as recently as last year there were only infrequent reports that the Syrian Government was involved in the Lebanese drug trade, we believe Damascus has increased its role in recent months. The involvement of Syrian military and civil officials in Lebanese narcotics demonstrates President Assad's determination to manipulate competing confessional factions in the country and illustrates the historical phenomenon of foreign patronage networks that dominate Lebanese society. We believe Damascus remains resistant to international cooperative efforts to reduce the flow of drugs from the Bekaa and other areas of Lebanon under its control, largely because the Syrian leadership is preoccupied with more pressing political and military issues in Lebanon. [redacted]

In our view, neither the Iranians working in the Bekaa nor active members of local Hizballah groups are deeply involved in the valley's drug business. We believe Hizballah is largely an urban phenomenon, and we have no evidence that its organizers have been actively attempting to influence the flow of drugs from the Bekaa's farms. Similarly, Tehran's representatives in the area are actively supporting the creation of an Islamic state, and involvement in illicit drug traffic would appear inconsistent with the conservative ideology they are espousing. We believe the Iranians and members of Hizballah are preoccupied with other issues and will continue to turn a blind eye to the drug situation for the time being. [redacted]

25X1  
25X1

**The Bekaa: A Center of Lebanon's Drugs**

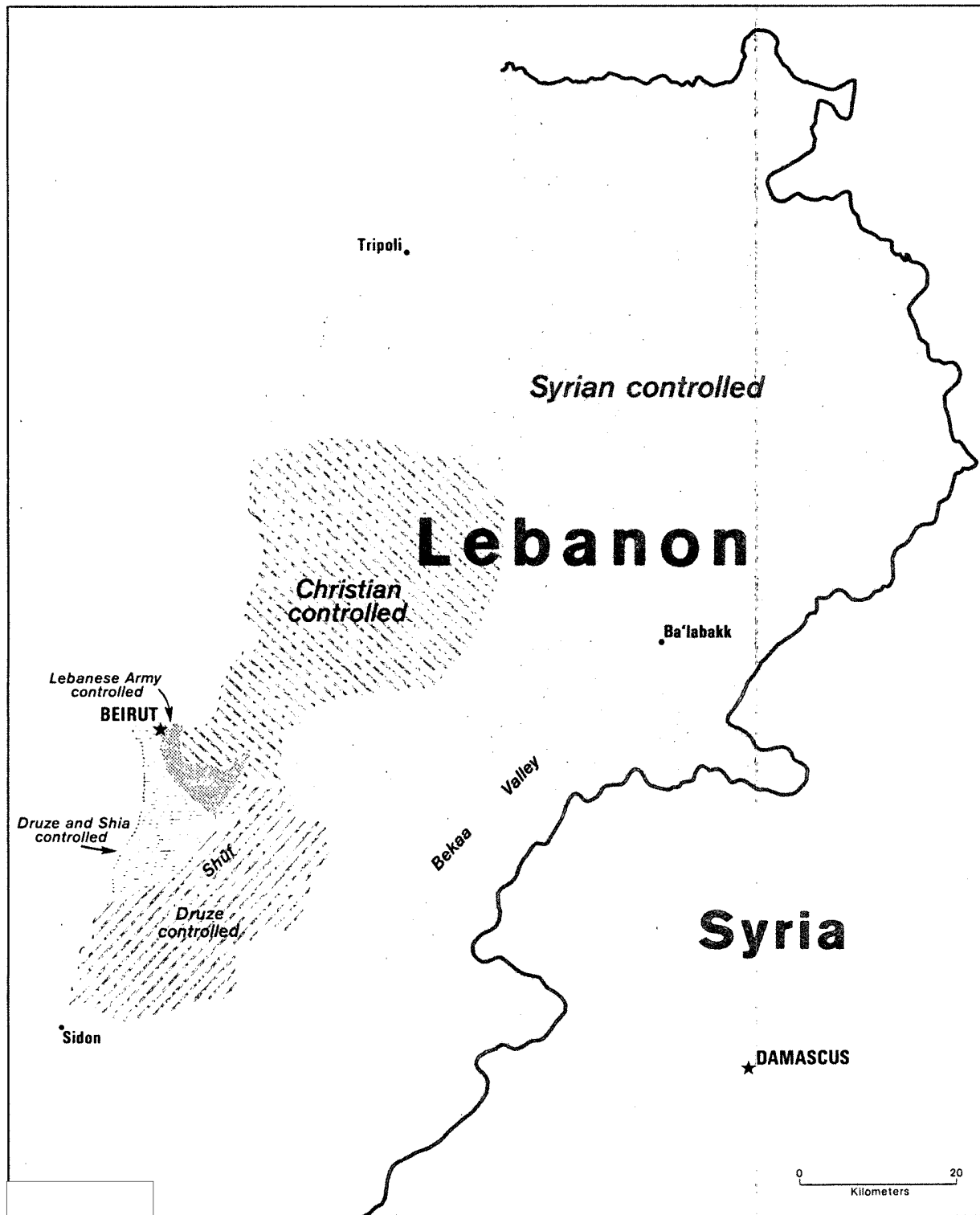
The recent rise in drug production in the Bekaa—and specifically the shift from marijuana to opium—stems from the continued social and political disruption in the region, in our view, and will continue to grow. More than half the available agricultural land in the northern Bekaa was planted in marijuana in 1985, [redacted] much of the hashish in that area has now been supplanted by

According to Lebanese press investigations conducted in mid-1985 in the main drug-producing areas north and east of Ba'labakk, market conditions, the chaotic political situation, the availability of cheap foreign labor from South Asia, and the continued Syrian military presence in the Bekaa combine to make hashish and opium the most attractive agricultural alternative in the region. As local farmers told visiting

25X1  
25X1

Secret  
NESAR NESAR 86-011  
9 May 1986

Secret



703064 (A02660) 8-84

25X1

Secret

Secret

Lebanese journalists last summer, drug-related agriculture—and poppies in particular—overcomes many of the problems that plagued their efforts to produce crops more traditional to the area, such as dates, vegetables, wheat, and other grains. Previously, farmers were responsible for organizing transportation and coordinating marketing middlemen to ensure their crops were conveyed through the maze of military checkpoints between the Bekaa and major markets in Beirut; drug merchants, on the other hand, bring cash and scales right to the fields. Opium is so profitable for the farmers, [redacted] they can afford to pay protection money to the various security and military forces—Hizballah, Syrian, and Lebanese—to guarantee that their crops will not be disturbed. [redacted]

Reports from local press and diplomatic sources traveling through the Bekaa during the last 18 months suggest that the burgeoning inflow of narcotics money is radically changing the traditionally rural and socially integrated nature of the region. Farmers can now afford to hire foreign labor to work the fields during peak periods of planting and harvesting. One farmer reported that helping with the family drug business has replaced higher education for most of the young people of the valley. Another respondent claimed that drug money makes possible the building programs and irrigation schemes that Beirut had promised the region over a decade ago but had failed to implement. Income from the drug trade has provided the necessary working capital for some agricultural families to invest in property in Beirut and other urban centers or open new businesses in the valley. One observer noted that the drug business is a social springboard for village families, enabling them to overcome decades of neglect by the central government. [redacted]

The increased flow of drug-related money into the Bekaa is a mixed blessing, according to a prominent Lebanese journalist. He notes that, although it is true that the sudden influx of easy money has meant local farmers can afford to send their children abroad for advanced study, build larger homes, and increase the overall standard of living in the region, these benefits have been distributed very unevenly. Large farmers with access to capital are rapidly coming to dominate

the trade. The rapid economic rise of those families most involved in the drug business is straining the traditional tribal leadership networks that underlie the social and political life of the region. Moreover, greater availability of opium and heroin is causing a higher level of drug abuse among the rural population. Editorials in leading Beirut newspapers speculate that collectively these pressures will probably prevent integration of the Bekaa with the rest of the country. [redacted]

25X1

#### **Syria—A Major Player in the Bekaa**

Syrian forces have occupied the main drug-producing regions of Lebanon since 1976, during which time there have been reports of Syrian involvement in the production and trafficking of drugs at both the official and individual level. Diplomatic and academic reports characterize Lebanon as Syria's unofficial Hong Kong, noting that Beirut's civil war has failed to reduce the flow of imported consumer goods smuggled to Damascus. Diplomatic reports describe the use of Syrian military vehicles by smugglers carrying consumer goods and narcotics into Syria. The US Embassy in Damascus noted late last year that smuggling of all sorts between Syria and its neighbors has reached epidemic proportions. Many Syrians have close family connections in Lebanon and use these links to facilitate the movement of contraband—including drugs—between Western Europe and other Middle Eastern nations. [redacted]

25X1

25X1

25X1

Syrian military personnel influence the flow of Lebanese drugs out of the Bekaa through a series of checkpoints controlling movement west to the coast and east to the Syrian border, according to the US Embassy in Damascus. Drugs produced in the Bekaa are sold to middlemen representing major Lebanese dealers in Beirut, who arrange for transportation through the Syrian roadblocks and payment of necessary bribes at each point along the route and make transshipment arrangements in a coastal port under the control of one of the Lebanese confessional groups. We believe a smaller volume of opium, hashish, and heroin moves east through a similar series of middlemen and checkpoints into Syria for

25X1

Secret

Secret

**Marketing Cannabis: Hashish**



Lebanese hashish is marketed throughout Western Europe. [redacted]

and crumbled leaves and flowers of the adult plant. The most potent form produced for the US market comes from carefully tended unpollinated female plants specially bred for their high psychoactive chemical content. [redacted]

25X1

The Middle Eastern and West European markets traditionally prefer hashish and hashish oil. Hashish is the drug-rich resinous secretion of cannabis and is produced from the mature plant through a variety of techniques. Many Middle Eastern hashish dealers buy fully grown marijuana plants from local farmers, store the plants for a period of a few days to two months, then hire workers to beat the dried plants with sticks to separate the leaves and flowers from the woody stems, which are discarded. The material is then run through an alternating series of rollers and sieves to produce an increasingly fine powder which is compressed into the balls, cakes, or other traditional forms for final marketing abroad. [redacted]

25X1  
25X1

Marijuana (*Cannabis sativa L.*) grows wild throughout much of the tropic and temperate regions of the world. Its active chemical elements are equally effective eaten or smoked. Most cannabis in the United States is taken in the form of marijuana, the dried

Hashish oil is a dark, tarry product made by extracting the chemically active ingredients from the cannabis plant through repeated distillation. It is popular in Western Europe, where it is applied to regular cigarettes. A drop of the liquid is roughly equivalent to a single joint" of common marijuana. [redacted]

25X1

eventual sale to other Middle Eastern nations and for further processing and transshipment through the Syrian ports of Tartus and Latakia. [redacted]

were charged by European governments with misusing diplomatic privileges to traffic significant amounts of drugs:

25X1

We believe corruption is endemic throughout the Syrian Government and that Damascus turns a blind eye to officials assigned in Lebanon who take advantage of their positions to demand money to facilitate drug production and trafficking. Syrian diplomats, civil servants, and military commanders have all been identified as links in a chain of corruption that connects the drugs grown in the Bekaa with international drug trafficking networks. On several occasions in 1985 and 1986, Syrian diplomats

- According to press reports, Spanish authorities in late 1985 charged two Syrian Embassy officials with heroin trafficking and demanded their dismissal.

