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Intelligence

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**Near East and
South Asia Review**

[Redacted]

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1 August 1986

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NESA NESAR 86-018
1 August 1986

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Near East and South Asia Review [Redacted]

25X1

1 August 1986

Page

Articles

[Redacted]

25X1

Israel: Austerity After One Year [Redacted]

5

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The economic stabilization program begun one year ago by Israel's National Unity government has achieved remarkable results, in particular cutting inflation, stabilizing the shekel, and slashing the budget deficit, but prospects for continued effective austerity will be severely tested in coming months. [Redacted]

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Lebanon: Dim Long-Term Prospects [Redacted]

9

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Lebanon almost certainly will remain a partitioned country at least for the rest of this decade. The Christian and Druze militias have already established cantons in the mountains northeast and southeast of Beirut, and the two major Shia militias are staking out their claims to the Bekaa Valley, southern Lebanon, and West Beirut. [Redacted]

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Lebanon: Sulayman Franjijah—Syria's Christian Protege [Redacted]

15

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25X1

Former Lebanese President Franjijah continues to be an influential player in Lebanese politics in spite of failing health [Redacted] The Syrians use Franjijah both as a liaison between Damascus and East Beirut and as a divisive force when the Christian community shows signs of uniting against Syria. [Redacted]

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NESA NESAR 86-018
1 August 1986

Secret

[REDACTED]

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Syria-Iran: Ties That Bind [REDACTED]

19

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Damascus is gradually reaching a point of diminishing returns in its alliance with Tehran, but President Assad does not appear prepared to end the relationship. Ties to Tehran represent a key bargaining chip used to keep Syria's Arab neighbors at bay and to prevent them from coalescing against Damascus or negotiating with Israel. [REDACTED]

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The US Hostage Takers in Iran: Where Are They Today? [REDACTED]

23

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Many of the leaders of the Islamic militants who seized the US Embassy in Tehran in November 1979 and held US diplomats hostage for over a year currently hold high-level positions in the Iranian Government. A change in their status could be a measure of the regime's desire for better relations with the United States. [REDACTED]

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Iranian Deputy Foreign Minister Larijani: Gaining Influence the Old-Fashioned Way [REDACTED]

27

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Larijani has risen to a position of significance in the Foreign Ministry by relying on the traditional prerevolutionary qualifications of a good education, proper family background, and influential connections and is a strong candidate to become foreign minister in the future. [REDACTED]

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Iraq: Press Attacks on the United States [REDACTED]

29

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Baghdad is not entirely comfortable with its relatively new friendship with the United States and uses press criticism to signal its uneasiness. Government leaders, however, will exercise sufficient restraint to avoid endangering relations with Washington. [REDACTED]

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Can Sudan, One of Africa's Sick Men, Recover? [REDACTED]

33

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Sudan resembles an exposition of whatever can go wrong with a country: drought, refugees, civil war, and economic collapse, even a plague of locusts. If the inflow of problems increases, the central government will appear more irrelevant and the country more ungovernable from the center than ever before. [REDACTED]

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ii

Secret

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Algerian Gas: Future Economic Prosperity at Risk? [redacted] 39 25X1
[redacted] 25X1

With the sixth-largest natural gas reserves in the world, Algeria will almost certainly turn to this resource as a primary source of hard currency beginning in the 1990s. A critical element in this projection are the current negotiations with Algeria's European clients, which will establish the price and volume of these exports to the end of the 1980s. [redacted] 25X1

The Tunisian Economy at an Impasse [redacted] 43 25X1
[redacted] 25X1

Tunisia's worsening economic situation is severely depressing the country's living standards and is increasing political tension. At the same time, fears that new austerity measures will prompt a repetition of the bloody food riots of January 1984 have prevented the government from effectively addressing Tunisia's economic woes. [redacted] 25X1

India: Amazing Facts or Demographic Estimates, Projections, and Social Characteristics [redacted] 49 25X1
[redacted] 25X1

India is confronted with the prospect of providing for twice as many persons by the year 2000 as it strove to support in 1965. India's population, currently the second largest in the world, is likely to pass the 1 billion mark by the end of this century. [redacted] 25X1

India's Coal Sector: Taking Its Lumps [redacted] 53 25X1
[redacted] 25X1

Indian planners believe higher coal production will be needed to satisfy energy demands because they anticipate little increase in domestic oil production over the next five years. Major problems hamper the Indian coal industry, however, and coal production and utilization will increase only slightly during the coming decade. [redacted] 25X1

India: Arun Nehru Recovering [redacted] 57 25X1
[redacted] 25X1

Despite his recent heart attack, Arun Nehru remains well placed to become the next prime minister of India should Rajiv Gandhi, his third cousin, be removed from office. Nehru's colleagues respect him for his intelligence and managerial abilities, but some see him as a ruthless man who does not let individuals stand in the way of his goals. [redacted] 25X1

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[Redacted]

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India-Pakistan: Naval Mine Warfare Capabilities

[Redacted]

67

[Redacted]

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India's principal advantage over Pakistan in naval mine warfare is its numerous ports, many of which are beyond the range of the Pakistani Navy. The Indian Navy also has more mines, delivery systems, and mine countermeasures ships than Pakistan, as well as a modest mine warfare modernization program. [Redacted]

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Pakistan: Implications of an Aerial Refueling Capability

[Redacted]

73

[Redacted]

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Acquisition of tanker aircraft would improve only marginally Pakistan's ability to defend against Soviet and Afghan air violations. Pakistan's main goal in acquiring such aircraft is to improve its capability against targets in southern India. [Redacted]

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Pakistan: The Military After Martial Law

[Redacted]

77

[Redacted]

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The Pakistani military is pleased to see the end of martial law and to be relieved of domestic security responsibilities. Although the officer corps has a low opinion of Pakistani politicians and is skeptical about how well civilians will do, the Army is willing to give the fledgling democracy a chance to work. [Redacted]

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The Afghan Refugees in Pakistan: Shifting Dynamics

[Redacted]

79

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Although the refugees talk about going back to Afghanistan, some worry that the war is not going well for the insurgents. The Pakistanis, for their part, worry about the impact of the refugee presence and believe that those refugees that have been economically and politically active in Pakistan will not return. [Redacted]

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Sri Lanka's Muslims: A Growing Force? [Redacted]

83

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The Muslims' concentration in the strategically important Eastern Province, their prominence in areas of commerce and trade, and their ties to Islamic states in the Middle East have given them a growing role in the three-year-old conflict between Sinhalese and Tamils. [Redacted]

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Israel: Austerity After One Year

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The economic stabilization program begun by Israel's National Unity government one year ago has achieved remarkable results, in particular cutting inflation, stabilizing the shekel, and slashing the budget deficit. Prospects for continued effective austerity, however, will be severely tested in coming months by delicate wage negotiations, the scheduled rotation of the Prime-Ministry from Labor to Likud, and growing political pressure to spur growth.

The Stabilization Plan

Following the formation of the Labor-Likud National Unity government in September 1984, the government tried to confront a hyperinflationary and deteriorating economy with a series of package deals that tied workers and employers to programs freezing prices and wages. These programs failed, however, in part because of the continued depreciation of the shekel and the failure of the government to curb its spending and large budget deficits. The government then imposed an austerity program in July 1985 that consisted of:

- *A Price Freeze.* After cutting some \$750 million in government subsidies and allowing general prices to rise 17 percent, the government froze practically all prices.
- *A Stable Exchange Rate.* The shekel was devalued 19 percent against the dollar and was then held stable.
- *A Restrictive Wage Policy.* After giving partial compensation for past inflation, the government froze and deindexed wages, later allowing wages to rise gradually in line with inflation.
- *A Restrictive Fiscal Policy.* After cutting annual expenditures about \$1.2 billion, the government also raised taxes. The budget deficit was cut from around 14 percent of GNP in FY 1984/85 to about 4 percent in FY 1985/86.

- *A Restrictive Monetary Policy.* The central bank kept interest rates high, pushing real rates as high as an annualized 100 percent at one time.

Since the government imposed its austerity program in July 1985, inflation has been cut drastically from a historic high of 27.5 percent a month to 1.6 percent a month now. The shekel has remained stable at around 1.5 to the dollar for the last year, the government has slashed spending and the budget deficit, and foreign exchange reserves have increased \$1 billion to almost \$3.5 billion.

Help From Outside

Two extraneous factors, the unexpectedly steep fall in the price of oil and the decline of the dollar against most major currencies have helped the government exceed its goals. The oil price drop helped hold down Israeli inflation because part of the benefits of the decline were allowed to flow through to consumers. The price decline will also save Israel \$550-600 million a year on its oil import bill.

The fall of the dollar enabled Israel to maintain its competitive position in nondollar trade areas without the need for a devaluation. The resulting stability of the shekel against the dollar was an important psychological prop for the austerity program. It increased the population's faith in the plan and helped hold down demand for imported durables and pressure for increased wages. A devaluation also would have triggered increases in the popular dollar-linked savings plan, thus feeding the population's purchasing power at a time when the government was trying to stabilize prices. As it turned out, many people moved money out of dollar accounts into high-paying, unindexed shekel accounts.

A third important outside factor was the supplemental aid given by the United States in 1985 and 1986. In addition to the normal yearly military and economic aid—which totaled almost \$3.2 billion in 1985—the United States provided an extra \$750 million a year

Secret

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1 August 1986

Secret

in economic assistance. The supplemental aid, which ends this year, was incorporated directly into the Israeli budget.

Remarkable Results, But . . .

The stabilization program broke the back of hyperinflation and has brought the Israeli population back from the unreality of living with price changes reaching 400 percent a year. The prices of about 55 percent of goods and services are no longer frozen, suggesting that the underlying inflation rate remains low. The government will continue this thaw, but the prices of about 20 to 25 percent of all goods—mostly traditionally controlled goods such as transportation, water, and electricity—will continue to be regulated. Even so, inflation in the last few months has been running at about 20 percent per year, well above the single digit inflation experienced by most of Israel's trading partners and most of its trade competitors.

Even with the wage freeze and gradual compensation for inflation, real wages are back to where they were a year ago. If this trend continues or if the recently begun round of wage negotiations ends in excessive increases in wages, Israeli manufacturers will soon find their international competitiveness eroding further.

Although government spending has been cut and the deficit reduced, the government has avoided the hard choices it must make to bring about real change. Most of the spending cuts were through reductions in subsidies rather than through cuts in government spending for goods and services. The deficit was also reduced by raising taxes of various kinds, increasing Israel's already burdensome taxation. Tax revenues equaled half of Israel's GNP in the last fiscal year.

The stabilization program also helped Israel enjoy a \$1.1 billion current account surplus last year compared to a \$1.4 billion deficit in 1984. This surplus included the massive infusion of US aid, however, and there was a disturbing deterioration in the trade balance at the end of the year. Imports this year have continued to be robust, but there has been no corresponding increase in demand for Israeli exports. Unless the drop in oil prices greatly invigorates nonoil world trade, Israel may experience

considerable deterioration in its current account this year. A deficit of over \$2 billion is possible despite supplemental US aid.

Fundamentals Remain Unchanged

Despite its gains, Israel's fundamental economic situation remains virtually unchanged from a year ago. The country is burdened with tremendous defense needs that are unlikely to diminish in the near future. Approximately 25 percent of the government budget goes to the military, and the Defense Ministry's chief economist believes there is no room for further cuts in defense expenditures.

Israel also remains dependent on outside, primarily US, aid. Total US aid to Israel in 1985 amounted to about \$3.9 billion. With the end of the US special supplement, the government will have to increase taxes or cut expenditures next year by at least \$750 million, equal to about 4 percent of the budget. Excluding defense and debt service—which together equal two-thirds of the budget—the \$750 million amounts to over 11 percent of Israel's ordinary and development budgets.

The economy, moreover, remains highly indexed at a time when most countries have abandoned indexation. Not only are salaries and savings included, but also rents and the government budget are also indexed. This pervasive system of indexation has taken away the economic, and thus political, sting associated with hyperinflation and probably postponed needed reform.

Taxes remain unhealthily high, with the government acting in large part as a transfer agent controlling the flow of funds throughout the economy. Israel's maximum marginal tax rate is 60 percent, and this rises to 70 to 75 percent when national insurance contributions are taken into account. The government also dominates and regulates the capital market to the virtual exclusion of private enterprise.

Government Plans

Israeli Government officials are pleased with the results of the stabilization program, particularly that unemployment has not increased appreciably. They recognize, however, that the gains accomplished so far are fragile. Their plan is to maintain the stabilization

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program with special emphasis on bringing inflation down further. The Finance Ministry is preparing a 45-point program for the second year of austerity, but this plan does not include major new initiatives.

The government budget will have to be pared further, and government employee salaries are likely to be held steady in real terms. Cutting government employment, while probably needed, will prove difficult politically, although the number of government workers may be allowed to decline through attrition.

The government also will attempt to hold down real wage increases in the private sector. The manufacturers' association and Histadrut—Israel's powerful labor organization—recently began a new round of wage negotiations. The government will try to influence the outcome of these talks by telling manufacturers not to expect to be bailed out if they give in to excessive wage demands not compensated for by increased productivity. For this reason the government probably will postpone a devaluation of the shekel—even though it might be justified—until after the wage negotiations end. A devaluation now might be perceived by the manufacturers as a sign that their trade competitiveness will be maintained even if they give in to excessive wage demands.

According to the Director General of the Finance Ministry, no major tax reform is planned in the near future—even though extensive reform was suggested by a government commission. Only minor changes in the tax laws will occur until the gains from austerity prove durable.

In the capital market, the government plans to loosen its control gradually, allowing more private issues to be placed. The government also plans to allow more tradable securities to be issued to foster a truer market environment.

Because of recent changes in its bylaws, the Central Bank will—over the next few years—become increasingly independent of government control on interest rate and monetary policy. By 1988 the bank will no longer be legally required to finance the government's deficits. This change, along with the recent appointment of Michael Bruno—a relatively

independent and highly respected international economist—as the new Central Bank governor, will help consolidate the gains of the stabilization program.

No government official has mentioned deindexation of the economy as an issue to be tackled soon, even though such a move would go far in breaking the wage-price spiral that plagues the Israeli economy. Likewise, privatization of the economy is not a primary concern, although many government officials recognize the potential benefits of such an effort.

Outlook

Although the stabilization program will be maintained in the coming year, the government will be tempted to ease up on austerity—without having made basic changes in Israel's economic structure. The special US aid supplement is ending, and outside factors, such as the oil price decline, cannot be counted on to again help out.

Internal dynamics in Israel are also working against continued progress. The recently initiated wage negotiations will probably be lengthy and may lead to wildcat strikes and excessively large wage hikes. In addition, the scheduled rotation of the Prime-Ministry from Labor to Likud will bring in a less economically attuned and active prime minister and may dampen the willingness of labor unions to continue to support austerity.

The government also faces growing political pressures to promote growth at a time when further budget cuts would improve prospects for continued economic success. Unemployment, while relatively good by world standards at around 7 percent, is historically high for Israel. Many businesses and agricultural units also are facing hard times—an unusually large number have recently declared bankruptcy—and are demanding government help. Last, the difficulty of attracting and retaining Jewish immigrants is made even worse under austerity. These factors will prompt the government to continue to try to balance the need for austerity against the requirements to maintain a relatively high standard of living and to preserve the current state of Israel's defenses.



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Lebanon: Dim Long-Term Prospects

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Lebanon almost certainly will remain a partitioned country at least for the rest of this decade. The Christian and Druze militias have already established cantons in the mountains northeast and southeast of Beirut, respectively. The two major Shia Muslim militias are staking out their claims to Shia-populated areas in the Bekaa Valley, southern Lebanon, and West Beirut. The central government, under siege in East Beirut, has practically no authority anywhere in the country, and Syrian efforts to unify all confessional factions under a restructured Lebanese Government are likely to continue to fail.

This de facto partition is likely to be violently unstable. Political squabbles, personal rivalries, and deeply rooted interfactional animosities will destabilize any partition arrangement and keep the militias at each other's throats over the next decade. In particular, the rising discontent and aggressiveness of the Shia population will guarantee continued violence and civil war. The growing strength of Shia extremists threatens to bring Iranian-style Islamic fundamentalism to power in West Beirut, the Bekaa Valley, and the south and poses a serious long-term danger to Syrian, Israeli, and US interests in Lebanon.

Christian and Druze Ministates

Partition is already a reality for Lebanon's Christian and Druze minorities. These two sects have steadily consolidated control over their respective mountain heartlands, which are now under the sole political and military domination of their factional militias. The Christian and Druze militias perform all the functions of government—such as collecting taxes, providing public services, maintaining courts, and policing the streets. Both the Christians and Druze are prepared to defend fiercely their cantons against challenges by other confessional groups or the Lebanese Government as well as Syria and Israel.

The Christian Lebanese Forces militia controls the area from East Beirut north to Batrun and east to the Lebanon mountain ridge, which separates the

Christians from the Muslim and Syrian forces in the Bekaa Valley. The militia, numbering 4,000 to 5,000 soldiers, will be in a strong position to maintain the territorial integrity of the Christian canton over the next decade. The militia derives its income from foreign remittances and "taxes" paid by the population of the Christian canton. The militia also collects revenues and receives supplies through its port facilities in East Beirut, Juniyah, and smaller harbors.

Lebanese Christians, especially the ethnocentric Maronites, believe that their culture and values can be preserved only by sealing the borders of a well-defined Christian enclave against the Muslim "hordes" that surround them. After 10 years of civil war, they seem to recognize that their political domination of Lebanon is over and that their only hope for survival lies in zealously defending their mountain stronghold. The Christian community comprises about a quarter of all Lebanese; Maronites account for about two-thirds of that.

The Druze Progressive Socialist Party militia controls the Shuf mountains and most of the coastal area south of Beirut to Sidon. The Druze militia is comparable in size to its Christian rival, and it also relies on a substantial income from local taxes and foreign remittances. The Druze have established an independent port at Khaldah, but they remain partly dependent on foreign supporters—Syria, Libya, and the Soviet Union. Nonetheless, the Druze have succeeded in establishing a largely autonomous shadow government in the Shuf, centered in the ancestral Druze capital of Baqlin.

Druze leader Walid Jumblatt is primarily interested in protecting the Druze community—only 7 percent of Lebanon's population—which is heavily concentrated in the Shuf. Although Jumblatt tries to play a broader role in the country, he almost certainly

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NESA NESAR 86-018
1 August 1986

Secret

realizes that his militia's top priority for the foreseeable future must be to consolidate its canton in the Shuf. The Druze militia has systematically driven the few remaining Christian and Sunni villagers from their homes in the Shuf in an effort to homogenize the population of the Druze canton.

Shia Turf Battles

Lebanon's Shia Muslims, although dispersed among three geographical areas of the country, comprise over 40 percent of Lebanon's population and are equally determined to control and govern their own cantons. The Shias, disillusioned by years of abuse at the hands of other confessional groups, believe they would continue to suffer political and economic deprivations under anyone else's rule. The two major Shia militias, Amal and Hizballah, are battling for supremacy over the Shia-populated areas of West Beirut, the Bekaa Valley, and southern Lebanon. The fundamentalist Hizballah has emerged victorious over the more moderate Amal in the Bekaa, and the two are running neck and neck in the streets of West Beirut and the villages of the south. The competition between Amal and Hizballah is likely to escalate over the next year and may continue for several years.

Regardless of which militia wins the turf battles, it is clear that at least two large cantons will emerge under Shia rule. Amal and Hizballah are rapidly institutionalizing their shadow governments and developing political and military networks in the Shia areas.

The Shias, however, face significant problems in creating their own ministate. The greatest obstacle is the absence of an independent center of economic activity: there is no Shia port, nor is there likely to be one soon. The Bekaa Valley, with its capital in the Hizballah stronghold of Ba'labakk, is already a solidly Shia domain in which Christians can travel only at great risk. The Bekaa, however, is occupied by Syrian military forces, and it is not clear how Syrian influence can be supplanted by Shia-controlled institutions. Most of Lebanon south of the Awwali River, with its capital in the Shia town of Nabatiyah, will also remain in Shia hands but there is substantial doubt that Tel Aviv will tolerate a Hizballah-style Shia ministate on its borders.

Little Hope for Unified Government

The central government will remain irrelevant as long as the country is divided and ruled by warring factional militias and foreign armies. The Lebanese Government and its Army have been reduced to the role of bystanders in the political and military affairs of the country. The militias ignore the government and will not tolerate any interference in their cantons. Most factional leaders have only contempt for President Amin Gemayel and the institutions of state. Neither the Lebanese Cabinet nor the Parliament has met in well over a year.

Syria remains committed to restructuring the Lebanese Government—mainly by shuffling the distribution of key positions and Parliament seats among the various confessional groups—with the goal of bringing all factions under the control of a broad-based, pro-Syrian central government. Syrian efforts since 1983, however, have failed to resolve the disagreements between the four major confessional groups. Events of the past three years illustrate the limits to Syria's ability to impose a settlement on Lebanon's recalcitrant factions, even those supported by Damascus.

There is virtually no middle ground on which a viable central government could be built in the foreseeable future. Each confessional group is determined to maximize its own interests—in terms of power and security—at the expense of the Lebanese Government and the national political system. Political loyalties in Lebanon revolve around family, village, and religious sect. Most Lebanese feel no allegiance to the ineffectual and discredited central government. Few Lebanese of any confessional group are serious about trying to revive the moribund national political process.

Partition: Stable or Unstable?

In our judgment, because of this partition, Lebanon will remain unstable and violent over the next decade. We see no evidence that the Lebanese factions are ready to live in peace with each other, even if segregated into confessional cantons. Bitter political

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and economic disputes continue to fester, and a decade of civil war has generated often insurmountable personal animosities between sectarian leaders. Many younger Lebanese, who have come of age during the turmoil of war, have no concept of a Lebanon in which all religious groups live together cooperatively without fighting. Despite a genuine sense of war weariness that pervades much of society, the ethnocentric civil war mentality remains strong. Hatred alone would generate continued discord between the cantons.

Political accommodations and military truces between the confessional enclaves are likely to fall victim to the uniquely Lebanese propensity for aimless violence. The country has become a playground for trigger-happy militiamen for whom fighting has become a way of life. The violence that plagues Lebanon often has little rational motive. The daily artillery duels frequently start by accident. Street warfare regularly erupts as a result of personal vendettas or careless incidents at militia checkpoints that spark wider conflagrations. Beirut is a lawless, heavily contested war zone where the inevitable daily turf battles tend to spill over into other parts of the country.

Extremists on all sides will use terrorism to discourage accommodations between the confessional communities. Many of the armed militant groups based in Lebanon have a vested interest in perpetuating the chaos and instability that permits them to maintain training camps and operate freely throughout the country. The return of large numbers of Palestinian fighters to Lebanon will complicate this problem and increase frictions between Christians, Druze, and Muslims—much as it did in the years leading to the outbreak of the civil war in 1975.

Rising Tide of Shia Radicalism

The growing Islamic fundamentalist movement—led by Hizballah—poses one of the gravest internal threats to future stability in Lebanon. These predominantly Shia radicals advocate the violent overthrow of the present system and the establishment of an Iranian-style Islamic republic. Even if the mainstream confessional groups could find a modus

vivendi in a partitioned Lebanon, the increasingly influential fundamentalists have the determination and capability to disrupt the peace. The success of Hizballah's Islamic revolution is predicated on continued instability in Lebanon.

The Islamic fundamentalist movement has grown dramatically since 1982 with Iranian support. A ragtag collection of poorly organized armed cells has transformed itself into a broad-based popular movement with an effective, well-armed militia comparable in size to the Christian and Druze militias. Although Hizballah may not be stronger than the other major confessional militias, it is a dynamic organization that thrives in the anarchic environment of Lebanon.

Despite the obstacles that Hizballah must overcome in the path to Islamic revolution—opposition from moderate Shias, Christians, Druze, and, ultimately, the Syrians—we believe the potential exists for the fundamentalist movement to meet some of its goals in the long run. Hizballah ideology and tactical successes have proved to be potent forces in the battle for control of Lebanon's large Shia community. In addition, the Israeli occupation of a "security zone" in southern Lebanon continues to radicalize Shia attitudes.

The Shia fundamentalists almost certainly will institute some form of Islamic rule at least in parts of the Shia cantons of the Bekaa Valley and southern Lebanon. If Hizballah succeeds in replacing Amal as the dominant Shia militia, it will then turn its attention to the Christians and probably begin to challenge the borders of the Christian canton. Hizballah ideology calls for unremitting aggression against all "enemies" of Islam, including Christians, secular Muslims, all Westerners, and, most important, Israel. At a minimum, Hizballah will continue to play the role of spoiler and agitator in a partitioned Lebanon.

Implications for the United States

Partition is all but inevitable in Lebanon. A stable partition—leading to peaceful coexistence among the

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Christian East Beirut: Views of the War Zone



Street scene in Christian East Beirut showing damage from small arms and artillery fire.

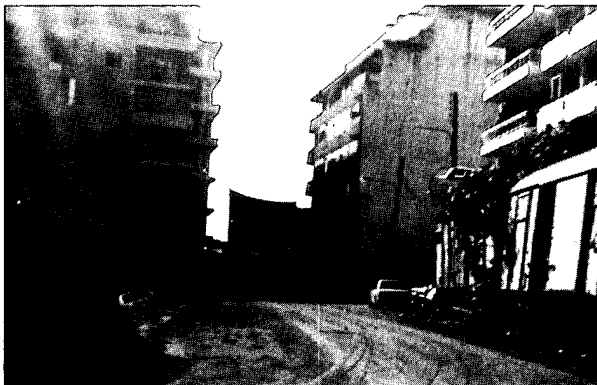


Wrecked cars piled up to serve as fortifications near the Green Line.

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View from a Christian bunker along the Green Line, looking across the no man's land into Muslim West Beirut. The buildings in the distance are held by the radical Shia Hizballah.



Christian neighborhood close to the Green Lines, where Christian militiamen have put up a tarpaulin between two buildings to prevent sniper fire down the street. The derelict train boxcars on the right are used to block sniper fire from Muslim lines.

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Main crossing between the two sides of the city, known as the Museum Crossing—a frequent location for clashes.

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confessional groups—would not be contrary to US interests and may be a worthwhile objective. Efforts to strengthen the central government, on the other hand, will remain futile for the foreseeable future. The self-destructive tendencies of the Lebanese civil war are likely to cripple initiatives aimed at reconciling the warring factions in a multiconfessional political system. The reality of partition must be accepted before efforts can be made to stabilize it.