Secret

Secret



Bekaa Valley: Poppy capsules are scored in the morning to collect the opium sap. [redacted]

- In April 1986 Italian authorities demanded that Damascus recall three diplomats accused of smuggling drugs in their private cars from Syria into Italy, avoiding border searches by claiming diplomatic immunity, according to the Rome press. [redacted]

Syrian entanglement in drug production and trafficking out of the Bekaa is also suggested by Damascus's reluctance to take active measures to control the illegal flow. Syrian officials in charge of the country's antinarcotics program have resisted meeting with US or other international drug enforcement officers, have failed to follow through on proposed bilateral programs, and have denied US drug and diplomatic officials access to Syrian ports suspected of involvement in drug trafficking, according to Embassy [redacted]

[redacted] have pushed Syrian antinarcotics administrators to account for Damascus's failure to restrict the movement of drugs from Syrian-controlled areas of the Bekaa, the disingenuous answer given is that drug control is a domestic Lebanese affair. Civilian Syrian officials who have attempted to implement antinarcotics programs have been restrained by local military commanders, according to US Embassy reports. [redacted]

25X1

**Lebanon, Drugs, and Syrian Realpolitik**

In our judgment, there is no compelling economic or political motive for Damascus to attempt to control the flow of drugs from the Bekaa. Assad and other senior Syrian leaders seek to maintain a balance among Lebanon's competing confessional factions that increases their dependence on Damascus. As long as drug trafficking out of the Bekaa—and the corruption of Syrian officials connected with the checkpoints through which this traffic flows—continues under the umbrella of Syrian military dominance and does not threaten to embarrass Assad, Damascus will turn a blind eye. Syrian military officials will continue to exploit their involvement in the drug business in their dealings with:

25X1

- The Shia farmers who grow the marijuana and poppies.
- The Iranian clerical and military leaders in the Ba'labakk area.
- The Christians who control the flow of drugs to important ports along the western coast. [redacted]

25X1

25X1

We believe President Assad will continue to treat Lebanon as a Syrian sphere of influence and that Syria will try to maintain Lebanese subservience by professing its support first for one group and then another. Involvement in the Bekaa's rich drug harvests is an adjunct—albeit, a largely unstructured one—to Damascus's overall plan of action in Lebanon because:

25X1

- The foreign exchange the trade brings in is a valuable subsidy for the Shia factions in the Bekaa to buy arms Damascus is either unwilling or unable to supply.

25X1

Secret

Secret

- Control of the lucrative trade is one more item for Lebanese confessional factions to compete over, thus increasing the importance of Damascus as a mediator in Lebanese domestic matters. [redacted]

will remain important economically to Bekaa farmers, many of whom increasingly support radical Shia Hizballah groups based in the area. As Damascus seeks to increase its influence with these militant groups, control over the movement of drugs—if only in the form of random checkpoints manned by corrupt military officials—will remain an important pressure point. [redacted]

25X1

**Outlook**

As long as civil war and social disruption continue in Lebanon—and Syria maintains military control of large parts of eastern Lebanon—there is little likelihood that drugs will lose their attraction as a commodity for any of the groups involved in growing, processing, or trafficking narcotics in the Bekaa. Drugs will continue to offer the only remunerative agricultural alternative for increasing numbers of Lebanese farmers. In our view, the continued competition for civilian support by confessional insurgent groups will add to the social and political uncertainty of the region, thereby increasing the attractiveness of narcotics to farmers and traffickers alike. Income from drug trafficking will continue as an important source of funding for the competing sectarian factions in Lebanon, and increasing reliance by these groups on drugs to bolster their finances will be a further disincentive for them to seek to limit the illicit traffic. Confessional militias will find it increasingly difficult to turn their backs on such a lucrative source of funds, which, because much of its growing and processing is done by imported labor, has as an added benefit the freeing of large numbers of local youths to participate with the militias in the civil war. [redacted]

[redacted]

25X1

25X1

In Lebanon's anarchical political environment, foreign efforts to implement effective antidrug programs in the country—and particularly the Syrian-controlled Bekaa—will continue to fail for the foreseeable future. There is no competent authority in either the drug-producing or the drug-trafficking areas able—or willing—to impose the range of national programs necessary to limit the continuing flow of hashish, marijuana, and opiates from Lebanon. [redacted]

25X1

25X1

Drug production and trafficking out of the Bekaa Valley will remain an integral—if uncoordinated and unstructured—part of Damascus's involvement with the competing Sunni, Shia, and Christian groups in the Bekaa. The income from drug-related activities

Secret

Secret

## India: Gandhi Moves Toward Nuclear Option

25X1

Since he became Prime Minister in November 1984, Rajiv Gandhi has moved gradually toward an Indian nuclear weapons program. On the basis of Gandhi's public statements, we believe his views have changed on:

- The state of the Pakistani program. In his first few months in office, Gandhi did not discuss when Pakistan would have a nuclear weapon, but by the following autumn he was saying a Pakistani nuclear weapon was only months away.
- The importance of the nuclear issue in Indo-Pakistani relations. Gandhi once ranked it alongside other issues such as Pakistan's acquisition of conventional arms and Pakistani aid to the Sikhs, but he now sees it as the most important issue.
- India's response. Although Gandhi still maintains that India neither has nor wants nuclear weapons, he no longer rules out an Indian nuclear weapons program.

**November 1984–April 1985—No Nuclear Weapons**  
In his first few months as Prime Minister, Gandhi saw Pakistani plans to build a nuclear bomb as a clear threat to India, saying in November that it was a matter of great concern and in January that it would make relations between India and Pakistan "irretrievable." He, however, did not say when he expected Pakistan to have a nuclear weapon. He talked about Pakistani "preparations for a bomb" rather than Pakistan's constructing a nuclear weapon. In discussing India's relations with Pakistan, moreover, he tended to give higher priority to other problems, such as Pakistani aid to Sikh separatists and Pakistan's acquisition of sophisticated US arms. Despite his concern, in interviews published in *Dawn* of Karachi and broadcast on US television, Gandhi insisted that India would not build nuclear weapons and that its program was peaceful.

On 8 April, Gandhi, addressing the lower house of parliament, specifically linked Pakistan's arms purchases and its nuclear weapons program, and he cited the lack of US action to restrain Pakistan. A few days later, he repeated his concerns in an address to Air Force commanders. The nuclear threat, in Gandhi's view, had become more imminent. He told a British newspaper that he "feared" that Pakistan was close to a nuclear bomb if it did not have one already. He, however, continued to reiterate his opposition to nuclear weapons, telling a Pakistani newspaper that month that a nuclear arms race would be the "worst possible threat" to both countries. He no longer explicitly ruled out an Indian nuclear weapons program.

25X1

### May 1985–September 1985—Guaranteeing India's Security

On 3 May, Gandhi told the upper house of parliament that, despite Pakistan's acquisition of sophisticated weapons and its nuclear program, there would be no compromise on India's security. The next day, in what the press generally characterized as a significant change in policy, Gandhi told the All India Congress Committee (his party's highest body) that Pakistan's "persistent efforts" to develop nuclear weapons had forced India to "look into various aspects of this question and to see what action we should take."

25X1

25X1

Although Gandhi and his advisers said the press had distorted the meaning of this statement and that there was no change in policy, Gandhi continued to speak of the need to respond to Pakistani progress. In June, in an interview with *Le Monde*, Gandhi denied that India had decided to produce nuclear weapons, but he admitted that India was considering it and that it would take only a few weeks or months to become a "nuclear power." In an interview published in *Figaro*, he said India should not produce nuclear weapons

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

even if Pakistan did, but he added this was a "question that had to be discussed so a decision could be made." The following month, he reiterated India's opposition to nuclear weapons in an interview with a leftwing Indian publication but added that "national security cannot be compromised."

In September he told a Kuwaiti newspaper that Pakistan has produced "a lot" of enriched uranium that could only be going into weapons and that, although India did not want to develop nuclear weapons, if Pakistan acquired nuclear arms, "our security imperatives would compel us to review our options."

Many of Gandhi's statements implied that the nuclear issue had become the most important problem between India and Pakistan. On 18 June, in contrast to his statements a few months earlier, he told Indian reporters that US arms supplies to Pakistan did not endanger India. What really concerned India was Pakistan's nuclear program. In a radio address in August, he clearly gave the nuclear problem first place, characterizing Pakistan's nuclear program as the "one thing" blocking better relations.

**October 1985—No Bomb at This Time**

In early October Gandhi told a US magazine that India had "proof" Pakistan was making an atomic bomb. On 8 October, in a talk to the Indian National Defense College, he reiterated the dangers of nuclear weapons but tied these dangers to countries, such as Pakistan, with violent changes of government. Gandhi may have been implying that weapons would be safe in responsible Indian hands. In an interview published in a British newspaper, Gandhi said that Pakistan could have a bomb in a matter of months, but he repeated that India did not want to build a bomb of its own.

At a press conference on 11 October, when asked to be specific about the Indian response to a Pakistani weapon, Gandhi avoided a direct answer. "We have to worry about our security, and there is no question of allowing New Delhi or any other city to be flattened out." Later in the press conference he denied that he had ever said India would need to make a nuclear

bomb if Pakistan made one. In an interview with a US magazine, however, he said that India's decision against building a bomb was "not irrevocable."

**November 1985—April 1986—The Nuclear Option**

On 1 November, Gandhi took another small step toward a nuclear weapons program, denying to a press conference in New Delhi that India was developing weapons "at the moment" but adding "I am not closing the option." In November, at the dedication of a nuclear reactor, Gandhi said there was no need to make a bomb "at present."

In December, in interviews with *Asia Week* and Japanese television he again reiterated his opposition to nuclear weapons, calling South Asian deterrents "extremely dangerous" and noting that India does not want to build a bomb even if Pakistan does. At about the same time, however, he told reporters in New Delhi that, if Pakistan develops nuclear weapons, "there is no reason for India to do nothing about it. When it becomes necessary, we will inform the people." On 12 December, Rajiv told reporters that, if Pakistan continues working on a nuclear bomb, India would "not hesitate to make a decision."

A review of the Indian press indicates that Gandhi said little about the Pakistani nuclear program in the early months of 1986. Questions from newsmen dealt primarily with other issues such as the worsening situations in Sri Lanka and India's Punjab State. Gandhi may also have wanted to minimize the issue while an effort was under way to improve relations with Pakistan. In December the two countries had reached a preliminary agreement not to attack each other's nuclear facilities, raising hopes of a wider nuclear agreement. In remarks to the upper house of parliament on 5 March, Gandhi's emphasis was on progress in normalizing relations rather than on contentious issues between the two countries.

In a review of defense policy for the lower house on 8 April, however, Gandhi again discussed the nuclear issue. He told the body, as he had a year earlier, that

25X1

25X1

25X1

25X1

25X1

25X1  
25X1

Secret



Secret

Pakistan's nuclear weapons program continued, but this time he added that, if Pakistan acquires a nuclear weapon, India will have to seriously consider its own option. Although India wants a peaceful nuclear program, he said, it cannot remain complacent if the security environment changes. [redacted]

**Gandhi and Nuclear Weapons**

Gandhi's statements on nuclear weapons have several purposes. By raising the prospect of a nuclear-armed India, he almost certainly hopes to dissuade Pakistan from the pursuit of nuclear weapons and to encourage the United States to take stronger action to restrain Islamabad. At the same time, by promising that India's security would be maintained, he has tried to cope with the fears of the Indian public and the demands of politicians for an Indian deterrent. [redacted]

He does not appear to have embarked on an active campaign to influence either Indians or foreigners. He has rarely initiated discussion of the issue. His statements have almost always come in response to questions from newsmen or in broad reviews of defense or foreign policy in which it would have been difficult to omit the subject. He has been cautious in formulating his answers. He has, for example, said a number of times that India would be forced to make a decision, but he has never explicitly indicated that the decision would be to build an Indian nuclear weapon. At times he seemed to be avoiding the issue, especially during such periods as early 1986 when efforts to negotiate differences with Pakistan were under way. [redacted]

We believe that Gandhi's public statements are a fairly accurate, although more cautious, reflection of his private assessment of the nuclear situation. [redacted]

[redacted]

Gandhi probably opposes a nuclear weapons program for India in principle but—presumably because of intelligence reports of Pakistani progress toward a nuclear weapon—believes India may, nevertheless, [redacted]

**Indicators of an Indian Nuclear Weapons Program**

*If India were to initiate a major nuclear weapons program, we would expect to detect the following:*

- *Testing of the high-explosive components of nuclear weapons.*
- *Growing contacts between the Department of Atomic Energy and the military to establish weapons requirements and characteristics and to administer a hardware development program.*
- *Stepped-up efforts to procure abroad specialized materials, components, and equipment for weapons production and for the civil nuclear program in anticipation of a foreign nuclear suppliers' boycott.*
- *Reassignment of key personnel within the nuclear establishment to new duties or locations.*
- *A nuclear test to provide new technical data or more conclusive proof that technical development objectives had been achieved.*