Violent instability in Lebanon affects US interests because of its potential to spill over into regional politics. Syria remains preoccupied with enforcing a settlement in Lebanon, and its success or failure affects its relationship with Iran, Israel, and the United States—the other states that Syrian leaders view as participants in Lebanese politics. Israel will continue to react vigorously to threats to its northern border by Lebanese Shia radicals or Palestinians, and an escalating cycle of cross-border violence between Israel and Lebanon would heighten tension in the region.

The absence of authority in an unstable, partitioned Lebanon ensures that the country will remain a breeding ground for armed militants from every part of the ideological spectrum. Discord between the confessional cantons will facilitate the activities of these groups. US officials working in Beirut will remain at high risk both from terrorism and from the random shelling that has become a fact of life in the city.

The emergence of a radical Islamic government in all or part of a partitioned Lebanon would directly threaten US interests in the Middle East. A Hizballah political triumph in Lebanon would represent the first radical Shia victory in an Arab country and would cause great apprehension in moderate Arab capitals such as Cairo, Amman, Riyadh, and Kuwait. It would give a powerful boost to underground Shia fundamentalist movements in Saudi Arabia, Iraq, and the Gulf states.



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**Lebanon:
Sulayman Franjyah—Syria's
Christian Protege** [redacted]

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Former Lebanese President Sulayman Franjyah continues to be an influential player in Lebanese politics in spite of failing health [redacted]

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[redacted] The Syrians use Franjyah both as a liaison between Damascus and East Beirut in negotiations and as a divisive force when the Christian community shows signs of banding together against Syrian policies. Even with Syrian backing, however, Franjyah is unlikely to emerge as a strong, unifying force in Lebanon. [redacted]

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Franjyah has been building up his personal militia, the Marada, over the past year. The Marada is a small militia of about 800 members equipped primarily with light and medium weapons and headed by Robert Franjyah, the former President's son. Syrian forces in Lebanon back the Marada, and Franjyah relies on the Syrian deterrent value to increase his militia's credibility. [redacted]

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The Marada faces a challenge from another pro-Syrian group for control of Zghorta. Clashes between the Syrian Social Nationalist Party (SSNP), a leftist group directly linked to Damascus, and Franjyah's Marada have occurred periodically over the past several years. [redacted]

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Sulayman Franjyah has two main political goals: the removal of President Gemayel and the preservation of Christian control of the political scene in Lebanon. Insofar as Syrian policies coincide with these goals, Franjyah is a useful tool and interlocutor for Damascus. Franjyah has led the charge in demanding Gemayel's resignation, largely for personal revenge, but he has not fully supported the Syrian-sponsored tripartite accord because it advocates a reduction in Christian control of key state institutions. Franjyah strongly believes that the Lebanese presidency must remain Christian and, preferably, Maronite. [redacted]

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[redacted] in mid-May Franjyah sent an emissary to Damascus to urge Syrian authorities to remove SSNP training bases near his stronghold in the Kura district. Franjyah claimed that the district was a target for US and Israeli military retaliation if the terrorist elements were not removed, although his efforts at removing the SSNP elements may have arisen more from fear of another SSNP-Marada clash than a US-Israeli strike on SSNP facilities. [redacted]

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Franjyah's Corner—The Zghorta Minicanton

Sulayman Franjyah is a member of the Lebanese political old guard and continues to be a key figure in the Christian community in spite of his old age and widespread criticism for presiding over the outbreak of civil war during his presidency (1970-76). Franjyah, 75, probably is Syria's first choice to replace President Amin Gemayel should Damascus succeed in forcing his resignation. A bitter rivalry exists between the Franjyah family and the Gemayel family, as Franjyah blames Amin's brother, Bashir, for the murder of his son Tony in 1978—a loss he has not yet recovered from. [redacted]

Franjyah and the Syrians

Senior Syrian officers regularly visit Zghorta to underscore Damascus's support for Franjyah. Recent high-ranking visitors include Syrian Minister of Defense Talas and Air Force Intelligence Chief Khuli. In turn, Robert Franjyah spends much of his time in Damascus on his father's behalf meeting with senior Syrian officials and prominent Lebanese leaders. [redacted]

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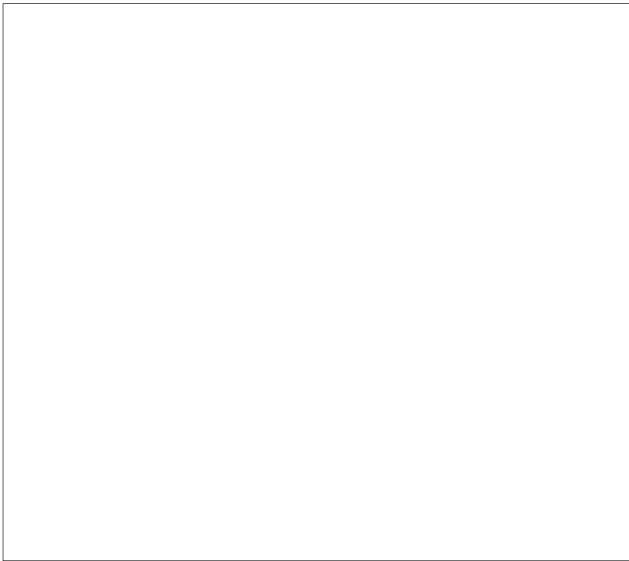
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The Franjyah family hails from Zghorta in north Lebanon where their modest power base lies in the Maronite Catholic community. In view of the increasing cantonization of Lebanon, Sulayman

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NESA NESAR 86-018
1 August 1986

Secret



away the rest. He maintains the present text cannot be simply reworked. The Syrian-sponsored tripartite accord directly confronts Franjyah's strongly pro-Maronite stance, as it calls for the deconfessionalization of Lebanese politics, which would reduce Maronite power in Lebanon. [redacted]

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Despite his long association with the Syrians and President Assad, Franjyah's opposition to most of the tripartite agreement shows that he shares much in common on basic constitutional matters with other Lebanese Christian leaders. For example, in a meeting between Lebanese leaders and Syrian Vice President Khaddam in Lausanne in 1984, Franjyah surprised the Syrians by flatly opposing constitutional reforms that would diminish Christian power. At the same time, however, he has obstructed Christian attempts to promote a united front—partly, no doubt, in response to Syrian instructions, but more likely out of Franjyah's refusal to deal with other Christian leaders as long as they accept Gemayel's presidency. [redacted]

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Franjyah proposed to Syrian authorities in early March that the term of the Lebanese presidency be reduced from six to four years, [redacted]

[redacted] This proposal, the only amendment to the tripartite agreement the Syrians have thus far accepted, is aimed at providing a legitimate means to oust President Gemayel, who will have completed four years in office in September 1986. In the unlikely event that this scenario develops, Franjyah would be a weak figure, relying almost totally on Damascus for support. [redacted]

Franjyah did not participate in and has not supported the Christian conference held last January in Bkirki, which was designed to demonstrate unity in the Christian community and to devise an alternative to the Syrian tripartite accord. According to US Embassy reporting, the congress was markedly diminished in importance by Franjyah's absence, widely seen as instigated by the Syrians. [redacted]

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Franjyah's Maneuvering

Franjyah is the last legitimate source of influence Damascus has in the Lebanese Christian community. Although he has allowed the Syrians to use his influence in Lebanon to promote their policies and goals, Franjyah continues to maintain his own conservative and traditional Maronite stance. Franjyah uses Syrian backing to promote his political standing as much as the Syrians use his influence in the Christian community to promote their aims in Lebanon. [redacted]

Franjyah, however, has reacted more favorably to the Bkirki conference proposals than he did to the Syrian tripartite accord. In a news conference in late January, he stated that the Bkirki proposals were a good basis for negotiations and that he would serve as a mediator with Damascus, but that Gemayel's resignation "is the only way to achieve the salvation of Lebanon." In response, Syrian Vice President Khaddam told Franjyah in late May that the Syrians expected that the agreement between them and Franjyah concerning the tripartite accord would be upheld and that Franjyah should not be dragged into joining the so-called Christian project. Franjyah,

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The US Embassy in Beirut reports that Franjyah has stated that, while nothing can be done in Lebanon without the agreement and backing of Syria, the tripartite accord should be radically revised. Franjyah would like to keep the language on Lebanon's sovereignty and independence but throw

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however, is playing his own game. The former President continues to demand Gemayel's resignation—both to appease the Syrians and for his own revenge—while disassociating himself from both the Christian plan, refusing to deal with anything Gemayel might have a hand in, and the tripartite accord, which offends his pro-Maronite sensibilities.

[redacted]

leader. Although his position is firm within his own constituency and he continues to command a certain degree of prestige due a former head of state, his influence in the Christian community appears to stem largely from his propaganda value. Franjyah is generally recognized as a Syrian proxy and, as such, is highly unlikely to attain a legitimate power base of his own without considerable Syrian backing.

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Franjyah and the Christians

Recent elections in the Phalange Party suggest a new dimension in intra-Christian relations. The Phalange Party elected George Saade, a compromise candidate between Gemayel and current Lebanese Forces leader Samir JaJa, as its new president on 16 June.

According to the US Embassy in Beirut, Franjyah dispatched two emissaries to congratulate Saade, an unexpected move given his traditional opposition to the Phalangists.

[redacted]

As long as Damascus continues to focus on the removal of President Gemayel as a keystone to its policy in Lebanon, the Franjyah/Assad relationship is likely to be mutually beneficial. On the other hand, there is little else on which the Syrians and Franjyah have convergent views, and Franjyah is not likely to change his pro-Maronite stance in favor of Syria's proposal for the deconfessionalization of Lebanon.

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[redacted]

[redacted]

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Since both Franjyah and Saade hail from northern Lebanon and both represent Maronite constituencies located behind Syrian lines, Franjyah may believe that he can exploit their common background. More important, as Saade was not Gemayel's first choice, Franjyah may view his selection as a defeat for Gemayel. By congratulating Saade, Franjyah may be seeking to belittle Gemayel. It is also possible that Syria, through Franjyah, may wish to open channels to non-Gemayel elements in the Phalange Party as a means of dealing with the Maronites while boycotting the President.

[redacted]

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The US Embassy in Beirut reports from a reliable source that President Gemayel may have covertly visited Franjyah in northern Lebanon on 23 June. Given the hatred between Franjyah and Gemayel, such a meeting is unlikely, but it may help to explain the unexpected choice of Saade as president of the Phalange Party, as Saade is acceptable to all factions. Furthermore, if this meeting took place, it might constitute an attempt by Franjyah to play the role of elder statesman and bring about some kind of arrangement between Gemayel and Assad, probably at Assad's request.

[redacted]

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Outlook

Given Franjyah's age and deteriorating health, it is unlikely that he will once again become a national

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Syria-Iran: Ties That Bind

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Damascus is gradually reaching a point of diminishing returns in its alliance with Tehran, but President Assad does not appear prepared to end the relationship. The value to Syria of its link to Iran exceeds the oil and economic ties. Indeed, Arab opponents of the alliance could easily outbid Iran in terms of offering Syria economic benefits. For Damascus, the relationship with Tehran represents a key bargaining chip used to keep Syria's Arab neighbors at bay and serves as a threatening alternative that prevents them from coalescing against Damascus or negotiating with Israel. Should Iran win its war with Iraq, we believe Syria would find itself more beholden to Tehran and even less likely to break the strategic alliance.

To preserve its relationship with Iran, Syria generally has shown restraint in responding to Hizballah provocations. Hizballah's freewheeling behavior in the Bekaa, however, has prompted Damascus to demonstrate its willingness to use force. Moreover, Syria's deployment earlier this month of Special Forces units into West Beirut and the southern suburbs also increases the prospects for clashes between Hizballah and the Syrians. Although the Syrian deployment was aimed primarily at undermining Palestinian fighters loyal to PLO chairman Arafat, it also signals Syrian displeasure with growing ties between Hizballah and Fatah as well as Hizballah's resistance to the Syrian-backed security plan.

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Syria and Iran are on a long-term collision course over Lebanon and their oil relationship. Nonetheless, Assad is willing to take considerable political risks to stave off the day of reckoning. He recognizes that he cannot get the ironclad guarantees of substantial economic and political advantages that he wants from his Arab neighbors in exchange for putting distance between Syria and Iran. Without those guarantees, Assad cannot completely sever Syrian links to Tehran, because he fears that concessions offered by his fellow Arabs could easily be withdrawn.

Tehran is trying to take advantage of Syria's failure to produce a modus vivendi among Lebanon's warring factions and is actively supporting Hizballah efforts to undermine Amal, the mainline Shia organization backed by Damascus.

Iran is also attempting to expand its relations with the Muslim Brotherhood in Lebanon, a move clearly meant to signal Iranian displeasure with Syrian policies in Lebanon.

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At Loggerheads Over Lebanon

Dramatically divergent Syrian and Iranian policies in Lebanon have sharply increased tensions in the alliance and led to serious clashes between Syrian troops and Iranian-backed radical Lebanese Shia fundamentalists in May and June. Syria's get-tough policy with the radicals does not presage a change in Syrian policy toward Iran or Lebanon but reflects Syrian determination to confront challenges to its authority. The collapse of Jordan's recent effort to reconcile Damascus and Baghdad is a further indication that for the time being Syria is prepared to tolerate Iranian-backed fundamentalist activity in Lebanon, apparently in the belief that, when the crunch comes, Syria will be able to bring the radical elements under control.

Oil Link to Iran

Tensions in the alliance have been increased by the uncertainty of Iranian oil supplies to Syria and Syria's failure to pay its debts to Iran. The oil and repayment issues have become intimately bound up with Syrian and Iranian differences in Lebanon. Last May's fighting between Syrian forces and Hizballah coincided with efforts to renegotiate the annual oil contract between Syria and Iran. The talks broke down over a pricing dispute, but, because Damascus is so far behind in its payments, the disagreement appeared somewhat artificial. The failure of the negotiations partly reflected Tehran's displeasure with Syria's attitude toward its allies in Lebanon.

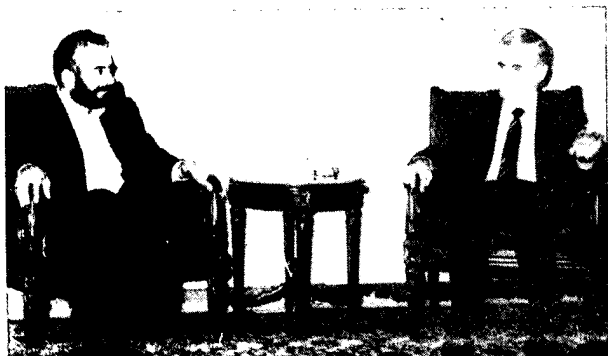
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NESA NESAR 86-018
1 August 1986

Secret



Recent meeting between President Assad (r) and Iranian Deputy Foreign Minister Besharati (l) in Damascus. [redacted]



Syrian President Assad (l) and Iraqi President Saddam Husayn (r) meet during ill-fated 1979 reconciliation. [redacted]

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Over the past year, periodic disputes over oil deliveries and unpaid bills have weakened Syria's relationship with Iran. Despite Tehran's rescheduling in 1984 of arrearages and a high volume of free oil for the Syrian military, we estimate Syria's oil debt to Iran has ballooned to \$1.5-2 billion. Oil deliveries have fallen well below the contract amount of 120,000 b/d, especially in 1985 when Iran cut off deliveries between August and December. Syria has looked mainly to the spot market to make up the shortfall, which has practically exhausted its foreign exchange reserves. [redacted]

Tehran to divert oil to more creditworthy customers. Likewise, sporadic deliveries from Iran could provoke Damascus to look to Iraq for a secure supply relationship. [redacted]

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Iranian deliveries were renewed in late December after Syrian Prime Minister Kasm negotiated an interim supply agreement. [redacted]

Flirting With Baghdad

Syria's Arab neighbors are eager to capitalize on the growing strains between Damascus and Tehran to press Syria to patch up relations with Iraq. Moderate Arabs believe that a breach between Damascus and Tehran would be crucial in limiting Iran's ability to pursue the war against Iraq and forestalling its spread to the Gulf states. Although the Arabs are prepared to offer substantial economic incentives to Syria for dropping Tehran, Assad has never altered a major policy solely because of economic necessity, and he certainly would anticipate significant political advantages as well. [redacted]

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[redacted] we estimate 1986 deliveries so far from Iran of 6.5 million barrels—less than 25 percent of the contracted amount. Although negotiations on the annual supply agreement were abandoned in early May, guarantees from Iranian Deputy Foreign Minister Besharati on the eve of the planned Syrian-Iraqi discussions in June probably ensured Iranian deliveries for the near term. [redacted]

[redacted] Assad recently responded to criticism from domestic political leaders concerning the alliance with Tehran by saying that Damascus would seek to improve ties to Baghdad but would not withdraw support from Iran in its war with Iraq. Thus, any move to thaw relations with Baghdad would be tactical and would not produce a meaningful Syrian initiative to end the Iran-Iraq war. Assad believes that Syrian interests are best served by

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Despite a new six-month 100,000-b/d contract signed in early July, the Syrian oil link to Iran will probably grow increasingly troubled. Syrian debt will continue to expand—Damascus cannot even afford downpayments on current shipments—and Tehran can ill afford to provide de facto grants of oil. As war with Iraq further saps the Iranian economy and disrupts Iranian oil exports, pressures will increase for

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the continuation of the war and probably hopes that it will ultimately culminate in the downfall of Iraqi President Saddam Husayn. [redacted]

The principal gain for Assad from better relations with Iraq would be Syria's return to the Arab mainstream and enhancement of its ability to influence regional politics. Assad might calculate that, in exchange for a cooling of the Syrian-Iranian relationship, he could gain from his Arab neighbors a series of quid pro quos on issues of vital interest to Syria, particularly those related to the confrontation with Israel:

- Syrian cooperation with Hussein's reconciliation efforts established ties between Damascus and Amman that Assad hopes to develop into greater military cooperation in confronting Israel. Assad would like to station Syrian early warning radar and even tactical air defense missiles in northern Jordan.
- At a minimum, Damascus would expect its cooperation with Hussein to increase Syrian leverage over Jordan's relations with the PLO and influence the King's position on a negotiated settlement of the Arab-Israeli conflict.
- Assad also may believe that he can parlay reconciliation into agreement by Arafat's backers—particularly Saudi Arabia—to withdraw their support for his continued leadership of the PLO. [redacted]

In any event, the political advantages for Damascus of reconciling with Baghdad would be uncertain at best, and the gamble would run considerable risks. Iran would react sharply to a shift in Syrian policy and could be expected to get even with Damascus by promoting anti-Syrian fundamentalist activities within Syria and in Lebanon. [redacted]

Economic Benefits: Tempting, But . . .

From an economic standpoint, Syria initially would derive several benefits from a reconciliation with Iraq. Damascus is experiencing a foreign payments crunch as Arab aid has fallen off and spot market oil imports have consumed scarce foreign exchange. Closer ties to

Iraq could improve Syria's economy by inducing more Arab aid from a variety of sources and initially provide Damascus with a more stable supply of oil:

- Syria is in dire need of renewed foreign aid from Arab donors. Since 1981, Syrian exports have shrunk by \$500 million to about \$1.6 billion by 1985. Likewise, worker remittances from the Gulf states declined from \$550 million to less than \$300 million over the same period.
- Official transfers under the 1978 Baghdad accord also have fallen with the softening of the oil market and general Arab dissatisfaction with Syrian policies. Syria's foreign aid receipts in 1980—virtually all from Arab countries—were \$1.95 billion. By 1985, we estimate aid to have fallen below \$800 million.
- In a rapprochement scenario, we believe Damascus would demand prompt payment of Baghdad accord pledges from Saudi Arabia, Kuwait, the other Gulf states, and even Iraq. It is unlikely, however, that Syria could obtain nearly that amount from the financially strapped Arab donors, but Assad will press them to reward Syria handsomely for switching horses. [redacted]

Syrian reconciliation with Iraq also would bring increased trade and commercial contacts. In addition to oil trade, commercial traffic on the land route from the Syrian seaport of Latakia to Iraq would increase. Syria would benefit from increased exports and overland transit fees. Iraq would be less dependent on its current land link to Western Europe, bypassing mountainous terrain both in Turkey and areas of Iraq threatened by Kurdish rebels:

- The most significant issue would be the reopening of the idle Kirkuk-Hims pipeline to increase Iraq's export capability. If Iraqi oil were pumped at full capacity, Baghdad could earn about \$1.6 billion annually at current prices, easing its fragile financial position. [redacted]

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Although the economic benefits from the pipeline are attractive, Syrian demands probably would reduce the proceeds to Baghdad. Damascus would probably demand 150,000 to 180,000 b/d for domestic consumption either gratis or at below-market prices, sharply curtailing the oil available to Iraq for export. In addition, Damascus would probably demand \$100-300 million in transit fees, cutting further into Iraqi foreign exchange earnings. Iraq, meanwhile, probably would face a reduction in the oil sold on its behalf by Saudi Arabia and Kuwait should it begin exporting through Syria. [redacted]

Marriage of Convenience

Despite Damascus's growing economic problems, economic gains alone will not wean Damascus from Tehran. Although Syria and Iraq would both benefit from renewed cooperation, the economic gains are likely to be short term and ultimately would be eclipsed by political and strategic obstacles. Neither Syria nor Iraq wants the other to grow strong, and Assad and Saddam probably will look for other options to improve their situation. Syria does not want to be dependent on its archrival Iraq for oil supplies—a shutoff would leave Syria more vulnerable than ever. Similarly, Baghdad wants to buffer itself against Syrian leverage and has plans to double its pipeline export capacity through Saudi Arabia and Turkey by 1989 to about 3 million b/d, making the Syrian route inconsequential. [redacted]

Syrian ties to Iran transcend their oil relationship. Damascus has failed to meet its payment obligations to Iran from the outset of the supply arrangement in 1982, yet deliveries have continued. Iran probably will continue to supply some oil to Syria through mid-1987 under the new agreement despite Damascus's inability to pay and conflicting interests in Lebanon. Moreover, as the Iraqi pipeline gradually becomes less important to Baghdad, Syria's political options and economic leverage over Tehran will diminish. [redacted]

Assad knows Tehran is the only regional power that shares fully his deep antipathy for Israel. Only Iran echoed Syria's demands for harsh retaliation against Morocco for the Israeli Prime Minister's visit in July. Syria is unlikely to give up its radical card as long as

it remains so useful in forcing moderate Arabs to adhere to Syria's hardline position against Israel. [redacted]

If Iran Wins the War

There is no safe, practical, or graceful way for Syria to cool its relationship with Iran. Despite increasing liabilities, Damascus may be stuck with Tehran until there is a dramatic turning point in the Iran-Iraq conflict. It could take an Iranian move to expand the war to the Gulf before Assad would end the alliance. [redacted]

Assad hopes that the war will result in the downfall of the regime in Iraq, and he apparently believes that he can revise Syrian policy toward Iran once Saddam is overthrown. The end of the Iraqi regime, however, could complicate Syrian efforts to put distance between itself and Tehran. Assad would find it difficult to dump a winner, even if Iran imposed an Islamic government on Baghdad. We believe Assad would seek to accommodate Syria to Iran's victory and direct any Iranian expansionism toward Syria's enemies. [redacted]

An Iranian victory would further isolate Syria within the Arab world. Other Arab states almost certainly would regard Syrian support for Iran as having been critical in fostering the victory of Persian Iran over Arab Iraq. Syria's blacksheep status among the Arabs could result in greater Syrian political dependence on Iran as a means of maintaining Damascus's role in regional politics. Recognition by other Arab states of Syria's capacity for promoting subversion against their regimes, however, would probably mean that contacts with Damascus would be maintained, and Saudi aid would probably continue, if only to prevent increasing Syria's economic dependence on Iran. [redacted]

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**The US Hostage Takers in Iran:
Where Are They Today?**

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Many of the leaders of the Islamic militants who seized the US Embassy in Tehran in November 1979 and held US diplomats hostage for over a year currently hold high-level positions in the Iranian Government. Several dominate the political affairs section of the Foreign Ministry, where they nurture each other's careers and influence all aspects of Iranian foreign policy. The militants' "spiritual leader" serves as chief state prosecutor. The militants are key representatives of Iran's radical factions that generally support violent export of the Islamic revolution, continuation of the war with Iraq, and uncompromising opposition to normalization of relations with the United States. The relative influence accorded the militants probably is an important indicator of the direction of Iran's foreign and domestic policies. A change in their status could be a measure of the regime's desire for better relations with the United States.

Foreign Ministry

Hosein Sheikh-ol-Eslam, one of the instigators of the takeover and a member of the militants' leadership council, today serves as Deputy Foreign Minister for Political Affairs, a position he won as a direct result of his role in the hostage episode. He is the most influential of the hostage takers and a powerful proponent of a radical foreign policy.

Sheikh-ol-Eslam's radical faction is involved in constant infighting with conservatives in the Foreign Ministry who oppose the radicals' approach to foreign policy. Maneuvering between the two groups are pragmatists, including Foreign Minister Velayati, willing to do whatever is necessary to further Iran's interests. The pragmatists sometimes have sided with conservatives to curb radical excesses. Khomeini has followed his usual practice of attempting to maintain a rough balance between the radicals and conservatives. In a speech in 1984, he curbed the power of the radicals by declaring that Iran should have normal diplomatic and political relations with most countries.

The Militants in 1979

The militants, calling themselves the Muslim Student Followers of the Line of the Imam, were not an established political or guerrilla group. During the 14 months of the crisis, however, a small leadership group and a core of 40 to 50 followers maintained strict discipline among themselves and over the larger group of politically unsophisticated provincials they recruited for the occupation. Although the militants adopted the return of the Shah to Iran as one of their demands, their primary goal was to force the pace of the revolution. In particular, they wanted to create a crisis in US-Iranian relations and thereby discredit the growing pragmatism of Prime Minister Bazargan's government toward relations with the United States.

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The evidence suggests that Khomeini had no prior knowledge of plans for the takeover. He soon recognized the usefulness of the crisis, however, in rallying broad public support for the revolution and undercutting the influence of secular politicians who might pose a more serious threat to him if the revolution faltered. The militants manipulated Khomeini into adhering more closely to the radical strains in his thought by mobilizing popular support for their own radical interpretations of his views. They saw the world in black and white. The dominant element of their thought was to emulate Khomeini's tactic of refusing to compromise as the best means of ensuring the success of their goals.

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Khomeini's guidelines have allowed the pragmatists to broaden Iran's international ties, especially to Western Europe, but Sheikh-ol-Eslam continues to wield considerable influence, especially over Iran's relations with Third World countries and with Islamic fundamentalist movements worldwide.