25X1

25X1

25X1

25X1

[redacted]

have to choose the nuclear option. Given Gandhi's caution in his public statements and his reluctance to discuss the nuclear option explicitly, India might be closer to a weapons program than Gandhi will admit publicly. [redacted]

25X1

25X1

Gandhi has said several times that it would take India only a few months to produce a nuclear weapon. In our view, it would take considerably longer unless significant preliminary work had already been done. It may be that, when Gandhi speaks of keeping the nuclear option open, he includes activities such as design work or even the fabrication of some components of a bomb. If so, when he denies that India has a nuclear weapons program, he may mean only that India has not begun constructing deliverable nuclear weapons. [redacted]

25X1

25X1

[redacted]

25X1

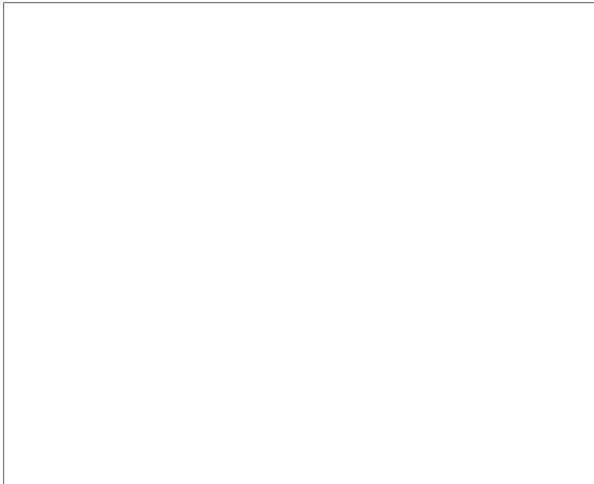


Secret

25X1

**India: Declining Professionalism in the Indian Army** [redacted]

A recent open letter from the Chief of Army Staff to all Indian Army officers suggests that military professionalism has declined to unacceptable levels. The Chief of Army Staff's admonitions against careerism, opportunism, and sycophancy probably reflect Rajiv Gandhi's priorities as Defense Minister and a belated recognition by senior military officers that India's economic and social problems are having a detrimental impact on the Army. The Chief's letter fails to mention an emerging pattern of violence perpetrated by Indian Army personnel that further calls into question the image and role of the Army as an apolitical and professional institution. [redacted]



Sundarji stressed self-improvement as the principal remedy for these ills, calling upon each officer to "strive for excellence." Specifically, he advocated permitting maximum initiative from junior officers, encouraging new ideas, cultivating esprit de corps in all units, and developing an active technical curiosity. He also endorsed proposals for establishing a graduated pay scale for all officers based on time in grade and for increasing the standing of military officers in the government's warrant of precedence that collectively ranks military and civilian government positions. [redacted]



Sundarji's letter was surprising for its frankness and contrasted to the bland utterances of recently retired Chief of Army Staff A. Vaidya. Indian Army general officers have traditionally been loath to publicly criticize their service. Most have maintained that the Indian Army is a highly professional military force on a par with the armies of NATO and the Warsaw Pact. [redacted]

25X1

25X1

**Motives**

We believe Sundarji had several motives in writing the letter. In our judgment, he wanted to reassure the public that something is being done about problems in the Army's officer corps. Over the last two years Indian newspapers have carried numerous stories about corrupt practices by recruiting officers. Officer leadership has also been highlighted in press coverage of last year's judicial proceedings against the mutineers from at least six Sikh battalions in 1984 following Operation Bluestar. Lenient sentences were given to most of the 2,700 "deserters," while their officers were severely punished for having failed to inform and control their men. [redacted]

25X1

25X1



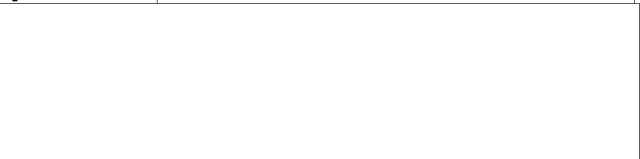
25X1

We believe Sundarji's letter can be taken at face value, encouraging reform for the sake of Army professionalism. He echoes the concerns of middle-grade Indian Army officers, who have been even more frank in voicing their concerns in Indian Army publications. [redacted]

25X1

25X1

25X1



[redacted] These officers contrast the more democratic background of recent recruits born after independence with the British colonial culture that still dominates the Army. Moreover, they identify Army careerism as

25X1

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

the inevitable result of rapid industrialization, a corrupt political system, and an educational system that is adrift. [redacted]

Finally, we believe Sundarji is using this issue to achieve bureaucratic and personal objectives. By bringing the Prime Minister's anticorruption drive into the Army, Sundarji may hope to curry favor with Gandhi and gain Rajiv's support on other military issues, such as the creation of an Army aviation corps. He may also be angling for a high government job after he retires in 1988. [redacted]

[redacted] most military chiefs of staff have made it a point to demonstrate to their civilian superiors that they are reliable, steady, and worthy of a high government assignment—an ambassadorship or state governorship—after they retire. Sundarji's letter, which mimics popular Western management concepts and restates standing Army initiatives but suggests no radical policy changes, is probably an attempt to show that his thinking is in tune with Rajiv's campaign to eliminate government inefficiency. [redacted]

[redacted] describe Sundarji as the most brilliant senior officer in the Indian Army and as having friends in high places. He led the battalion that stopped Pakistan's initial diversionary thrust into the Rann of Kutch in 1965 and, as Western Army commander in 1984, oversaw Operation Bluestar. Sundarji served as Vice Army Chief of Staff before assuming his present duties this year. In his most recent capacities, he has approved, and we speculate helped engineer, the meteoric rise of Lt. Gen. K. Hazari, now Vice Army Chief of Staff, whose wife is the sister of Minister for Internal Security Arun Nehru and a cousin of Rajiv Gandhi. [redacted]

**Effect of the Letter**

Whether Sundarji's letter succeeds in arresting the decline in Army professionalism is open to question. Indian Army officers are notoriously subservient to directives from higher-ups and may respond to Sundarji's directives if they believe their careers depend on it. Unless Sundarji backs his self-help suggestions with surprise inspections and changes in top Army personnel, he probably will not get results. [redacted]

We believe Sundarji's letter may serve to head off civilian attempts to clean up corruption and malfeasance in the Army. Open Indian sources indicate that at least 60 Army and paramilitary officers are under investigation by the Finance Ministry for income tax fraud resulting from black money operations and the payment of commissions from domestic and foreign arms manufacturers. These investigations represent a change in policy, [redacted] Previously the Army, Navy, and Air Force had been allowed to police themselves. Two Navy rear admirals, for example, were recently given training assignments, removing them from the main promotion track, for having been involved in improper financial dealings as project managers for the \$350 million purchase in 1981 of four West German Type 1500 submarines, according to a reliable defense attache source. [redacted]

Sundarji may fear that, unless the Army demonstrates that it is taking steps to clean up its act, civilian investigations and scrutiny of the Army will increase. [redacted] that these and other abuses stemming from the excessive regulations governing the private lives of officers are fairly common. In one case, an Army officer inherited several parcels of land, some of which he sold, undervaluing the bill of sale to save on taxes. He spent this money on consumer appliances, informing his superior—under a rule covering all purchases over 500 rupees (\$42)—that the money came from personal savings. Other malfeasances, including falsifying travel vouchers, are justified because "everybody does it." [redacted]

**Less Than Full Disclosure**

A notable omission from Sundarji's otherwise candid assessment are the growing incidents of violence perpetrated by Army enlisted men and officers on the civilian populace. [redacted] have noted the development of a "we-they" attitude in instances where the Army has been called in to maintain civil order—over 400 times since 1980. Last year, for example, four Army officers, including a battalion commander, faced charges of looting in Amritsar following the 1984 raid on the Golden Temple. Other

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

Army personnel in Patiala were accused of illegally holding and torturing 60 students. More recently, incidents of Army violence against civilians not associated with internal security operations have begun to surface. According to open sources:

- In October 1985, Army troops raided a police station in Kerala to free a fellow soldier arrested for interfering in a customs raid. Nine policemen were injured after Army officers failed to gain the release of their man, and the station was attacked by three truckloads of soldiers.
- Last month, 100 soldiers participated in a riot in Assam after their train was stopped by striking students. In addition to attacking the students, the Army men assaulted train personnel and damaged other civilian property before four senior officers arrived and restored order. [redacted]

25X1

We believe these incidents point to a growing arrogance on the part of some Army personnel toward civil authority. [redacted]  
 this arrogance stems, in part, from the cloistered existence they experience while living on base with little contact with the civilian community except when they are called to restore order. [redacted]

25X1

25X1

This trend, in our judgment, does not threaten civilian control of the military. It constitutes, however, a more significant crack in the facade of the professional Indian military than those problems identified by Sundarji. He probably believes that this problem will abate if the Army is used less frequently in controlling civil violence. We believe, however, that his unwillingness to address this problem in his letter demonstrates the limits that even India's "most professional officer" respects in challenging the Army's image as a professional force helping to maintain India's democratic system. [redacted]

25X1

[redacted]

25X1



Secret

**India-Pakistan: Gradual Progress on Economic Relations** [redacted]

25X1

Indo-Pakistani economic relations are likely to progress at a slow but steady pace for the remainder of the year. Although official support—particularly from the top leadership—provides the momentum for improved relations, bureaucratic resistance and Pakistani business community opposition are likely to prevent rapid improvement. In the near term, public-sector commodity trade, improved communications, and cooperation on issues of mutual interest in international economic forums are the most likely areas for progress. Over time, these economic initiatives will help improve bilateral relations. Growth in private-sector trade will be hampered unless Pakistan increases its list of tradeable items and India provides trade and tariff concessions. [redacted]

revive Indo-Pakistani economic relations. After the meeting between Pakistan's President Zia and India's Prime Minister Gandhi in December, during which a series of bilateral meetings were agreed to, an economic and trade agreement was negotiated in January with the following goals:

- A doubling of public-sector trade.
- Gradual resumption of private-sector trade by Pakistan.
- Increased shipping, rail, and air links.
- Establishment of joint business federations and ventures in each other's country.
- Increased "people to people" and ministerial contact. [redacted]

25X1  
25X1

**Checked Past**

Endemic hostility between the two states and Pakistani fears of Indian economic domination—India's industrial output is more than five times larger than that of Pakistan—have hobbled economic relations. At independence, although Pakistan was richly endowed with agricultural land, most of the subcontinent's industrial base remained in India. As a result, Pakistan placed severe limits on crossborder economic relations to protect its fledgling domestic industries. [redacted]

**Government and Business Response**

The top leadership in both countries strongly supports increased economic ties as a means of improving bilateral relations. [redacted] Gandhi, Zia, and Pakistani Prime Minister Junejo have repeatedly reaffirmed their interest in increased trade and better economic relations. [redacted] Gandhi promised that politics would not get in the way of improved economic relations and that New Delhi would accept a pace comfortable to Islamabad. [redacted]

25X1

25X1  
25X1

25X1  
25X1

After the Simla agreement in 1972,<sup>1</sup> Pakistan and India resumed public- and private-sector trade. Within a few years, however, an adverse trade balance with India led to increased protectionist sentiment in Pakistan and the suspension of private trade in 1977. Since then, official crossborder trade has averaged only \$28 million a year, conducted through public-sector firms, with the balance running in Pakistan's favor. [redacted]

Some middle-level government officials in both countries, however, are more cautious about the chances of improving economic relations. Although most Indian officials approve of the new economic initiatives, they are skeptical of Pakistani intentions, according to Embassy reports. We believe the Indians have pushed for freer crossborder trade and a greater role for the private sector to test Islamabad's commitment. [redacted]

25X1  
25X1

**New Initiatives**

Last year, Pakistani's then Finance Minister Mahbubul Haq proposed a series of initiatives to

In our view, a powerful segment of the Pakistani bureaucracy—led by President of the Senate and former Finance Minister Ghulam Ishaq Khan—opposes improved economic relations with India. These officials argue that free trade would result in

<sup>1</sup> The Simla agreement requires India and Pakistan to settle outstanding disputes bilaterally. [redacted]