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NESA NESAR 86-018
1 August 1986

Secret

[redacted] he exercises predominant authority over policy concerning the Middle East but has lost influence over some policy issues to Javad Larijani, the Deputy Foreign Minister for Economic and International Affairs. Larijani provides the Ministry with a level of professionalism and expertise on more complex issues that Sheikh-ol-Eslam cannot match. [redacted]

[redacted] Sheikh-ol-Eslam is closely associated with Iran's terrorist and subversive activities abroad and continues to hold extreme anti-Western views. He plays a prominent role in overseeing Iran's support for the radical Lebanese Shia organization, Hizballah. He has close links to the Revolutionary Guard and to intelligence officials. [redacted]

Recent administrative changes have shown Sheikh-ol-Eslam's continuing strength. [redacted]

[redacted] Sheikh-ol-Eslam has obtained approval to appoint three deputy directors to each of the 10 political departments that are subordinate to him. The deputies probably will be selected on the basis of their revolutionary credentials and personal loyalty to Sheikh-ol-Eslam. [redacted]

All but one of the 10 current department chiefs are Sheikh-ol-Eslam's loyalists who were involved in the seizure of the US Embassy. Sheikh-ol-Eslam recently promoted one of these, Ibrahim Rahimpur, from department chief to Director General for Asian and Pacific Countries. Rahimpur's predecessor, Ali Ahani, became Director General for the Americas and European countries, handling relations both with the United States and the USSR. Ahani's predecessor, Mohammad Reza Sadr—also a hostage taker—assumed a high-level position in the Interior Ministry. [redacted]

Several of Sheikh-ol-Eslam's proteges—all hostage takers—have become ambassadors. Kia Tabatabai, assigned to the Foreign Ministry's protocol department soon after the hostages' release, served in Moscow from 1983 to May 1986. Ayatollah Hadi Khosrow-Shahi served as Ambassador to the Vatican until mid-1986 and currently is special adviser to the

Minister of Islamic Guidance. [redacted]

[redacted] In any event, he was an important figure in Iran's propaganda network. [redacted]

Mehdi Ahari Mostafavi, identified as a guard during the Embassy takeover, was appointed a UN delegate in 1981 and then headed the Foreign Ministry's Western Europe department before being appointed in 1985 to his current position as Ambassador to Austria and Iranian representative to the UN Industrial Development Organization in Vienna. In an interview on Austrian television, Mostafavi denied involvement in the hostage taking. [redacted]

Ali Reza Salari has had a rapid rise in Iran's diplomatic service. A radio announcer during the revolution, he became deputy chief of the Foreign Ministry department responsible for Western Europe in 1983, chief two years later, Ambassador to Belgium in 1985, and this year assumed the additional positions of Ambassador to the European Community and to Luxembourg. Western diplomats describe him as intelligent but prone to using Islamic rhetoric in conversation. When Belgium earlier this year closed the Iranian cultural center in Brussels because of its suspected role in propaganda and intelligence activities, Salari publicly warned that the safety of Belgian diplomats in Tehran could not be guaranteed. [redacted]

Another hostage taker, Javad Mansuri, has used his post as Deputy Foreign Minister for Consular and Cultural Affairs to establish a separate power center in the Foreign Ministry. Mansuri's influence stems from contacts within the Revolutionary Guard, which he once headed, and from his position as a member of the Central Committee of the Islamic Revolutionary Party, Iran's only legal party. A religious zealot, Mansuri oversees many cultural propaganda programs that actively promote export of the revolution. He also controls scholarships and exit permits for students studying abroad, duties that extend his influence beyond foreign policy. [redacted]

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Although both Mansuri and Sheikh-ol-Eslam are radicals and often in conflict with Velayati, they sometimes compete with each other for influence within the Foreign Ministry. [redacted]

[redacted] Mansuri in 1986 attempted to rein in Sheikh-ol-Eslam by proposing a reorganization of the Ministry along geographic rather than functional lines. The proposal was never adopted. [redacted]

The Hostage Takers' Guru

Mohammad Asgar Musavi-Khoiniha, a radical Islamic fundamentalist ideologue, functioned as spiritual adviser to the hostage takers. After the hostage crisis ended in 1981, he was elected to the first postrevolutionary Consultative Assembly (Majles) and served as one of its deputy speakers. He then became a personal adviser to Khomeini and organizer of the annual pilgrimage of Iranians to Mecca. Khoiniha's ambition was to run for president in 1985, but Khomeini prevented Khoiniha and other radicals from running. Khomeini wanted to maintain the existing balance among regime factions by keeping in power the more moderate incumbent, Ali Musavi-Khamenei. [redacted]

As a consolation prize, Khomeini in July 1985 appointed Khoiniha as Iran's prosecutor general. Khoiniha has used the post to push his leftist-oriented policies, waging a campaign to imprison Iranians who attempt to reclaim property seized by the Islamic regime after the Shah's overthrow. [redacted]

[redacted] Khoiniha has focused on persons who have returned after fleeing Iran when the clerics took over. Khoiniha's campaign has angered both more moderate officials, who support the return of illegally seized property as one means of encouraging private entrepreneurship, and other radicals—including Prime Minister Musavi—who are attempting to attract back to Iran expatriates possessing critically needed technical expertise. These tensions are likely to persist with no clear winner as long as the regime continues to postpone a decision on the roles of the private sector and the state in the economy. [redacted]

Outlook

The hostage takers' successful careers indicate the continuing influence of their revolutionary ideology and hardline, anti-US stance. None has shown any sign of having doubts about his role in the Embassy seizure. They usually turn aside interviewers' questions about guilt or apologies by justifying their actions on grounds that the United States used the Embassy as an espionage center and engaged in criminal acts under the Shah. [redacted]

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Iranian radicals, including the hostage takers, are contending for power with moderate and conservative groups. The coalitions are fairly evenly matched, with Khomeini wielding ultimate authority. As of today, both sides have about an equal chance of emerging as the dominant force in Iran after Khomeini dies. If the radicals win, the hostage takers are certain to hold even higher positions in the government. Even if more moderate leaders dominate the government, the hostage takers are likely to continue to occupy key positions and wield considerable influence in determining policy. [redacted]

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One way the regime could signal clearly a desire for better relations with the United States would be to remove some or all of the hostage takers from important positions, especially those that involve them directly in determining policy toward the United States. The diminution of the hostage takers' influence over time also would improve the prospects for better relations. [redacted]

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Iranian Deputy Foreign Minister Larijani: Gaining Influence the Old-Fashioned Way [redacted]

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Dr. Mohammad Javad Ardeshir Larijani has risen to a position of significance in the Iranian Foreign Ministry by relying on the traditional prerevolutionary qualifications of a good education, proper family background, and influential connections. He is Deputy Foreign Minister for Economics and International Affairs and is the creator of the Ministry's Institute of Political and International Affairs. Foreign Minister Velayati relies on the Institute in making foreign policy decisions,

and Vision of the Islamic Republic of Iran, the national radio and television organization. Subsequently, Larijani parlayed a six-month contract position at the Foreign Ministry as an adviser to Foreign Minister Velayati into a permanent post. He broadened his expertise through travel to such countries as Cuba, Venezuela, Libya, and Algeria as the special envoy of the President and senior adviser to the Minister of Foreign Affairs. [redacted]

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[redacted] Larijani differs from most of his peers in the Foreign Ministry, such as his chief rival Hosein Sheikh-ol-Eslam, who received their positions because of revolutionary credentials. Larijani has been as shrewd as the revolutionaries, however, in exploiting the clerics' Islamized system to rise to power and is a strong candidate to become Foreign Minister in the future. [redacted]

Larijani used his influence with Velayati to create the Institute of Political and International Affairs. The Institute provides timely and thorough policy-related analysis directly to Velayati. Under Larijani's direction, it is recognized as a focal point in the Iranian foreign policy decisionmaking process,

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Rising to Power

Larijani rose to his current position by professionalism, hard work, and shrewd exploitation of family ties. He is the son of a moderate cleric who is a member of the Supreme Judicial Council and a teacher at the seminary in Qom. Born in An Najaf, Iraq, Larijani may have direct links to Khomeini developed during Khomeini's exile there from 1963 to 1978. Larijani's brother, a member of the Majles (Consultative Assembly) from 1980 to 1984, is the son-in-law of the late Ayatollah Morteza Motahari, a favorite of Khomeini, who was chief of the Revolutionary Council before his assassination in 1979. Larijani is married to the daughter of Ayatollah Mohaqeq-Damad, head of the Justice Ministry's "Investigative Department." [redacted]

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[redacted] Larijani's Institute has given the Foreign Ministry a level of professionalism in international politics that has not existed since the revolution. Larijani staffed the Institute with skilled personnel loyal to himself. He included career diplomats, clerics, and retired military officers on his staff, many of whom had been removed from powerful positions by revolutionaries. As head of the Institute, Larijani sought informal contacts with other governments as an alternative means for Iran to communicate with the international community, especially those countries with which Iran did not enjoy good relations. [redacted]

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The Berkeley-educated Larijani began his career as a university professor in Iran. He has a degree in mathematical logic and is an expert in "global strategy." Iranian press reports indicate that in February 1983 he was appointed by the Supreme Judicial Council as its first representative to the Voice

Larijani also has cultivated support in the Majles. [redacted] he routinely has given the Institute's research papers to clerics on

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NESA NESAR 86-018
1 August 1986

Secret

the Majles staff. In addition, he has used the clerics on his staff to supply quotations from the Koran to support the Institute's conclusions. This has guaranteed that the Institute's analytical pieces were acceptable on religious grounds to the clerics.

[redacted]

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Larijani Versus the Radicals

Larijani's rise has put him at odds with the radicals in the Foreign Ministry. [redacted]

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[redacted] Larijani's Institute was created with the express approval of Foreign Minister Velayati and over the opposition of Larijani's key rival, the radical Deputy Minister of Foreign Affairs Sheikh-ol-Eslam. The Institute competes directly with Sheikh-ol-Eslam and the revolutionaries on his staff who are not technically as well qualified as Larijani's employees,

[redacted]

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[redacted] Sheikh-ol-Eslam had lost influence on international affairs to Larijani and his Institute. Sheikh-ol-Eslam, however, remains the dominant influence in determining Iranian foreign policy objectives for Lebanon, Syria, Libya, South Yemen, and the Palestine Liberation Organization, with which he has numerous contacts. [redacted]

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The struggle for dominance within the Foreign Ministry is not likely to be resolved soon. Larijani is now considered to be the third most influential ministry official behind Foreign Minister Velayati and Senior Counselor Ardakani. [redacted]

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[redacted] Larijani's influence will be greatest when issues are complex and demand sophisticated analysis. Sheikh-ol-Eslam probably will remain the most influential deputy in deciding policy toward the Middle East and in other areas where Iran is attempting to export its revolution. Although Larijani is often mentioned as an eventual candidate for the Foreign Ministry portfolio, his future is likely to be determined by the outcome of the broader factional struggles within both the Foreign Ministry and the regime. [redacted]

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Iraq: Press Attacks on the United States [redacted]

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Baghdad is not entirely comfortable with its relatively new friendship with the United States and uses press criticism to signal its uneasiness. Renewed and intensified criticism of the United States in government-controlled journals appears to have been prompted by Israel's raid on PLO headquarters in Tunis last October and the Israeli interception of a Libyan airliner early this year. The Iraqi press will continue to be critical of the United States, in our judgment, primarily when US actions or support for Israel seem to Baghdad to threaten interests or diminish its "Arab" credentials in the eyes of fellow Arab states. Government leaders, however, will exercise sufficient restraint to avoid endangering relations with Washington. [redacted]

widely disseminated speech in which he criticized US support for the operation. Calling for Arab solidarity, he raised the specter of a widening circle of US-Israeli attacks on Arab states if they did not close ranks. [redacted]

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Saddam's speech was quickly followed by a torrent of anti-US articles. The media uniformly took the line that the United States could not be counted on as an ally and that its Middle Eastern policy was being dictated by Israel. [redacted]

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Background

In the early 1970s Iraqi journalists routinely criticized the United States. Baghdad adopted the most extreme positions on the Arab-Israeli conflict, and among the mainstays of regime rhetoric were attacks on the United States as Israel's strongest supporter. The United States was painted as the archvillain of international politics and the inheritor of Great Britain's imperialist mantle. [redacted]

US diplomats in Baghdad believe that Saddam's speech and the subsequent press criticism were prompted by a concern that the Israeli action threatened Iraq's security. Iraqis probably were reminded of Israel's attack in 1981 on Iraqi nuclear facilities, and the Tunis raid may have raised the specter of Israeli attacks on other installations vital to Baghdad. In any case, the Iraqi criticism was probably viewed by Baghdad as necessary to maintain its credentials in Arab circles, lest it be seen as tacitly approving Israeli attacks on Arabs. The President's speech, however, did not represent a shift in Iraqi policy away from the United States. [redacted]

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After the war with Iran began in 1980, Baghdad slowly reduced press attacks on the United States and practically ended them by 1984. By that time, the regime had concluded that the United States could play a role in bringing about an end to the war, a goal the leaders want badly to achieve. The US promotion of an embargo on arms to Iran and its help in gaining financing for Baghdad from the Export-Import Bank probably strengthened the Iraqis' belief that the United States would help them out of their predicament. [redacted]