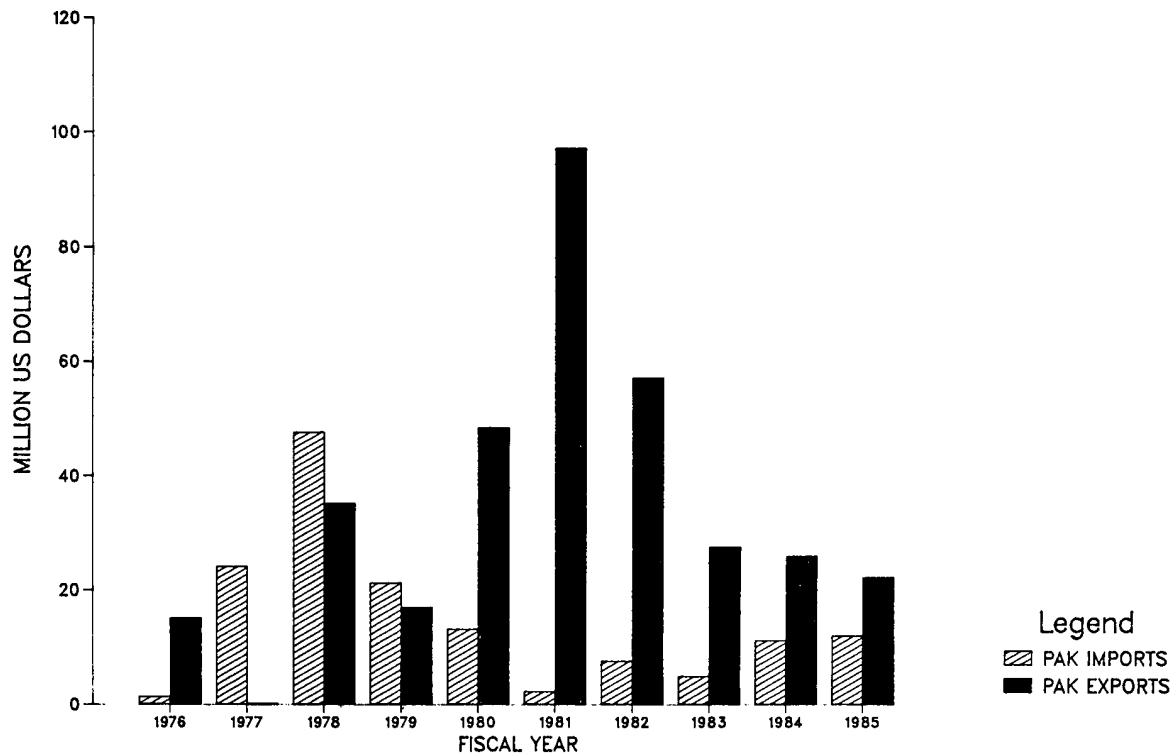
25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

## INDO-PAKISTANI TRADE 1976 TO 1985



Indian dumping, a quick deterioration in the trade balance, and disruption of Pakistani industries. We judge that opposition from this group to Mahbubul Haq's "fast forward" approach to better Indo-Pakistani economic relations was one of the reasons for his dismissal from the Finance Ministry earlier this year.

The business community in India generally favors improved economic relations. Indian businessmen probably view Pakistan as a potentially important market, given its proximity, the large and lucrative crossborder smuggling trade, and strong economic performance over the past few years. Some observers believe that India's low prices, minimal transportation costs to Pakistan, and reasonable quality goods such as tires, auto parts, engineering manufactures, and farm equipment—could supplant expensive Japanese, US, or European imports in the Pakistani market.

In Pakistan, however, business community opinion is divided. The Consulate reports that some well-established Pakistani manufacturers in Karachi fear Indian competition. On the other hand, Pakistani traders—who stand to profit from Indian imports—welcome the opportunity to expand trade ties. Moreover, some textile manufacturers and Lahore-based small-scale industrialists believe their goods are competitive in India and hope to export, according to Consulate reporting.

#### Slow Progress

The initial euphoria earlier this year over renewed economic links has given way to more sober expectations. Indian accusations of Pakistan's alleged role in training Sikh extremists and the demotion of the economic initiative's mentor, Mahbubul Haq, have soured relations and slowed momentum.

25X1

25X1

25X1

Secret



Secret

Nevertheless, Embassy reporting indicates Islamabad and New Delhi seem determined to improve economic relations and have scheduled an economic joint commission meeting for later this month. [redacted]

trade, and monetary reform in international economic forums. [redacted]

25X1

Initial progress on increasing bilateral trade has been slow. Trade figures are not yet available, but the press reports that New Delhi and Islamabad have recently signed a \$13 million cotton-for-wheat barter deal. Pakistan hopes to trade cotton, steel products, and fertilizers for Indian wheat, iron ore, and chemicals.

Limited knowledge of each other's markets, shoddy goods, import quotas, and high tariffs are likely to impede rapid private-sector trade growth. Over time, proposed improvements in telecommunications, increased air service, and the reopening of a rail link between Karachi—Pakistan's industrial center—and Bombay should enhance opportunities for increased trade. Impending balance-of-payment problems in

25X1

[redacted]

both countries could lead to a rupee trade arrangement stimulating crossborder trade and saving on scarce foreign exchange. If Islamabad increases its private trade list to more than 200 items and New Delhi alters its cumbersome import regulations and tariffs to ease the way for Pakistani imports, opportunities for private-sector trade will be enhanced. [redacted]

25X1

Pakistan's resumption of private trade has been limited to the same items traded by public-sector firms. The press reports that the 42-item list includes a diverse range of Indian commodities and products such as tea, wood, and spices, as well as fire engines and potato diggers—items that are not a threat to Pakistani industries. Islamabad has indicated that the list would eventually be expanded to 200 items, according to Embassy reporting. [redacted]

[redacted]

25X1

25X1

25X1

Islamabad and New Delhi also discussed increasing cooperation in international and regional economic organizations and sharing agricultural and economic planning techniques. [redacted]

25X1

India proposed, and Pakistan agreed, to coordinate negotiating positions in GATT and other multilateral trade forums. Over the past few months, India sent a team of farm experts to Pakistan, a delegation of Indian businesswomen was feted in Pakistan, and high-level officials have shared views on tax reform and economic planning, according to press and Embassy reports. [redacted]

25X1

**Outlook**

Indo-Pakistani economic relations will continue to evolve, but progress is likely to be incremental and slow. Pakistan, as in the past, will determine the direction and extent of the economic relationship. Although events in the subcontinent—unrest in Punjab and military moves in Kashmir—could derail improved economic relations, we expect self-interest in both countries to work toward expanded public-sector trade links, improved communications, and efforts to coordinate bargaining positions on textiles,



Secret

**Sri Lanka: Mahaweli Land  
Resettlement—The Impact  
on Communal Rivalry**

25X1

Prospects for settling Sri Lanka's ethnic conflict are complicated by the competition between Tamils and Sinhalese for allotments of land under the Accelerated Mahaweli Development Program (AMD)—by far the largest land development project in the country. At stake is apportionment of the newly irrigated land in the sparsely populated dry zone of Eastern Province that is being developed to relieve population pressure in the wet zone and increase the country's agricultural production.

Tamils strongly oppose land apportionment in Eastern Province by the Sinhalese-dominated government. Tamil leaders complain that the government has discriminated against Tamils in allotting land in the adjacent North Central Province, and they fear that land allotments to Sinhalese in Eastern Province will erode the Tamil plurality there. This plurality is essential to Tamil separatist demands for a Tamil state within Sri Lanka that would include the Eastern and Northern Provinces—claimed as traditional Tamil homelands.

Colombo's handling of the Eastern Province allotments will indicate whether it is willing to make concessions to dampen the ethnic conflict or is determined to extend Sinhalese political control to the Eastern Province at the risk of continued fighting. Resettlement data obtained by the US Embassy support the Tamil claim that Colombo has favored Sinhalese settlers in allocations of AMD land. We suspect that the government will continue that practice in Eastern Province to gain political control, despite a purported government proposal to settle large numbers of Tamils there as a means of redressing allotment imbalances in the AMD program.

**Discrimination**

As late as September 1985, President Jayewardene reiterated Sri Lankan Government policy that land allotments in national settlement programs would be apportioned on the basis of overall national ethnic

ratios. Accordingly, Sinhalese would receive 74 percent of the allotments; Tamils, 18 percent; and other ethnic groups, the remainder.

In the past, two land allocation schemes attempted to settle Sinhalese and Tamils on AMD land: "Cheek by Jowl" and "Checkerboard." In the first scheme, "Cheek by Jowl"—implemented in Irrigation System H in North Central and Northwestern Provinces—Tamil and Sinhalese allottees were mixed along the same irrigation canal. In the second scheme, "Checkerboard"—implemented in the portion of Irrigation System B that is also in North Central Province—Tamil and Sinhalese allottees were settled in separate clusters of land allotments surrounding hamlets providing commercial and social services.

Neither scheme succeeded in integrating Tamils and Sinhalese because the government financed and armed the Sinhalese settlers, who outnumbered and intimidated the Tamils, forcing many of them to leave. In addition, according to a US Embassy official, Tamil villagers interviewed in Irrigation System B complained of "developmental problems," such as a lack of irrigation water and shortages of wells, which made occupation of their allotments virtually impossible.

According to data from the US Embassy on resettlement through June 1985, most of the AMD land opened for settlement is occupied by Sinhalese. In Irrigation System H, where all of the allotments have been issued, 93 percent are occupied by Sinhalese settlers. Furthermore, in the other three irrigation systems where settlement has begun, Sinhalese occupy considerably more than the 74 percent of allotments suggested by the government's formula.

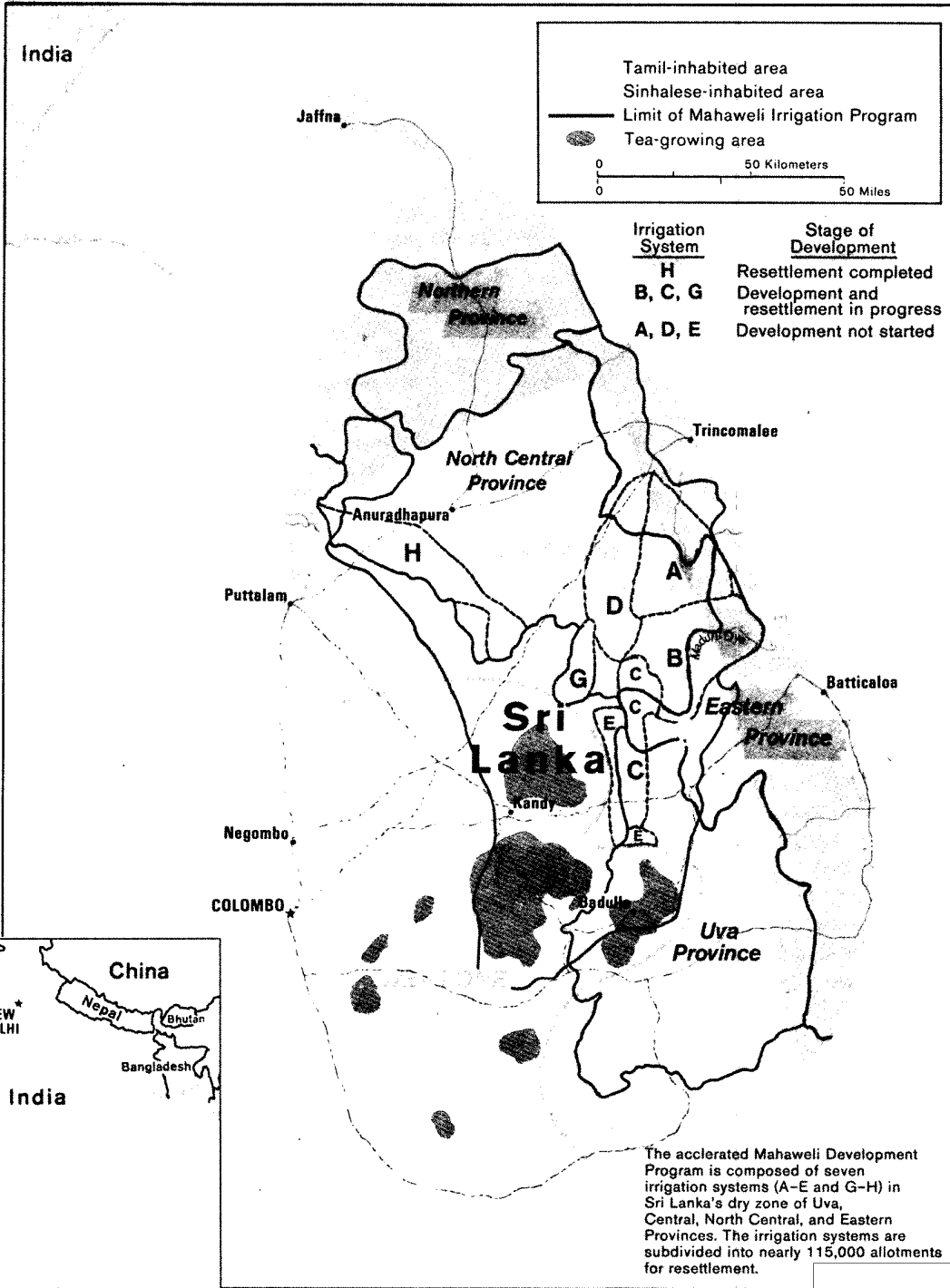
According to the Embassy report, the Tamil United Liberation Front asserts that this outcome was

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**Sri Lanka**



25X1

Secret

Secret

orchestrated by the government in violation of its allotment formula and fears that this pattern of discrimination will continue as AMD land in Eastern Province is opened for settlement. Tamils may be justified in their skepticism about the government's adherence to its allocation formula. Attempted Sinhalese settlement in Eastern Province has precedent. According to the Embassy report, a powerful Buddhist leader, allegedly with the connivance of government officials, sought unsuccessfully in 1983 to settle illegally up to 45,000 Sinhalese squatters.