One unusually vehement anti-US article turned up after Saddam's speech in *Al Thawrah*, the official organ of the ruling Ba'th Party, and this caused concern to the US Embassy. The *Al Thawrah* article castigated the United States for its "blatant animosity, both military and political, to Palestine and the Arab nation" and declared "the alignment between the United States and Israel is complete." It charged that the United States was behind attempts to wipe out the Palestinian resistance, even to the extent of underwriting the cost of Syrian attacks on the PLO in Lebanon. [redacted]

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Renewed Press Attacks

Last October press attacks on the United States resumed after Israel's raid on PLO headquarters in Tunis, according to US diplomats. Immediately after the raid, President Saddam Husayn delivered a

The writer of the *Al Thawrah* piece further called on "progressive" forces to stop withholding action in the hope that Washington would solve the Palestinian

Secret

NESA NESAR 86-018
1 August 1986

Secret

problem. Rather, he said, they should "adopt an activist stand." He concluded by saying, "If this brings on the wrath of the United States, what do the Palestinians have to lose?" [redacted]

According to the US Embassy, the article appeared to be calling for armed action against US interests, going beyond Saddam's speech urging Arabs to express their displeasure to Washington over the raids. At the same time, the impact of the piece was blunted because it appeared under the byline of an *Al Thawrah* columnist, suggesting it may have been one individual's opinion, not official government policy.¹

[redacted]

Press Intensifies Attacks

The furor over the Israeli attack barely had died down when, in February 1986, Israeli planes intercepted a Libyan airliner. The Revolutionary Command Council—Iraq's supreme governing body—condemned the interception, and once again the leaders blamed the United States. They claimed that the US interception of an Egyptian airliner in November—in an attempt to arrest fleeing terrorists—had set a precedent for Israel's seizure. US diplomats regarded the decision of the Council to speak out as an indication of serious concern on the government's part. Usually the Foreign Ministry handles such matters. [redacted]

Following the Council's condemnation, anti-US articles resumed and have been appearing at irregular intervals. Most of these have been routine and fairly innocuous, but one article last May caused the US Embassy to lodge an informal complaint. A journalist in *The Baghdad Observer*—the English-language publication for Iraq's international community—published a list of prominent Americans whom he claimed were agents of Mossad. The article probably was prompted by the Pollard case, involving Israeli espionage in the United States. The Iraqis believe that Pollard may have passed secrets about Iraq to the Israelis and have made several approaches to Washington to be reassured that this did not happen.

[redacted]

¹ *Al Thawrah* prints an unsigned editorial on its frontpage daily, and this is regarded by Iraqis as having the authority of a personal communication from Saddam. [redacted]

The US Embassy told the Foreign Ministry that the United States recognized that Iraq had a right to criticize Washington on foreign policy issues, but that "slandorous" articles such as this could damage bilateral relations. The Foreign Ministry responded that the article in question was minor and, in effect, advised the Embassy not to make too much of it. The Ministry said it had no intention of "gagging" the press. [redacted]

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Most recent anti-US articles have been published by *Al Iraq*, which functions as an escape valve for radical sentiment in the country and is owned by proregime Kurds. The regime encourages *Al Iraq* to open its columns to leftists and Arab nationalists, many of whom like to revile the United States. According to the US Embassy, the government believes the radicals will be less likely to organize politically if they are given a media outlet for their opinions. In one article, a leftist journalist claimed the United States and Britain have been coordinating their Middle Eastern policies since 1956 when "Britain decided to give the lead in imperialism to the United States." The article maintained that Britain gave copies of all documents of its "imperialist quest" to the United States, and that the US State Department, Defense Department, and CIA have used them to plan a joint Middle Eastern policy. Another *Al Iraq* columnist declared that Islamic fundamentalism is a creation of US intelligence. The writer opined that US research centers, cooperating with the Israelis, formulated the model and exported it to the Middle East to sow discord and turmoil. [redacted]

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Implications

Iraqi press criticism of the United States, despite improvements in bilateral relations, reflects continuing Iraqi suspicion of US motives and goals. In effect, the Iraqis are telling the United States what troubles them, on the assumption the United States will act to relieve their concerns. In particular, the Iraqis appear worried that Washington's close ties to Israel threaten Iraq's security as well as Baghdad's reputation and credentials among fellow Arab states.

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We do not believe that US-Iraqi relations are imperiled by press criticism. The Iraqis badly need US support in its war with Iran, particularly to promote the arms embargo against Iran. They almost certainly would not allow criticism to escalate to a level that would jeopardize this support. We believe that press criticism will continue, but, barring a direct US affront to the relationship, the Iraqis will continue to view the press attacks as little more than a minor irritant and will continue to urge the United States to do likewise.

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Can Sudan, One of Africa's Sick Men, Recover?

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Analysts of the "Sudanese crisis" have no lack of raw materials to choose from. Sudan resembles an exposition of whatever can go wrong with a country: drought, refugees, civil war, and economic collapse, even a plague of locusts. As one evaluates the contemporary record of Sudan, one is inclined to speak as a moralist as well as an analyst. For a good part of Sudan's contemporary history, its leaders have shown biases of traditional, even Ottoman, origin against the private sector and in favor of government control. Sudan is now tired, threadbare, and broke. Foreign aid is down, and the record shows this can, in any case, only help a country that is already helping itself.

Will Sudan's new democratic regime follow the international signposts (Taiwan, South Korea, Malawi) to prosperity? We cannot yet be encouraged. On various issues—including our security concerns—the government record has so far approximated immobility. Sadiq al-Mahdi has not gotten his show on the road, and reform in Sudan is not possible unless its leaders perceive what needs to be done and communicate better with the people. Only by vigorous leadership and followthrough can the government hope to rebuild the infrastructure, stimulate the economy, purge the bureaucracy, and reverse the country's decline.

We will hear Khartoum asking for debt relief. Sadiq al-Mahdi's democratic experiment should face no serious security or political threat until 1987. US-Sudanese cooperation on certain bilateral issues may be less than in the Nimeiri era. Nevertheless, Sudan's democracy deserves our continuing support. Prospects are good that, with our present policies and foreseeable assistance programs, US objectives in Sudan can be preserved.

The Contemporary Extent of the Problem

The Sadiq al-Mahdi government has taken power at an important juncture in the 30 years of

contemporary Sudan. The problems before the state have seldom been greater. The limits of external assistance to Sudan are clearer than ever before.

Sudan faces the lingering effects of drought, the pressure of refugees, a locust invasion, and an expanding civil war. These are major issues whose solution will test the government's leadership, judgment, and creativity. Underlying these problems and making them worse is the systemic degeneration of Sudan's public and private sectors. Sudan's physical plant and its public institutions are woefully rundown and decrepit. Nothing works well today, and the Sudanese have reason to fear that things will get worse tomorrow. For 20 years Sudan has consumed beyond its means while neglecting maintenance and investment in capital and human infrastructure. The state does not seem to know or care how to promote—or at least avoid depressing—its GNP.

Entropy is far advanced in the public sector. Public services are so uncertain that in some sectors they may tend to retard, not stimulate the economy. In one recent night the Embassy registered 128 extreme power fluctuations or outages. A businessman whose telephone had worked only a few days in the past three months complained he would have been better off with none at all; he would at least have been spared many unproductive hours haggling with the utility company. A business leader spoke of his office dialing nonstop for eight hours before it could raise the international operator. Khartoum's road system this spring has seen a rash of potholes. "Like desert flowers," the British Ambassador remarked, "only longer lasting." Accidents, broken axles, and flat tires are a constant result. Sudan's infrastructure outside Khartoum is even worse.

Throughout the government the link between form and function becomes more tenuous. Budgetary allotments are made to the railroad, the Cotton

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Secret

NESA NESAR 86-018
1 August 1986

Secret

Board, the university, health services, and the police force. Increasingly, however, these funds are spent on what appear to be shadow organizations. That is, the budgetary support of the organization seems to become an end in itself. It is not clearly related to the organization's specific production of goods or services. Public monies are spent on a class of public officials whose functions appear less and less distinguishable from each other. As salaried employees of the state, teachers do not teach much, state agricultural managers do not grow much, and railroad workers do not move much freight. At a generous estimate, the workday in the Sudanese Government does not exceed three or four hours. We would have no trouble believing even lower figures.

In terms of function, most government bureaucrats are a class of public pensioners, retired on the job. Function has given way to an organizational atmosphere that is politicized, protective, and focused on the short run. The Minister of Finance would like to begin the government's reconstruction by firing civil servants en masse. In brief, Sudan's modern leadership has lacked the understanding and the will to properly manage a modern state.

What Is To Be Done?

If we look back to the relative high ground of 1983—the last year when Sudan had an IMF rescheduling agreement—we see downward economic trends accelerating. They have not been checked by government intervention in the form of policy or administrative reforms. President Nimeiri did not understand or care about economics. He seemed to believe that, so long as his policies were politically, militarily, and strategically agreeable to important friends, these friends would find ways to float Sudan over any economic problems that might arise. After Nimeiri fell, a fundamental overhaul of government economic policy and management practices was overdue. The transitional military council, however, showed no interest in taking up such a long-term, complicated matter. It probably lacked the mandate—and the power—to probe deeply. Accordingly, Sudan's economy and institutions have continued their path downward. Today they are weaker and more threadbare than ever.

Can This State of Affairs Be Turned Around?

Any prescription must keep in mind the momentum and dynamism that negative trends have by now acquired. Sudan's generally downward momentum can be checked and reversed only if the government adopts some difficult reforms and makes them stick. Even if peace should come soon to the south, experts believe it might take five to 10 years for Sudan to climb back to the "ridge line" of 1979/80. They wonder if Sadiq al-Mahdi's government has the economic understanding or the political will to make such an effort.

This last point seems especially relevant when one considers that 100 years ago, neighboring Egypt was undergoing an institutional and economic crisis similar to that of Sudan today. In his book *Bankers and Pashas*, David Landes describes in fascinating detail how a succession of khedives mortgaged Egypt's revenues—notably cotton—to fund government expenditures on prestige projects, unusable military hardware, and the enrichment of the ruling class. Then, as now in Sudan, the farmer was squeezed for all he was worth. Around 1890, however, all lines of credit expired. The treasury was empty, and no more foreign government or private loans were forthcoming. Egypt could not even pay the burgeoning interest on its debt. A European consortium assumed responsibility for management of Egypt's finances. This in turn led to British management of the sources of much of Egypt's income: railroads, irrigation, customs, telegraphs. In time, the British Consul General, Sir Evelyn Baring, implemented policies that much resemble the wish lists of today's IMF/IBRD. The civil service was reduced, farm income went up, debts were paid on time, and surplus revenue was reinvested, via the private sector, in agriculture, or (mostly) light industry. From 1900 to 1910, Egypt prospered as never before.

What strikes one about the successful Egyptian experience is that the foreign economic planners of the time:

- Saw clearly what steps needed to be taken.
- Had the authority and power to persist with painful long-range policies until they were successful.

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To shift to present-day Sudan, recovery, we are convinced, is eminently possible. All the more so because Sudan need only look at the successful development histories of Taiwan, South Korea, and maybe even Malawi and Cameroon for an idea of what might work. We are not certain, however, that either precondition mentioned above is applicable to the Sadiq al-Mahdi government.

In the few months that have passed since the military relinquished power, the government has not shown that it has either a reform program for Sudan's economy or a coherent body of economic thought upon which such a program can be based. During the electoral campaign, the Umma Party economic platform was vaguely identified with ideas of social justice. Our latest information has the Sudanese Government forming working committees to deal with the macroeconomic issues before the government. These studies may be completed "toward the end of August." Those friends of Sudan who had hoped that the country's first democratic government in 17 years might launch an economic blitz are disappointed; even worse, they are worried. As one speaks to Sadiq al-Mahdi about the economy, one thinks how much better his English is than Nimeiri's. But, when one listens more carefully to what Sadiq says, one discerns ideas and prejudices that go back at least to the Nimeiri days.

They may even go much further back than that. It is probably a mistake to attribute Sudan's problems to the wrong-headed socialist ideas that pervaded the Arab world in the 1950s and 1960s. Why did these ideas do so well in this region? The answer may be that they were so compatible with the etatist practices that the Ottomans had established in the Nile Valley and elsewhere from the 16th century on. The Ottoman-Egyptian state firms set up in Sudan from 1820 to 1881 sound very much like Nimeiri's Military Economic Corporation. Post-World War II socialism may only have provided a convenient, modern basis in theory for earlier anticapitalist attitudes that were not dissipated under British rule.

Can we hope the Sudanese Government will become more open to market forces and a need to streamline and rationalize the government? Or that it could make such policies stick long enough for them to yield

their own economic and political justification? What we are talking about are reforms that would cut the number of civil servants, disrupt state-run firms, devalue the Sudanese pound, and generally increase short-term hardship on Sudan's lower-middle and lower classes. Because many poor Sudanese make no more than 150 to 200 pounds a month, there may not be much more sacrifice left in them. The hundreds of thousands of (restive) southern blacks, whose shantytowns surround Khartoum, would object, as would members of the powerful service unions, such as the railroads.

Aid Levels Will Remain Depressed

As Sadiq al-Mahdi considers his options, he must know that aid levels from bilateral donors and international organizations will remain down. So will remittances from abroad. Sadiq must also see that no genie of the lamp—international organizations or bilateral donors—alone can counterbalance the downward pull of a declining economy already \$9 billion in debt. No one has a rope long enough or strong enough to haul Sudan back to economic safety. The strain of economic nationalism and self-respect we have noted in Sadiq's statements and those of his Minister of Finance appear to recognize at least that it is necessary for Sudan to work harder on its own behalf.

How much further down, one asks, can the country sink before something really major collapses? As one looks at the junkshop quality of Sudan's urban life, one might conclude that the elastic in the system is about at the end of its stretching point. Nevertheless, one should not forget that much of the Sudanese economy (maybe 40 percent) operates outside the government's purview. In outlying sections of Sudan, this is especially true. There day-to-day economic life is much affected by barter, self-sufficiency, and subsistence. In El Geneina, Khartoum may seem almost as distant today as it was before Ali Dinar's rebellion in 1916 against the British. In fact, for western Sudanese, Bangui, Kufra, and Chad are at least as close as Khartoum and Port Sudan.

None of this spells good news for the central government. Sudanese may continue to make their own living arrangements on the margins of survival.

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They will not, however, be contributing much to an improvement in Sudan's GNP. Until the government's own policies and delivery systems improve, foreign aid given to the Sudanese for reform and development will probably fail. We already see a pattern in Sudan whereby foreign aid is most effective if managed and delivered with minimum reference to the government. International donors pay lipservice to the Sudanese bureaucracy but then often create their own channels to make sure their aid is efficiently used. Has the "White Man's Burden" in recent years been quietly shouldered by the IBRD and the IMF plus multilateral and bilateral donors? Where would Sudan's agriculture, disaster relief, refugees, and health service be without foreign management and inputs?

Uncertain Prospects

The scene before Sadiq al-Mahdi is not enviable. His government has so far been slow to address the various crises before it. With continued government inaction, the economy will continue to decline. At the same time, should Sadiq al-Mahdi more or less agree with donors (and his people) on a reform package, Sudan would have to traverse a prolonged and dangerous period of retrenchment and refurbishment before the good effects of reform were felt. There are even more gloomy scenarios. We have not discussed what might happen if the civil war worsens or if it begins to manifest itself, via southern vectors, in the heartland of Arabized Sudan itself. Such a scenario also does not take into account additional bad news that might come to pass—such as a further decline in US assistance because of continued Sudanese inaction on our security concerns. The best of these gloomy scenarios—the reform option, vigorously pursued—would require a high degree of economic understanding, plus political abilities to persuade, communicate, and lead, of a truly exceptional sort. Does Sadiq al-Mahdi have the needed clarity of vision? Is he the sort of leader and communicator who can get Sudan's vast and unwieldy motorcade to continue to follow him in good order?

The most charitable answer at this point would be, "Give Sadiq and his government a little more time." But, as we wait for Sadiq to pronounce himself on Sudan's future policies, we wonder what Sadiq was

thinking about during his years of exile and imprisonment and during his campaign for the prime-ministership.

What further steps can be taken by Sudan's Western friends? A Sudanese would answer first, more aid. We have already noted, however, that the era of further aid windfalls is probably gone for good. This may apply to our aid as much as it does to that of any other donor. Our interest in Sudan remains high. We naturally wish to support a friendly government and a nascent democracy. Nevertheless, with resources more scarce than before, we have to consider that the political, intelligence, and military content of our relations with Sudan is not what it was in the days of Nimeiri. Our aid programs in Sudan might continue to be the largest in Africa, but decreases from the 1984-85 levels are likely. Sudan would be lucky if present aid levels were maintained in future years. What would the government's second wish on the country's economic crisis be? Most likely, Sudan would seek alleviation of the burden posed by its gigantic foreign debt. We should consider how we and the donor community could respond.

Our Future Position in Sudan

As we look ahead, we see a troubled future for Sudan. It will not be an easy time for our political interests, but, by continuing to work with our friends in the region (Egypt, Saudi Arabia) and our many friends in Sudan itself, the threat of a radical/Communist takeover can be forestalled, even obviated. It is here that Sudan's foreign friends might be of the most effective assistance. Our security programs and our liaison with other moderate friends of Sudan should vigorously continue.

Going beyond this minimal Western goal—the denial of Sudan to the radical camp—we see the Sudanese Government as having the principal responsibility in shaping its own future. The major decisions having to do with the administration and the economy must be taken and followed through by Sadiq al-Mahdi and his team. A Lee Iacocca or a Mario Cuomo, we believe, would speak of the need for policy reform and

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more breathing space for the private sector. We believe he would also urge that simple, incremental efforts toward efficiency and excellence be pursued in a government administration that is slow moving and obstructionist, even beyond the norm for Africa or the Arab world.

In the near term Sudan looks to remain a Third World country with stronger ties to the United States and to our friends than to our enemies. Sudan's democracy should make it into 1987, at least, without a serious challenge. Thereafter, if Sudan's major problems—civil war, the economy—do not improve, the principal challenge might not be so much to the political system, as the structure of Sudan itself. Sadiq al-Madhi says that, should his government fail, he fears a coup less than he does a general breakdown of order as regions, ethnic groups, and special political interests vie for power. We sense that the political center in Sudan is anemic and enfeebled. The Sudanese ship of state is in a bad way. If the inflow of problems increases, the central government will appear more irrelevant and the country more ungovernable from the center than ever before. One can imagine a turbulent sort of dystopia where disorder is spreading and the need for advice, assistance, and support from the international community in large measure exceeds that community's ability to help.



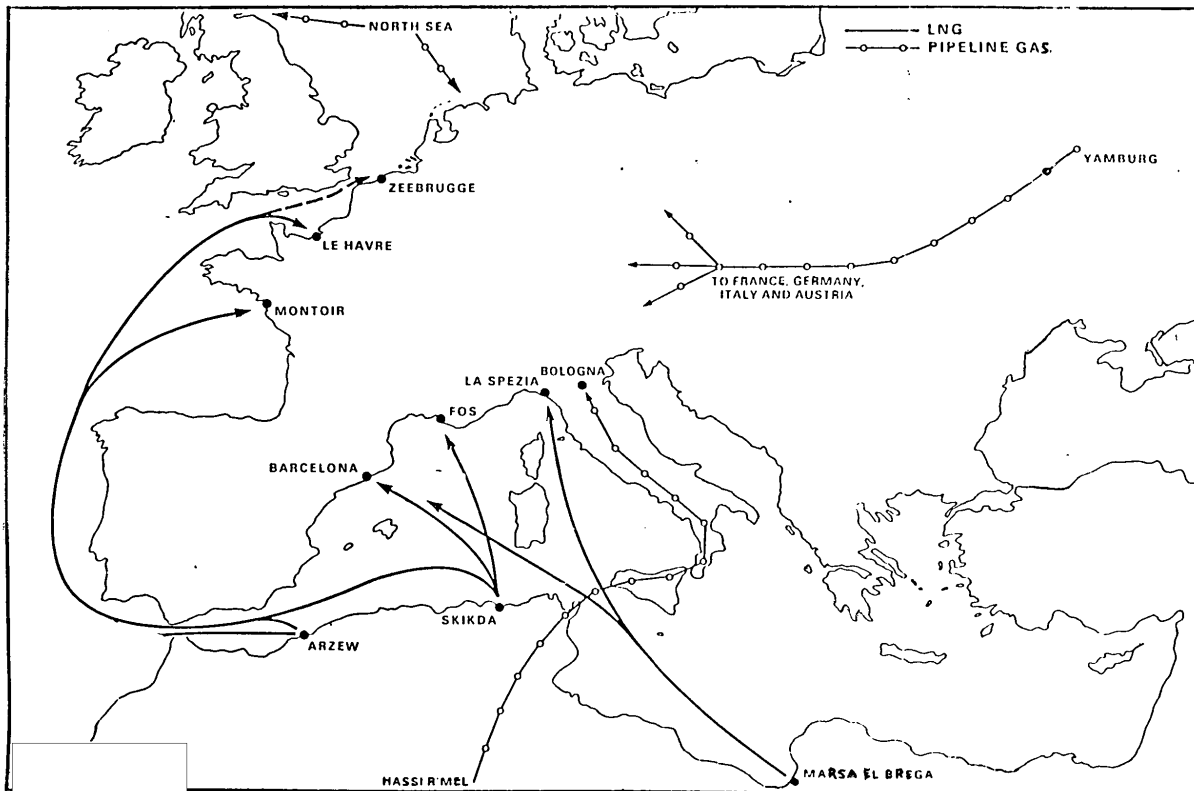
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LNG AND PIPELINE GAS SUPPLIES TO WESTERN EUROPE



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Algerian Gas: Future Economic Prosperity at Risk?

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Algeria's declining oil reserves—which could well be exhausted by the end of the century—are enhancing the economic importance of the country's large natural gas resources. With proven reserves estimated at 3,000 billion cubic meters (bcm)—sixth largest in the world—and an additional 3,000 bcm in estimated potential reserves, Algeria almost certainly will turn to natural gas as a primary source of hard currency beginning in the 1990s. A critical element in this projection are the current negotiations with Algeria's European clients, particularly France. These talks will establish the price and volume of Algerian gas exports for at least the next two to three years and, perhaps more important, could go a long way toward determining Algeria's ability to be a major international exporter of natural gas.

The Issues

Traditionally, Algeria has pushed a hard line on prices with its natural gas customers. During the oil boom years, for example, Algiers insisted upon parity between its oil and gas prices by linking its gas prices to market baskets of officially priced OPEC crudes. Prices on Algerian-delivered gas, as a result, were as much as 40 percent higher than the industry average. Algeria secured these generous terms because its European customers—France, Italy, Belgium, and Spain—had few alternatives. The Soviet Union, for example, stepped up its efforts to aggressively court—and win—new and expanded West European sales only in the early 1980s. Another aspect of Algeria's gas policy was the “100-percent take or pay” supply provision, which stipulated that customers must pay for the entire amount of gas specified in the contract—unlike most other gas exporters who used an 80-percent take or pay formula—whether that amount was actually purchased or not. As a sweetener, Algiers promised significantly increased trade and investment opportunities.

In its negotiations with European gas customers this summer, however, Algeria is no longer in the driver's seat. The shrinking world oil market and European

disgruntlement over unfulfilled promises of increased economic ties are severely limiting Algeria's maneuvering room. Stiff competition from other gas suppliers such as the Soviet Union and the Netherlands has also weakened Algeria's bargaining position. Most harmful, however, in our opinion, is the preliminary contract between Norway and several European buyers, which virtually closes Algeria out of the rest of the European market for the foreseeable future. As a result, Algiers has been forced to reduce prices to maintain its current market share:

- In March, Algiers and Gaz de France agreed to temporarily link the French gas price to market prices rather than to artificially high official OPEC oil prices—dropping the base gas price by nearly 40 percent to \$3.18 per million British thermal units (MBtu)—until full contract price renegotiations set revised terms this summer.
- In May, press reports indicate Italy, frustrated over its attempts to get Algiers to agree to reduce its second-quarter prices below the French quote, unilaterally decided to pay \$2.00 per MBtu for its gas pending a mutually agreeable base price.
- In June, Embassy reports indicate that Belgium won a temporary cut in price to \$3.18 per MBtu until April 1987 in exchange for taking 3 bcm of gas per year rather than the 2.5 bcm it has been importing. Continuing contract renegotiations will determine long-term price and volume.

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Even Spanish negotiators, whose contract is not due for renegotiation for another two years, won a 16-percent price reduction to \$3.18 per MBtu for second-quarter sales based on a contract provision that allows Spain to demand a price cut whenever world gas prices fall sharply.

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NESA NESAR 86-018
1 August 1986

Secret

Algerian Natural Gas Contracts: Description and Status, June 1986

Importer	Annual Peak Volume Contracted (billion cubic meters)	Contract Terms (years)	1985 Deliveries (billion cubic meters)	Adjusted Prices ^a (US \$ per million British thermal units)
France—Gaz de France	9.3	1965-2002	7.5	2.36 as of July 1986
Arzew to Montoir	5.1	1982-2002	NA	
Skikda to Fos Sur Mer	3.6	1972-97	NA	
Arzew to Le Havre	0.6	1965-90	NA	
Italy—SNAM (Trans-Mediterranean Pipeline) Hassi R'Mel to Bologna	12.3	1983-2007	8.5	2.00 as of July 1986
Belgium—Distrigas Arzew to Zeebrugge	5.0 (3.0) ^b	1982-2002	2.4	2.30 as of June 1986
Spain—Enagas Skikda to Barcelona	3.8	1979-2004	1.7	2.30 as of June 1986

^a On an FOB basis.^b Temporary.

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Talks With Paris

These concessions will set the tone for contract talks with the French this summer. As in the past, whatever agreement is worked out with the French probably will determine the framework for succeeding discussions with other European customers. Paris will probably demand a revised price formula that pegs natural gas prices to competing fuel prices to determine the new base price. We believe such a formula is likely to set a price at least as low as France's second-quarter adjusted price of \$2.36 per MBtu. ¹

In our view, Algiers has little choice but to agree to the lower price if it intends to keep France as a client. Paris has already threatened to scrap the entire accord and take its business elsewhere should Algeria not agree to an "acceptable" price.

¹ Although base prices are stipulated in all of Algeria's contracts with its customers, the actual prices charged are those determined quarterly based on changing market conditions.