#### **New Proposal**

To assuage Tamil grievances concerning the inequitable allocation of AMD land and to respond to Indian pressure to resolve the ethnic crisis through political means, the government has purportedly advanced a new proposal for land settlement. According to the US Embassy, in mid-April Sri Lankan Foreign Minister Hameed delivered a negotiating proposal to New Delhi that abandons the current allotment formula in favor of granting 50 percent of land allotments to Tamils in settlement programs implemented in Tamil-majority areas. This appears to be a concession designed in part to fulfill the non-Sinhalese quota of allotments in the AMD program to date.

The right bank of the Maduru Oya River—that portion of Irrigation System B contained within Eastern Province's heavily Tamil Batticaloa District—is the only portion of AMD land that could be developed in the near future. Whether the government implements its new proposal in this area will be indicative of its strategy for future land settlement in northern Sri Lanka over the next few years. Because it is the Tamil preponderance in Batticaloa District that provides the Tamil plurality in Eastern Province, the government could use Sinhalese settlement on the right bank to break the Tamil claim to the province.

The future of the government's new proposal for the right bank may be complicated by the decision of some donor countries to withdraw funding from Sri Lanka, as Canada and Saudi Arabia have done. If this were to occur, Colombo could decide to leave the

**Table 1**  
**Sinhalese Allotments of AMD Land**

Irrigation System	Number of Allotments	Issued (percent)	Occupied by Sinhalese (percent)
B	37,483	17	93
C	22,000	44	99
G	2,900	27	100
H	23,005	100	93

25X1

right bank undeveloped for the near term. Jayewardene, however, probably believes that the continuation of the AMD program is important to the longer term economic vitality of his country, and he would be likely to lobby hard for continued funding, insisting that allotment imbalances will be redressed in future development.

#### **Two Scenarios**

Assuming funding was available, we see two possible scenarios for the future of the right bank. In the first and less likely scenario, the Sri Lankan Government would work with Tamil leaders to implement a 50-percent settlement of Tamils on the right bank. This scenario offers at least a partial solution to the issue of inequitable allocation of AMD land and could serve as a first step in settling the broader ethnic conflict. We believe, however, that Tamil leaders will not accept this proposal, because it enables the government to settle up to 50 percent Sinhalese and erode the Tamil majority in Batticaloa District. Furthermore, Tamils could argue that a much larger percentage is needed to redress past inequities in AMD land apportionment. On the other side, we doubt that the Sinhalese-dominated government, driven by pressure from Sinhalese in the heavily populated wet zone, would abandon its efforts to maximize Sinhalese settlement in Eastern Province as a means of gaining political control there.

In a second scenario—more likely, considering Mahaweli resettlement practices to date—the

Secret

**Secret**

**Table 2** *Percent*  
**The Ethnic Mix in Eastern Province**

	Tamil	Sinhalese	Other
Eastern Province	42	25	33
Batticaloa District	72	3	25
Trincomalee District	36	33	31
Amparai District	21	37	42

25X1

government would encourage large-scale Sinhalese settlement on the right bank. Successive governments in Colombo have promoted the idea of Sinhalese settlement in the east for reasons ranging from the scarcity of land in the densely populated wet zone to the desire by the government to weaken Tamil claims to Eastern Province. Although previous efforts to settle Sinhalese in Eastern Province have failed because of reasons ranging from weather conditions to Tamil insurgency, the idea of Sinhalese settlement in Eastern Province remains popular among some government officials.

#### **Outlook**

Increasing population pressures in the wet zone will fuel the Sinhalese-dominated government's efforts to find more arable land for Sinhalese on AMD land. Because a large portion of AMD land yet to be developed is contained within Eastern Province—claimed by the Tamils as traditional Tamil homeland—and because Colombo will probably continue to use Sinhalese settlement to wrest local political control from the Tamils, we believe that efforts to settle newly irrigated AMD land will continue to feed communal strife. Although some Tamil separatist leaders may accept less than a separate Tamil state, we believe they will persist in fighting to maintain their plurality in Eastern Province in a bid to achieve their larger goal of political recognition of a traditional Tamil homeland.

25X1

**Secret**

Secret

## Sri Lanka: Colombo's Faltering Counterinsurgency [ ]

25X1

The Sri Lankan Government's counterinsurgency effort is stalled despite a substantial military buildup, reconfiguring of the national security bureaucracy, and gestures toward political accommodation with Tamil separatists. The security forces' basic shortcomings—poor organization, training, leadership, and intelligence—remain unaddressed, and they continue to lack a cohesive counterinsurgency strategy. Moreover, Colombo's ability to appeal to the loyalties of the disaffected Tamil populace is weak. The continuing ineffectiveness of the government's effort confronts Colombo with both a growing insurgency and the threat of a hardline Sinhalese backlash. [ ]

### Government Strategy

Emboldened by its larger arsenal and with peace talks stalled, the government began early this year to press for a military solution. The security forces this year have been out of garrison searching for insurgents more frequently than in the past and have even begun combining some ground operations with airstrikes. Still, Colombo's indiscriminate attacks in the Northern Province focused largely on civilians, as opposed to better concealed and more formidable insurgent targets, and have failed to make much headway. The government is now shifting its efforts to the Eastern Province and is trying to keep the insurgents there from gaining ground. [ ]

The government's counterinsurgency strategy is uncoordinated and, in our judgment, poorly thought out. Colombo has favored a military buildup at the expense of realistic political and economic initiatives. The main features of the government's program are:

- A 50-percent leap in military spending, to \$348 million, and a 20-percent jump in the number of military personnel, to about 30,000, over the past year. Most of the money has been spent on arms and equipment.

- Reconfiguring the national security bureaucracy to promote more efficient military operations. Government actions include naming a Minister for National Security and forming the Joint Operations Command and the National Intelligence Bureau.
- Settling Sinhalese villagers in Tamil regions to reduce Tamil dominance in parts of the east and north.
- Holding out promises to Tamil dissident groups of political concessions.
- Efforts to garner domestic support in contested areas. 25X1
- Efforts to gain international support for the counterinsurgency. [ ] 25X1

### Slim Chances for a Military Solution

In our judgment, the government will not be able to effect a military solution to the insurgency because the security forces are incapable of pursuing effective counterinsurgency operations. A successful counterinsurgency generally requires aggressively led, well-trained, mobile forces supported by a flexible logistic network and timely, accurate intelligence. The Sri Lankan military, in contrast, is poorly trained, undisciplined, and has mediocre leadership. [ ] 25X1  
[ ] Colombo's recent military buildup has augmented some of the security forces' resources, such as manpower, ammunition stockpiles, and fast patrol boats, but it does not address their fundamental weaknesses. [ ] 25X1

**Equipment.** The government has concentrated its efforts on acquiring arms and equipment. But its procurement program has no coherent focus and remains subject to the caprice of corrupt government

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**Colombo's Proliferating Security Forces**

*Colombo has added to the confusion among the security forces regarding their roles and missions by forming several new paramilitary organizations. The Army is currently augmented by the Special Task Force (STF), raised by National Security Minister Athulathmudali as an elite counterinsurgency unit; the Home Guard, an official paramilitary force; a National Auxiliary Force (NAF); and the police. The government last year also proposed creating a National Armed Reserve, although it is likely to remain mostly on paper for the foreseeable future because of serious problems in training and equipment. Colombo has begun arming Muslims and Sinhalese in Tamil areas as a grassroots counterinsurgency force. The proliferation of security forces has contributed to the rising of random violence—armed settlers and Home Guardsmen are being increasingly suspected, even by the government, in recent shootings of Tamil civilians.*

[Redacted]

spending practices. [Redacted] government officials charged with arms purchases often decide what weapons the security forces need on the basis of whether they can collect commissions on the total contract value from various vendors, a practice so widespread among senior officials that it has been dubbed "the chocolate game." [Redacted]

As a result, the military is armed with a hodgepodge of weapons that complicate its primitive logistic system. As examples, recent news film shows an Army squad armed with four different types of rifles of two different calibers. The Navy has ordered three types of patrol boats in the last year, [Redacted] two Chinese-made patrol boats idle in Trincomalee harbor, probably because of spare parts problems. [Redacted]

[Redacted]

Much of the military's new arsenal is not very useful for fighting a guerrilla war. The Army is buying anti-aircraft guns and antitank weapons that have little if any utility in a low-intensity guerrilla war. The Air Force has been buying light attack aircraft, which need landing strips and will be difficult to deploy and support in the field. Colombo only recently began acquiring armed helicopters, which can operate out of unprepared forward areas, maintain a longer time over target, and give more accurate fire. [Redacted] the government has begun to realize that light attack aircraft are of only limited usefulness in killing insurgents and generate adverse publicity by inflicting indiscriminate civilian casualties. [Redacted]

25X1  
25X1  
25X1

**Training.** Military training has received less emphasis than arms acquisitions. The security forces' main in-country training programs are small and conducted by a British firm with at least 18 advisers in Sri Lanka. They fly for the Air Force and conduct pilot training as well as instruct nearly all of the Special Task Force (STF) in what we believe are short classes in counterinsurgency tactics for all personnel or more extensive instruction for cadre. [Redacted]

25X1  
25X1

Sri Lankan military personnel also attend courses abroad, but only the Pakistani programs appear to provide training applicable to counterinsurgency. [Redacted] Pakistan began training approximately 360 Sri Lankan junior officers and Home Guardsmen in basic infantry courses last year

25X1  
25X1  
25X1

[Redacted] the Sri Lankan National Security Council decided in March 1986 to send an additional 250 military personnel, mainly Army enlisted men and noncommissioned officers, every two weeks to Pakistan for four- to six-week courses. These programs may represent the only rigorous infantry training the security forces receive, training that, in our judgment, is crucial to the development of effective counterinsurgency units. The continuing indiscipline in the security forces suggests that this training has not yet had much impact on units in the field. [Redacted]

25X1  
25X1  
25X1  
25X1  
25X1

Secret



Secret

**Personnel.** The lack of training and discipline is compounded by poor leadership and ethnic parochialism. The military suffers from the entrenchment of Sinhalese senior officers chosen more for their political reliability than for their military expertise. The junior officer corps, composed largely of young Sinhalese with hardline views toward the communal conflict, is among those groups pressing hardest for a military solution. The rank and file are mostly Sinhalese peasants who often see the conflict in racial rather than political terms. [redacted]

**Reorganization.** Colombo has restructured its national security bureaucracy to mold an efficient high-level organization for waging counterinsurgency, but the effort so far has failed. The creation in 1984 of the post of Minister for National Security has succeeded mainly in introducing to the Cabinet another voice in the cacophony of advice on the communal conflict and has not effectively concentrated on strategic planning and direction for the counterinsurgency. The Joint Operations Command (JOC), created in 1985 to provide centralized coordination for security force operations, is experiencing problems in filling that role.

[redacted] friction between the JOC and the services is serious enough that the Army commander will retire this August rather than continue to tolerate the JOC's interference in day-to-day Army operations. [redacted]

[redacted] the JOC commander is frustrated at the Navy's failure to block the flow of insurgents and materiel between India and Sri Lanka [redacted]

[redacted]

### Losing Hearts and Minds

The nonmilitary dimensions of Colombo's counterinsurgency strategy also have proved inept. The government continues to hold out promises of political concessions to the Tamils, but only on conditions it knows they are unlikely to accept—renunciation of both violence and the union of the

### Strength of Sri Lanka's Security Forces <sup>a</sup>

Unit	Strength
Army	17,000 (active)
	12,000 (volunteer force)
	8,000 (reserve)
Navy	3,900 (active)
	500 (reserve)
Air Force	3,400 (active)
	1,500 (reserve)
Special Task Force	3,500
Home Guard	10,000
Police	17,000

<sup>a</sup> All security forces are expanding at a rapid pace, so the listed strengths are estimates only. About one-third of the Army volunteer force is on active duty at any given time. The National Auxiliary Force is only now forming and is probably not even at cadre strength for its proposed complement of 10,000.

[redacted]

Northern and Eastern Provinces. The insurgents do not trust the security forces because of their record of massacring unarmed Tamils and will not lay down their arms. They also refuse to surrender their goal of autonomy, if not freedom, in the two provinces that they believe constitute their traditional homeland.

[redacted]

Colombo's efforts to develop civilian support for the counterinsurgency have been stillborn. [redacted]

[redacted] President Jayewardene proposed to the Cabinet secretaries in March 1986 that the security forces assist in implementing government development projects, such as road construction, to aid Colombo's assistance to those areas suffering from the war's ravages and to associate the military with more positive efforts in behalf of the local populace. The secretaries were split in their assessment of the proposal, the first move by

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

the government toward a "hearts and minds" approach to the insurgency. [redacted]

25X1

To weaken the Tamils' power in their home areas, Colombo began trying last year to resettle whole Sinhalese villages from the south into the north and east. So far, these settlers have been introduced only into previously uninhabited areas or areas with an already strong Sinhalese presence. Resettlement will have to be greatly expanded to achieve Colombo's goal of establishing Sinhalese dominance throughout the island, but this may prove unfeasible, given insurgent opposition. [redacted]

25X1

**Outlook**

Colombo's growing arsenal probably will allow it to achieve limited success in its counterinsurgency, but the security forces' weaknesses will prevent them from achieving a lasting solution. Although Colombo's forces are capable of capturing slices of rebel-held territory and maintaining a somewhat greater presence in the north and east, inability to do more probably will frustrate hardliners in the military, the political opposition, and the Cabinet and threaten the government with a Sinhalese backlash. Over the long term, a faltering counterinsurgency probably will result in a significantly diminished central government presence in Tamil areas and further polarization of the ethnic communities. [redacted]

25X1

[redacted]

25X1

Secret

Secret

## Sri Lanka: Tamil Insurgent Ranks Grow [redacted]

25X1

The number of Tamil insurgents has nearly doubled during the last year, but rivalries between insurgent groups and disputes over long-term strategy have limited their effectiveness and territorial gains. The insurgents have financed their growth through Indian aid, international narcotics trafficking, and donations from wealthy Tamils overseas, but some groups are still low on funds. Despite attempts to secure additional foreign backing, the insurgents have failed to win sustained international support. Moreover, they are vulnerable to another cutoff of Indian support as occurred in 1985. Thus, the insurgents are likely to try to become more self-sufficient, mainly through robberies and drug trafficking. Unless the major insurgent groups can develop political cohesion and increase their support among Tamil civilians, their growing numbers and new resources will probably not alter the stalemate with government forces.

[redacted]

### Rapid Growth

Since 1976, Tamil separatists in Sri Lanka have grown from a scattered force of several hundred to an organized insurgency of nearly 20,000. We estimate during the last year alone insurgent strength grew by almost 10,000. More than half of the insurgents most likely have received training either in base camps in the Indian state of Tamil Nadu or in Tamil areas of Sri Lanka. The use of increasingly young recruits to sustain antigovernment operations and the lack of new training camps suggest many of the new recruits have little training. [redacted]

Two and a half years of fighting have isolated Tamil areas in the north and east, denying Tamil youth educational and employment opportunities in the predominantly Sinhalese south and creating a large pool of recruits for the insurgency. The insurgents most likely have also recruited from the growing Sri Lankan refugee population in Tamil Nadu—now more than 130,000. [redacted] the People's Liberation Organization of Tamil Eelam (PLOTE)—the largest insurgent group—has trained Tamil women as well. [redacted]

The insurgency has grown in strength despite low levels of popular support among Tamil civilians. Press reports indicate insurgents have executed Tamil civilians and moderate Tamil politicians, plundered most Tamil economic assets in the north and east, and destroyed major rail and road links to economic centers in the south. In response, some Tamil civilian groups have organized strikes and protests in Jaffna—the largest Tamil-dominated town in Sri Lanka. The collapse of the government's administrative authority in Jaffna—including the destruction of all but one local police station—has left the Tamil civilian population hostage to the major insurgent groups.

[redacted]

25X1

Nonetheless, the majority of Tamil civilians has acquiesced in the political and military dominance of the insurgents, suggesting they depend on them for protection against more menacing government security forces. [redacted] the government counterinsurgency campaign includes frequent attacks against Tamil civilians in response to insurgent attacks. [redacted]

25X1

25X1

25X1

### Funding

The insurgents prey upon Tamil civilians for the bulk of their resources. [redacted] the insurgents depend on local agricultural production for their food supply. Thefts of personal property from Tamil civilians—particularly jewelry—and repeated robberies of government-run banks in the north and east have provided substantial revenue for the major insurgent groups. In the north, the insurgents have begun collecting taxes from the civilian population. [redacted]

25X1

25X1

25X1

25X1

The largest insurgent groups have also developed international contacts to acquire arms and training but have been unable to secure sustained foreign support. [redacted]

[redacted]

25X1

25X1

25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

[redacted]

**Problems for the Insurgents**

25X1

[redacted] Some insurgent leaders have received training from the Popular Front for the Liberation of Palestine (PFLP), and at least one major insurgent group contracted in 1984 with the PFLP to train its recruits. [redacted] most insurgent groups conduct their training in south India and Sri Lanka. [redacted] Libya provides only small quantities of arms to Tamil insurgents. [redacted]

The insurgents have paid a price for their rapid growth. [redacted] government security forces made significant gains against the insurgents in the Batticaloa and Amparai districts in March in part because of growing indiscipline among new insurgent recruits. Insurgent leaders in Eastern Province have recruited indiscriminately, filling their ranks with laborers and street toughs, resulting in a proliferation of armed criminal gangs. [redacted]

25X1

25X1

25X1  
25X1  
25X1

[redacted]

The Liberation Tigers of Tamil Eelam (LTTE)—the most active insurgent group—is turning increasingly toward narcotics trafficking to raise funds for its operations. [redacted] One kilogram of heroin for sale in Sri Lanka will bring \$2,500, enough money, we estimate, to maintain a moderate-size training camp in Tamil Nadu for a week. [redacted]

Insurgent disunity diminishes the impact of their increased strength. There are five major insurgent groups—each divided into regional commands—and several minor groups not involved in the current fighting. The US Consulate in Madras reports growing divisions between four insurgent groups and a weakening of their fragile alliance—the Eelam National Liberation Front. [redacted]

25X1

25X1  
25X1  
25X1

[redacted] PLOTE opposes the hit-and-run tactics of two other major groups because the attacks provoke reprisals against Tamil civilians. The erosion of discipline and morale among the major insurgent groups is likely to increase internal rivalries and make political and military cooperation even more elusive. Earlier this month, more than 200 insurgents died in a three-day battle between the LTTE and its rival—the Tamil Eelam Liberation Organization. [redacted]

25X1

The failure of the insurgents to gain reliable patrons other than India may be encouraging them to become more self-sufficient. The LTTE's efforts to increase funding from narcotics trafficking suggest it hopes to develop enough financial independence to continue operations even without Indian support. The major insurgent groups remain heavily dependent on India for weapons and ammunition but maintained limited operations last fall without New Delhi's backing. We believe Tamil expatriate contributions to the insurgents may also have increased, adding to the insurgents' fledgling independence. [redacted]

**Outlook**

Government attacks on Tamil civilian targets are likely to continue fueling the increase in insurgent recruits in the near term. The increase in forces, however, is unlikely to lead to significant territorial gains for the insurgents or increased insurgent control of contested areas. Without a consensus on political objectives and military tactics, the insurgents, in our view, will be unable to make effective use of the large numbers of recruits. Instead, the prospect is for increased anarchy in the Northern and Eastern Provinces as growing numbers of undisciplined insurgents begin operations against government forces. [redacted]

25X1

25X1

25X1

25X1

The insurgents' growth and their efforts toward greater self-sufficiency appear to be causing concern in New Delhi. [redacted] New Delhi wants to improve its control over those groups operating on Indian soil. It is considering creating a unified command structure for all the insurgent groups, resuming training of Tamil guerrillas in south India, and assigning intelligence and military advisers. New Delhi probably also wants to head off attempts by insurgent leaders to revive and broaden links to Iran, the PLFP, and Libya. [redacted]

Secret

The growth in the number of insurgents—including increasingly young recruits—is likely to hurt prospects for long-term reconciliation between Sinhalese and Tamils. The increase could also undermine the strength of moderate Tamils attempting to bridge differences in the negotiations between the government and the insurgents.

[Redacted]

25X1

[Redacted]

25X1



Secret

**Saudi Arabia: Trouble With French Frigates** [redacted]

25X1

The difficulties the Saudi Navy is experiencing with the recently delivered French frigate Madina constitute a major setback to Riyadh's ambitious naval modernization program. The Saudis are complaining about faulty French design and construction. Moreover, shortages of skilled manpower and budget cuts are causing additional program delays. Saudi naval capabilities are likely to fall below current levels during the next two years as Riyadh shifts resources to the French ships in an attempt to integrate them into the Navy. Saudi displeasure with French quality control, training, and general support in this purchase is likely to jeopardize future French arms sales to the Saudis. [redacted]

**Saudi Naval Goals**

The Saudi purchase of French ships and other equipment under the so-called Sawari program is intended to make Saudi Arabia a major naval power in the region. The four French-built F-2000 frigates, two oiler/replenishment ships, and 24 Dauphin helicopters will enable the Saudis to operate farther from base and will give them over-the-horizon antiship capability as well as antisubmarine and shore bombardment capabilities. [redacted]

**Saudi Problems With the French**

[redacted] the Saudis are unhappy with the French frigates. Mechanical and structural problems with the Madina caused the Navy to declare in January that the ship was unseaworthy [redacted]. [redacted] nagging problems kept the Madina out of Saudi naval exercises in late February. In early March, the Madina was able to put to sea—probably for short maneuvers—but several problems have not been resolved:

- Leaks in its hull below the waterline require constant pumping, [redacted]. The Saudis blame the leaks on a faulty French design using rivets, while the French claim the Saudis were unwilling to pay for more expensive welded construction.

**Sawari Deliveries: Slight Delays**

25X1

Since its signing in 1980 the Sawari program generally has proceeded on schedule, and delivery dates have slipped by only about six months from the original estimates.

Ship	Type	Current Arrival Schedule
BORAIDA	Oiler	August 1984
MADINA	Frigate	July 1985
YANBU	Oiler	February 1986
HOFUF	Frigate	March 1986
ABHA	Frigate	September 1986
TAIF	Frigate	February 1987

25X1

[redacted]

- Defective protective paint has caused excessive corrosion of the hull, [redacted]. The French blame this on the Saudis, who failed to choose the more expensive "warm water" paint. 25X1

- [redacted] the Madina has problems with its reduction gear (transmission). Normally intended to last for the life of the ship with little maintenance, serious damage to the reduction gear would require a major overhaul. [redacted]. 25X1

Another problem revolves around the language barrier between Saudi naval personnel and their French instructors. [redacted] 25X1

[redacted] most training has been conducted in English despite the lack of fluency in that language among both instructors and students. This has compounded the difficulty of understanding technical subjects and has caused considerable frustration in the Saudi Navy. [redacted] in the future Riyadh will hesitate before entering into a 25X1

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**French F-2000 Frigates:  
Versatility and Firepower**

The four guided-missile frigates purchased by Saudi Arabia have the potential to increase significantly the firepower and operational versatility of the Saudi Navy. The heavily armed frigates are each equipped with eight Otomat Compact antiship missiles, 26 Crotale surface-to-air missiles, one 100-mm gun, four 40-mm twin cannons, and four antisubmarine torpedos. Each frigate has one Dauphin II helicopter that can provide over-the-horizon targeting information to exploit the 180-km range of the Otomat missile. The Dauphin II is also armed with a shorter range air-to-surface missile, the AS-15TT.

[redacted]

training program with any country that does not speak English. [redacted]  
[redacted] naval personnel rate overall French training as mediocre in comparison with US training.  
[redacted]

**Saudi Problems Hinder Program**

Problems common to other Saudi defense projects are hindering the integration of the French vessels into the Saudi Navy. The biggest challenge Riyadh faces is a lack of personnel to man the new vessels. The Navy relies on expatriate and foreign national personnel—primarily Pakistanis—to man its existing fleet and provide support and maintenance. We believe the need for 1,000 men to staff the Sawari vessels will cause the Navy to take qualified sailors from other ships. This will temporarily reduce the capabilities of the entire fleet. If Riyadh requires all-Saudi crews for the new ships, as one naval officer reported, then manpower shortages will be especially acute. [redacted]

Saudi inexperience with high-technology naval equipment also is likely to impede full use of the Sawari ships. [redacted] naval officers expect new equipment to operate virtually automatically and with little or no maintenance—an unrealistic expectation. Moreover, according to the

**Basing the Saudi Navy**

The delivery of four French frigates is causing the Saudi Navy to redeploy US-supplied vessels to the Persian Gulf. When complete, the Navy's Western flotilla at Jiddah will consist entirely of ships acquired under the Sawari contract. After the transfer from Jiddah to Jubayl, all nine US-built fast-attack missile boats as well as four corvettes will be stationed in the Persian Gulf. Separating US- and French-built ships is expected to limit supply and maintenance problems. Although basing the new frigates at Jiddah limits their ability to protect Saudi interests in the Persian Gulf and Strait of Hormuz, it reduces the risk of the frigates being attacked by Iran. Indeed, moving the frigates to the Persian Gulf could be viewed in Tehran as a threat.

[redacted]

[redacted]  
[redacted] The Saudis apparently believe that little new training will be required to switch personnel from US to French systems. [redacted]

Budget cutbacks by the Ministry of Defense and Aviation have had and are likely to continue to have a substantial impact on the Sawari program. [redacted]

[redacted] Riyadh last spring was \$1 billion behind in payments. Moreover, budget cuts have affected construction of support facilities in Saudi Arabia. [redacted] less than half of the \$250 million needed to build port and helicopter facilities at Jiddah and Jubayl is available. Consequently, Riyadh has canceled plans to construct facilities at Jubayl and postponed further construction at Jiddah. Without the Jubayl port facility, the Navy will not be able to deploy the frigates to the Persian Gulf for extended periods. [redacted]

**Implications**

We suspect that Riyadh's experiences with the Sawari program significantly reduces the likelihood of future

25X1

25X1

25X1

25X1

25X1

25X1  
25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret



Secret

French arms sales to Saudi Arabia. Although not all problems can be traced to poor French design or contract performance, naval officers have remarked they would like to limit future French deals unless product quality and after-sales support improve. Given Saudi Arabia's lower oil earnings, we believe that Riyadh will be wary of giving the French a chance to atone for the mistakes in the Sawari program. Moreover, Saudi Arabia's difficulties integrating the French vessels into the Navy and the decision to establish the ships' home base at Jiddah suggest that the Saudis will continue to rely on the United States to play an important role in the defense of the Persian Gulf until at least the 1990s.

[Redacted]

25X1

[Redacted]

25X1



Secret

### Saudi Arabia's Fourth Estate: Potential for Conflict With the Government

25X1

Saudi Arabia's privately owned press is not subject to routine prepublication censorship, but unwritten guidelines are causing friction between it and the government. Saudi editors and publishers have been officially reprimanded, interrogated, and subjected to travel restrictions for exceeding government-defined bounds, and King Fahd appears to be taking a leading role in the crackdown. The government has maintained effective control over the press so far, but heightened social, economic, and political grievances among Saudis over the next several years increase prospects for a potentially serious confrontation that would put the press in the forefront of political activism in the kingdom.

replaced the General Directorate with a Cabinet-level department, the Ministry of Information. Faysal strengthened government supervision of the press the following year when he decreed that newspapers would remain privately owned, but each publisher must form a licensed organization, a "press establishment," that would be subject to official guidelines and review.

25X1

Since the first Saudi newspaper was founded in 1924, the press has assumed an increasingly important role in shaping popular attitudes in Saudi Arabia. The growing literacy of the native population—up from about 5 percent in 1955 to nearly 50 percent in 1986—has been most responsible for the increased prominence of the press. Eight Arabic- and two English-language daily newspapers are the most influential. Their combined circulation has increased nearly 10 times in the past decade—from approximately 70,000 in 1976 to 600,000 to 700,000 today. The circulation of weekly newspapers (200,000), several major foreign daily newspapers (50,000), and numerous domestic and foreign magazines also has risen sharply. The growing number of Saudis educated in the West has contributed to a significant rise in readership of foreign and domestic English-language newspapers.

Publishing concessions are granted only to groups of Saudi citizens (no less than 15) who are approved by the Ministry of Information. Each press establishment is headed by a director general who is nominated by its members but is subject to Ministry approval. The same process is followed for editor in chief appointments. Each establishment also must set up a committee on editorial supervision to monitor closely the organization's publication process.

25X1

25X1

By law the King maintains ultimate control over the press, and he has the power to revoke the concession of any press establishment, to fire and hire newspaper editors, and to ban the circulation of any publication in the kingdom. The King usually works through the Minister of Information, consistently a commoner, apparently to reduce Al Sa'ud identification with press control.

25X1

The control and dissemination of domestic news in Saudi Arabia is conducted almost exclusively through the Saudi Press Agency (SPA), the only indigenous news service. The SPA, under the jurisdiction of the Ministry of Information, is a quasi-official, government-owned organization designed to channel regional and national news stories to domestic and international recipients.

25X1

25X1

#### Government Control

The increasing influence of the press in the kingdom has prompted the Al Sa'ud regime to monitor growth closely through government agencies, regulations, and direct oversight. King Sa'ud in 1953 established the General Directorate of Broadcasting, Printing, and Publishing to organize, coordinate, and supervise all media activities in Saudi Arabia. In 1963 King Faysal

Foreign newspapers and magazines must be submitted to Ministry of Information censors before they are authorized for sale in the kingdom. Government censors can either ban distribution

Secret

NESA NESAR 86-011  
9 May 1986

Secret

**The Saudi Press**

	Circulation	Date Established	Where Published	Remarks
Umm al-Qura	40,000-50,000 (1982)	1930s	Mecca	Official government gazette (weekly)
Al-Madina al-Munawwara	55,000 (1985)	1937	Jiddah (since 1964)	Kingdom's first Arab language daily; conservative, religious orientation; often harsh critic of US Middle East policies
Al-Bilad	30,000 (1985)	1946	Jiddah	Arabic daily; formerly Sawt al-Hijaz, established in 1924; middle-of-the-road editorials; poor in resources and coverage; emphasizes domestic issues
Al-Nadwa	35,000 (1985)	About 1958	Mecca	Arabic daily; conservative, editorials often have extremist religious focus; close ties to Muslim World League; staunchly pro-Palestinian
Al-Jazira	150,000 (1985)	1974	Riyadh	Kingdom's largest Arabic daily; socially and intellectually liberal by Saudi standards; Arab nationalist orientation
Al-Riyad	140,000 (1985)	1964	Riyadh	Arabic daily; liberal by Saudi standards, but somewhat less so than Al-Jazira; pan-Arab orientation; skilled writer Turki Abdallah al-Sudayri editor in chief
Ukaz	60,000 to 75,000 (1982)	1960	Jiddah	Arabic daily; somewhat less liberal than Al-Jazira and Al-Riyad on social issues; middle-of-the-road political outlook
Al-Yawm	25,000 (1985)	1974	Damman (Eastern Province)	Arabic daily; most nationalistic and Arab nationalist Saudi paper; strong anti-US strain in editorials, reflecting large Shia population and proximity to Iran
Arab News	35,000 (1982)	1974	Jiddah	Kingdom's first English-language daily newspaper; international coverage; editorials consistently anti-US; published by Saudi Research and Marketing Company
Saudi Gazette	22,500 (1985)	1976	Jiddah	English-language daily; domestic and financial focus
Al-Majallah	Over 100,000 (1984)	1980	London	Arab-language international weekly; published by the Saudi Research and Marketing Company (with some government funding); circulated in more than 40 countries
Al-Sharq al-Awsat	Over 100,000 (1985)	1978	London	Arabic daily; largest Arab-language newspaper in the Middle East; since 1980 simultaneously published in Jiddah, Riyadh, Paris, and Casablanca; middle-of-the-road on Arab political issues; published by the Saudi Research and Marketing Company
Al-Yamamah	40,000 (1985)	1952	Jiddah	Arab-language political, social, economic, and literary weekly

25X1

Secret

Secret

completely or authorize distribution after deletions are made. Items that are most frequently subject to deletion, which must be made by distributors, include:

- Articles critical of Saudi policies, the royal family, or Islam.
- Liquor advertisements.
- Nude or revealing pictures.
- Sexually explicit or connotative articles.
- Advertisements for commercial and real estate opportunities in Israel. [redacted]

**Newspaper Staffs**

Educated Saudis traditionally have shunned journalism because it has not been considered a prestigious profession. It is generally lower paying than other private- and even public-sector jobs, and official guidelines restricting press freedoms create the potential for conflict with the government. Indeed, most newspapers employ expatriates—mainly non-Saudi Arabs, Pakistanis, Indians, and Westerners—and several editors of major Saudi newspapers are foreigners. [redacted] many Saudis who hold senior positions on newspaper staffs spend little time or energy on their jobs, devoting more attention to their private business pursuits. [redacted]

Over the past several years, however, there has been a steady increase in the number of young Saudis working for the kingdom's newspapers. [redacted]

[redacted] reduced job opportunities resulting from lower oil revenues have prompted many young Saudis, particularly those with liberal arts degrees, to accept employment as journalists. Many of these young Saudis see work with the press as a stepping-stone to a more lucrative profession, but some are conscientious, hard working, and plan to make a career out of journalism. [redacted]

The percentage of Saudis working in the kingdom's press is likely to increase steadily over the next several years as employment opportunities in the kingdom remain depressed and the number of university graduates continues to rise. Press establishments will be particularly eager to hire qualified Saudis for management positions. Even so, Saudi newspapers will continue to rely on a significant number of foreigners over the next decade, particularly for menial jobs that Saudis will continue to avoid. [redacted]

**Official Guidelines**

Unwritten official guidelines on what is permissible to publish in Saudi Arabia's newspapers and magazines have existed for over 50 years, but we believe the government has adopted more rigid strictures since King Fahd assumed the throne in 1982. Shortly after becoming King, Fahd appointed Ali Hasan al-Sha'ir, a longtime confidant, as Minister of Information. According to US Embassy officials, Fahd is more aware than his predecessors of the power of the press, and he has sought to exert closer control over its activities. [redacted]

[redacted]

[redacted]

Government officials have no regular screening process for news stories and editorials, but the Ministry of Information frequently issues specific directives to the press about disallowed articles. News stories on politically sensitive issues sometimes are altered or censored completely by the Ministry of Information. [redacted]

[redacted] the Saudi Government directed newspaper editors not to print commentary or analysis on the fighting in South Yemen last

25X1  
25X1

25X1  
25X1  
25X1

25X1

25X1  
25X1  
25X1

25X1

25X1

25X1  
25X1  
25X1

25X1

Secret

Secret

**Ali Hasan al-Sha'ir**  
Minister of Information



Ali Hasan al-Sha'ir brought an image of professionalism and dynamism to the [redacted] Ministry of Information when he joined the Saudi Cabinet in April 1983. A retired lieutenant general in the Saudi Army, Sha'ir is a skilled diplomat who is personally close to Fahd. He also appears to be an effective executor of Fahd's rigid information policy. According to US Embassy reporting, he shares Fahd's pro-US political orientation and is relatively progressive on social issues. Sha'ir was Saudi Ambassador to Lebanon from 1976 to 1983, and he maintains residual contacts with Lebanese and Syrian leaders. He is a key adviser to the King on Levantine issues. Sha'ir, a native of Al Madinah, is about 59 years old.

25X1



25X1

January, probably at the point when the more strongly pro-Soviet faction gained the upper hand in the conflict. [redacted]

The Minister of Information provides regular feedback to editors and publishers on the acceptability of their papers' editorials. [redacted] the Minister comments on the focus and tone of specific editorials, and he frequently makes recommendations about how subjects should be treated in the future. The Minister also relays the views of the King, [redacted] a voracious reader of the domestic and international press. [redacted]

The Saudi Government probably allows a greater degree of editorial freedom in the two English-language dailies—the *Arab News* and the *Saudi Gazette*—because their readership is primarily from the Western expatriate community. Both papers are frequently acerbic in their editorial criticism of US policies in the Middle East. US Embassy officials believe the government tolerates a strong anti-US line because the papers purvey to Westerners in the kingdom the depth of Arab displeasure with various US policies. The US Embassy does not believe that harsh anti-US editorials in these papers serve as catalysts for anti-American actions. [redacted]

**Increased Friction**

Official guidelines frequently have caused friction between the government and the press. The King has punished editors, publishers, and even senior government officials for overstepping the nebulous bounds of press freedom. In 1983 the press provided the setting for one of the rare public airings of dissension within the Saudi Government when King Fahd fired Minister of Health Qosaibi for publishing a poem in a Saudi newspaper that was implicitly critical of the King and the traditional Saudi political system. According to US Embassy officials, the King and senior princes were upset more by the publication of the poem than by its content; it set a dangerous precedent for using the press as a vehicle for political dissent. [redacted]

25X1

25X1  
25X1

25X1

25X1

25X1

The US Embassy and other reliable sources have reported several recent confrontations between the Saudi Government and publishers and editors:

- King Fahd, angered by an article in the weekly newspaper *Al-Majallah* that he believed was a primer on how to conduct a coup, imposed strict travel restrictions on the magazine's publisher and his family.

25X1

Secret

- Ministry of Interior officials arrested and detained the national editor of the *Arab News* last November because he published an article about government plans to reduce agricultural subsidies.



- The Minister of Information summoned the publisher of *Arabia: The Islamic World Review* last September and demanded that articles critical of Morocco, Kuwait, Syria, and Pakistan not be printed in his magazine. [redacted]

The *Arab News* and the *Saudi Gazette*, under aggressive leadership, have been pushing against government limits on editorial freedom, and other newspapers almost certainly are carefully watching the official reaction. The US Embassy believes that government retaliation against editors and publishers is intensifying tensions between the government and the press. Harassment of senior newspaper officials hinders the operations of the newspapers and intimidates the staff. Moreover, Westernized and US-educated Saudis probably are becoming increasingly critical of government interference in the dissemination of news and information throughout the kingdom. [redacted]

**Prospects**

Over the next several years the growth and increased professionalism of the Saudi press combined with a likely increase in popular criticism of the Al Sa'ud regime over other issues heighten prospects for a serious confrontation between the government and the press. The monarchy is unlikely to allow greater press independence because the King and senior princes almost certainly believe it would lead to even wider grumbling against the regime and perhaps an increase in political activism. Although Fahd has been instrumental in designing government policy toward the press, his likely successors—Crown Prince Abdallah or Defense Minister Sultan—probably also have rigid views on press freedom. We do not expect government policy to change significantly as a result of Fahd's death. [redacted]

In our view, editors will continue to overstep unwritten guidelines—intentionally and accidentally—and the government will be forced to take punitive measures to inhibit recurrences. Repeated offenses probably would lead the government to fire editors, suspend distribution rights, revoke the licenses of press establishments, and possibly institute prepublication censorship. The government will avoid imprisoning respected newspaper publishers, editors, or journalists to prevent a backlash from those Saudis already critical of government authoritarianism. [redacted]

25X1

25X1

Press issues that have the greatest potential to lead to politically significant confrontations include official corruption, economic difficulties, Islamic fundamentalism, US-Saudi relations, political reform, and social issues, like women's rights. [redacted]

25X1

25X1

**Implications for US Interests**

Current Saudi Government control over the kingdom's press promotes US interests by:

- Restricting sensational anti-US commentary in the Arabic-language dailies.
- Preventing public criticism of US-Saudi ties.
- Stifling public criticism of the Al Sa'ud regime, thereby reducing chances for near-term instability that would threaten extensive US political, security, and commercial interests in the kingdom.
- Ensuring support for moderate Arab positions that are endorsed by the Saudi Government, such as a negotiated settlement to the Arab-Israeli conflict.
- Promoting strong criticism of the Soviet occupation of Afghanistan. [redacted]

25X1

25X1

But Saudi Government control over the press in the kingdom also has its drawbacks:

- It prevents strong criticism of radical Arab states and their objectives.
- It does not allow press support for US policy objectives—for example, PLO endorsement of UN Resolutions 242 and 338—that are not publicly supported by the Saudi Government.
- It prevents the press from encouraging the Saudi Government to adopt more forward-leaning positions on issues important to US Middle East interests.

25X1

Secret

- It makes the press an inadequate vent for popular frustrations and grievances, which increases chances for political unrest that would threaten US interests.

[redacted]

25X1

Nonetheless, increased press freedom in Saudi Arabia probably would result in more vehement criticism of US Middle East policies, which would heighten anti-US sentiment among Saudis. US economic and military support to Israel, already a favorite target of strong media reproof, would come under sharper fire. Sensational reporting and editorials critical of the United States would increase chances of unprecedented anti-US activities, such as public demonstrations and even terrorism. [redacted]

25X1

[redacted]

25X1

Secret



Secret

## Tunisia: Bourguiba Struggles To Strengthen His Grip

25X1

President Bourguiba recently reorganized his Cabinet and transferred the Interior Ministry from his handpicked successor, Prime Minister Mzali, to Gen. Ben Ali, a military officer in charge of the police and intelligence apparatus. This change could indicate that the President believes that he needs a stronger man as Prime Minister and heir apparent. The move follows a series of repressive measures by Bourguiba over the last several months to cope with increasing political unrest and to counter a widening public view that he is infirm and not in complete control.

Although his opponents may be intimidated in the short term, Bourguiba's crackdown could in time lead to greater cooperation among his foes and increasing violence. Because Bourguiba is a staunch supporter of the United States, we believe that at least some of the President's opponents would be quick to identify the United States with the repressive regime, and such criticism could strike a responsive chord among the increasing number of disadvantaged Tunisians.

### Crackdown on Dissent

The 84-year-old President is resorting to increasingly heavyhanded tactics to shore up his authority. He recently intensified an anticorruption campaign to cow critics within the Tunisian elite. He ordered the arrest on corruption charges of two prominent businessmen linked politically and economically to his estranged wife. The singling out of those persons almost certainly was perceived locally as related to palace politics, but the vindictiveness of the campaign and the six-year prison sentences against two of their own have badly shaken the business elite, traditionally among the strongest supporters of the ruling party. Many wonder where the corruption campaign will stop.

At the same time, the government has cracked down on other politically influential elements. The head of the country's main trade union federation is in jail, and the union leadership has been dismantled. Bourguiba also ordered the arrest of the principal opposition leader—the secretary general of the

Socialist Democratic Movement—who had criticized the President's neutrality toward the US airstrike on Libya. Although he has been released from jail for health reasons, his sentencing could effectively exclude opposition participation in the legislative election scheduled for November. Since these elections are held only every five years and the opposition was denied seats in the 1981 contest, frustration among the politically active segment of the population probably is high. Indeed, Bourguiba appears certain to add to this by pushing ahead with a law barring parties founded on religion—a measure that will effectively exclude Islamic fundamentalists.

The Bourguiba regime also has instituted a get-tough policy toward students. The university campuses have been subject to police rule since mid-February, and Islamic fundamentalists both on and off campus have faced arrest. In late April the shooting of an Islamic fundamentalist student leader by the police sparked violent demonstrations that led to the arrest of more than 1,000 students. Many of these have been conscripted into the armed forces. Some of the Tunis university campuses remain closed, and most others are paralyzed by student strikes. Somewhat disturbing for the regime, the repressive measures have prompted the heretofore antagonistic Islamic militants and extreme leftists to work together.

### Is Mzali on the Way Out?

In addition to the crackdown on dissent, another sign that Bourguiba is making security the number-one priority of his regime is his decision to transfer the Interior Ministry from Prime Minister Mzali to Gen. Ben Ali. According to the US Embassy in Tunis, most Tunisians believe Ben Ali favors repression of government opponents, while Mzali is more of a conciliator.

This change coincides with persistent rumors in Tunis over the past few months that Bourguiba has decided to replace Mzali, who has held his post for five years.

Secret

NESA NESAR 86-011  
9 May 1986

Secret

The summary firing of Mzali's righthand man, Mezri Chekir, supports this belief—so, too, does the President's recent choice of Public Works Minister Sayah instead of Mzali to prepare the congress of the ruling Destourian Socialist Party (PSD) in June. Two other Mzali proteges have been shifted out of their posts—Mohamed Fredj Chedli from the Ministry of National Education and Amur Ghedira from the position of Secretary of State at the Ministry of the Interior to mayor of Monastir.

Several personalities could become the new heir apparent. These include Mansur Skhiri, the Minister attached to the Presidency, who has virtually unlimited access to the President and on whom Bourguiba has relied as a way of balancing Mzali's opinions; Mohamed Sayah, who has built a strong political base primarily of loyal PSD members who owe their positions to him; and Ben Ali, whose power derives from his control over the security forces and ties to the military. The President's son, Habib Junior and Foreign Minister Caid Essebsi may also be contenders, even though their influence has waned recently.

#### **Prospects and Implications for the United States**

There is a possibility that Bourguiba's repressive measures could push events in Tunisia in a more negative direction for Washington. If continued for long, such steps could foster links between disparate opponents with little sense of common political purpose and could ultimately lead to violence. Islamic fundamentalists and leftist opponents—including students, workers, and lower economic classes—would highlight the President's close relationship with Washington and accent the point that US security assistance is being used for repression. Such anti-US sentiment could be exploited in the economically depressed south by Libyan-trained dissidents who are well placed to play upon social unrest there. Although we view this latter development as unlikely, it could make an orderly, relatively pro-Western succession more difficult in Tunisia. If events in Tunisia took a negative turn, we would expect the basically pro-Western military to step in to maintain political stability and diplomatic continuity.

For the present, the way appears clear for a relatively unobstructed and generally pro-Western transition in Tunisia. All of Bourguiba's potential successors have had training in the United States or France, are basically pro-Western, and almost certainly would continue to ask for Western economic and military assistance. Nevertheless, each probably would be less sympathetic to Washington than Bourguiba, who is staunchly pro-United States. [redacted]

[redacted] most of the Tunisian elite believe that the United States has paid insufficient attention to the country's security needs. The Israeli airstrike on the PLO headquarters in Tunis last October added to their frustration with Washington. We believe all of the potential successors would strive for a more nonaligned position, cooperate more closely with African and Arab neighbors, and put distance between themselves and the United States.

25X1  
25X1[redacted]  
25X1

Secret

**Page Denied**

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

**Secret**

---

**Secret**