Although the other European clients will probably use the new French accord as a basis for their own agreements, they also have their own agendas:

- Italy, for example, will be insisting on removing the "take or pay" clause in its contract and the freedom to renegotiate prices on demand similar to what is guaranteed under Spain's contract.
- Belgium will not only push to get the lowest price possible but will also insist on retaining current volume cuts in a longer term agreement.
- Spain, not now negotiating a new contract, will nonetheless push to adopt the lowest price possible.

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Algeria's more accommodating policy this spring suggests concessions are likely on most of these points, including competing fuel-based prices and at least a softening of the "take or pay" supply provisions. These changes could cost Algeria \$1 billion this year alone.

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Political Fallout

Algerian President Bendjedid almost certainly sees these contract negotiations as an important element in his efforts to reform his country's economy. The President is in the midst of trying to turn Algeria from what he sees as a cumbersome and inefficient Soviet-style economic model toward a Western-oriented system that relies heavily on private enterprise. Some liberalization has already taken place, particularly in agriculture, and is generating complaints from influential socialist ideologues within the government. Bendjedid will have to convince his detractors that his more accommodating negotiating position allowed Algeria to maintain its market share. Otherwise, his opponents may cite the projected lower gas revenues from new contracts as evidence of Western collusion against Algeria and an indication that he is not working to further Algeria's best interests. [redacted]

Bendjedid may also try to use his more accommodating gas policy with the Europeans to uncork additional bilateral economic aid and new bank loans from the West. France, for example, one of Algeria's principal benefactors, has been dragging its feet on new aid because of Algeria's rapidly deteriorating finances. Bendjedid may also see a more moderate negotiating position as a necessary criterion in efforts to obtain aid from Washington or other multilateral donors. He may also try to point out to US officials that Algerian gas prices are considerably more attractive than before in the event Washington wants to reenter the international LNG market.

[redacted]

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The President may already be in the position of bargaining with the hardliners to preserve his economic agenda. For example, Algeria has engaged in a variety of foreign policy activities in recent weeks that are inconsistent with its professed refusal to condone international terrorism and its willingness to act as a bridge between radical and moderate Arab governments. Examples are rapprochement with Libya, closer ties to radical Palestinians, and renewed activity within the "Steadfastness Front" involving Iran, Syria, Libya, and South Yemen. This apparent contradiction suggests that Bendjedid may have agreed to allow hardliners a greater say in foreign policy matters in exchange for their muting criticism of Bendjedid's economic policies. Alternatively, the economic situation may have weakened the President's position at the expense of his opponents.

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The Tunisian Economy at an Impasse

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Tunisia's worsening economic situation is severely depressing the country's living standards and is adding to an already unprecedented level of political tension. The appointment of Rachid Sfar, former Minister of Economy and Finance, to the post of Prime Minister in July along with other Cabinet changes indicates growing government awareness of the urgency of the problem. At the same time, however, fears that new austerity measures will prompt a repetition of the bloody January 1984 food riots have prevented President Bourguiba's government from effectively addressing Tunisia's economic woes. These same fears will probably hamper implementation of the government's structural adjustment program recently proposed to facilitate desperately needed foreign aid. Reduced consumer subsidies, minimal wage increases, and a hefty currency devaluation—all longstanding issues with Western donors—are almost certain to generate popular unrest. Nevertheless, Tunis is looking at a current account deficit that could exceed \$1 billion this year. Without financial relief, Tunis will encounter severe problems in meeting even essential needs.

Economic Stasis

Tunisia, like its North African neighbors, depends on oil for its economic well-being. Oil is the largest single source of hard currency, accounting for 40 percent of export receipts. The oil industry also provides 20 percent of government revenues and 10 percent of GDP. As is the case with other oil producers, the prolonged slump has had a decidedly negative impact on Tunisia's economic performance. GDP per capita—at \$1,100, still among the highest in Africa—has sunk far below late 1970s oil-boom levels in real terms for the average Tunisian. In addition, inflation is running well into double digits, while wages remain frozen at 1983 levels. Moreover, despite the highest adult literacy rate in North Africa, the economic slowdown has caused an increasing number of Tunisians to be unable to find jobs; unemployment currently tops 30 percent. Indeed, the ailing economy

has been completely unable to keep up with an annual need for 70,000 new jobs. Some 70 percent of the populace is under age 26, and the population is growing at a rate of nearly 4 percent annually. Unemployment and underemployment together, as a result, are as high as 50 to 60 percent in urban areas.

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Nevertheless, fears that new austerity measures will prompt a repetition of the bloody January 1984 food riots have prevented the Bourguiba government from effectively addressing Tunisia's economic woes. Tunis had attempted in 1983 to begin to realign the economy and ease the country's financial bind by slashing consumer subsidies and imports, restricting development expenditures, and freezing wages. Local reaction to these measures was largely muted. In January 1984, however, the government misjudged public patience. Tunis removed subsidies on wheat—a staple of the Tunisian diet—causing bread prices to double and triggering nationwide riots. The disturbances were quieted only after the military was called in and Bourguiba reinstated the subsidies. Wary of a further backlash, the government has instituted few new reforms since and has been especially careful to avoid implementing any of the potentially politically disruptive structural reforms—such as devaluation—necessary to bring spending more in line with revenues and to broaden Tunisia's oil-dominated economic base.

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Last year, the poor performance in the petroleum sector was at least partly offset by surprisingly strong performances in both agriculture and tourism. This year, however, both sectors are in trouble. Inadequate rain is curtailing cereals production—producing sporadic shortages—and threatening sheep and other animal herds. In addition, Tunisia's tourism industry is still feeling the negative effects of the Israeli raid on Tunis in October and continued Libyan terrorist threats.

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1 August 1986

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From Boom to Bust

The Tunisian economy expanded rapidly during the 1970s—averaging 7.5-percent real economic growth annually—largely due to steadily rising oil output and unprecedented expansion in the manufacturing and tourist sectors. Skyrocketing oil earnings over the period plus a substantial influx of European visitors, growing world demand for phosphates, and buoyant worker remittances built a financial cushion for Tunisia that averaged nearly \$500 million annually in 1973-79. This cushion allowed the Bourguiba government to simultaneously improve the country's standard of living while increasing development expenditures. Tunisia's strong financial position and fairly pragmatic fiscal policies earned the country a solid international credit rating, permitting the government to easily borrow abroad to underwrite more elaborate development efforts. []

rating, the government confined its burgeoning debts to soft loans and medium- to long-term credits, keeping the debt service ratio to a relatively manageable 20 to 25 percent. []

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Only the unusually good harvest and long-awaited resurgence in tourism—Tunisia's second-largest foreign exchange earner—allowed the Tunisian economy to grow about 4 percent last year. Good weather helped Tunis improve agricultural performance by roughly 15 percent. Cereals production, for example, more than doubled 1984 levels, as did production of most fruits and vegetables. Tourist visits increased largely because the economic recession eased in Europe—90 percent of travelers to Tunisia are European. []

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The economy began to slow in the 1980s, however, when Tunisia's main sources of foreign exchange were hard hit by the international recession. Oil output eroded as world demand fell; tourist visits—hampered by the overvalued dinar—slackened; phosphate production plummeted as Western industrial output stagnated; and the number of expatriate Tunisian laborers dwindled as foreign employment opportunities contracted in Western Europe and elsewhere in the Middle East. Real GDP growth averaged only 4 percent annually in 1980-84 and was barely sufficient to absorb the 3.8-percent annual increase in the nation's labor force. As the economy slowed and consumer purchasing power slipped, Tunis could not control inflation, which averaged 10 percent per year during 1980-84—twice the 1970s rate—or rein in unemployment over the same period, which hit a record 30 percent. []

Other foreign exchange earners performed poorly. Petroleum continued to experience difficulties due to falling world prices, rapid growth in domestic consumption, and continuing production difficulties in the Ashtart and Tazarka fields. Phosphate sales remained soft, the result both of production shortfalls due to spare parts shortages and frequent labor unrest, and of oversupply in the international market. The expulsion of roughly 32,000 Tunisian workers from Libya last summer also cost Tunis about \$140 million in worker remittances, lost trade, and outlays for unexpected social services. []

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Stagnating income from Tunisia's beleaguered foreign exchange earners also seriously weakened Tunis's previously hearty international payments position. To make ends meet, the government drew down foreign reserves and borrowed heavily abroad. By the end of 1984, foreign reserves stood at \$400 million—\$200 million below the peak 1982 level—and external debt exceeded \$5.5 billion. Fortunately, because of the country's solid international credit

With foreign exchange earnings continuing to founder, Tunis could not bring its international payments position into the black. Because of the rapid increase in debt and debt servicing costs, particularly in 1983-84, a worried Bourguiba government resorted largely to drawing down reserves to meet payments needs. As a result, by the end of 1985, foreign exchange reserves totaled about \$200 million—equal to less than one month's imports. Moreover, although the government did not borrow abroad for balance-of-payments needs, Tunis continued to borrow to fund development expenditures to the tune of about \$300 million. By the end of 1985, consequently, Tunisia's external debt topped more than 60 percent of GDP. []

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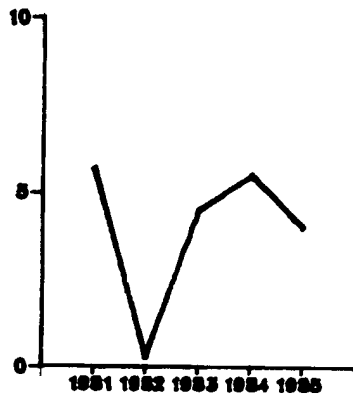
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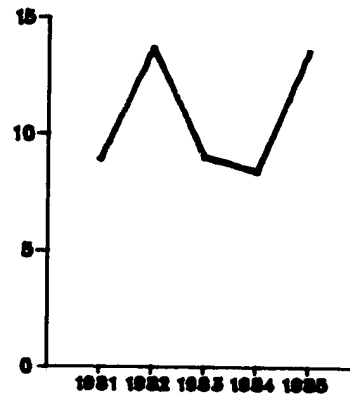
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Chart 1 Tunisian Economic Indicators, 1981-85

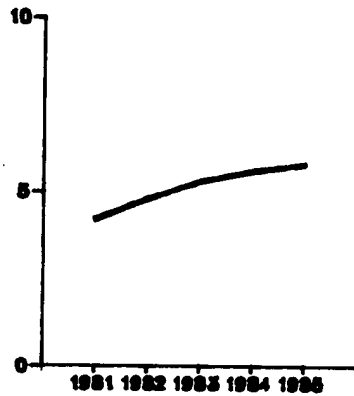
**Real GDP Growth
percent**



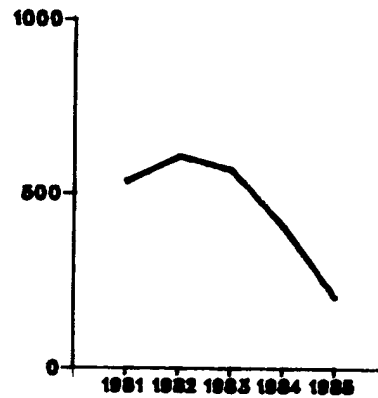
**Inflation
percent**



**Total Debt
billion US**



**Foreign Reserves
million US**



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Table 1 *Million US \$*
Tunisia: Balance of Payments, 1981-85

	1981	1982	1983	1984	1985 ^a
Current account balance	-848	-938	-811	-1,044	-825
Trade balance	-1,324	-1,409	-1,257	-1,389	-1,195
Exports (f.o.b.)	2,454	1,979	1,860	1,793	1,665
Hydrocarbons	1,308	910	832	798	655
Agricultural products	238	181	143	178	200
Phosphates and chemicals	365	349	353	319	300
Other	544	539	532	497	510
Imports (c.i.f.)	3,778	3,388	3,116	3,182	2,860
Hydrocarbons	747	377	346	369	380
Industrial goods	2,021	2,082	1,728	1,824	1,635
Food	428	356	434	427	335
Consumer goods	583	573	608	561	510
Net services and transfers	476	471	446	345	370
Of which:					
Tourist receipts	590	575	562	449	490
Worker remittances	356	372	352	309	290
Capital account balance	654	735	582	549	525
Long-term capital	634	716	557	521	500
Direct investment	362	402	219	201	190
Medium- and long-term loans	272	314	338	320	310
Official grants	20	19	25	28	25
Basic balance	-194	-203	-229	-495	-300
Short-term capital	78	58	16	150	
Other (including errors and omissions)	62	215	174	184	97
Change in reserves	-54	+70	-39	-161	-203

^a Estimated.

Other revenue earners also are sluggish. World demand for raw phosphate remains depressed because of oversupply and an industry shift toward using phosphoric acid and other processed derivatives. The market for Tunisian phosphate rock is particularly grim, according to industry experts, because of its poorer quality. Worker remittances also are down, the result of a declining European market for foreign workers and Libya's expulsion in August 1985 of 32,000 Tunisian workers.

Revenue shortfalls have forced Tunisia to nearly exhaust its foreign reserves. As a result, Tunis is looking for an immediate \$150-200 million bilateral aid injection until the government can secure funds from multilateral or commercial sources this fall. Along with requests to Washington for additional aid and debt relief, Tunis has approached other donors as well. Paris has been asked to provide an immediate 50,000-ton grain grant, a \$50 million loan to finance additional grain imports, and another \$50 million

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long-term trade credit. Tunisia is also looking to Italy, Kuwait, and Saudi Arabia for help. At least Paris is likely to support US efforts to tie any major increase in aid commitments to an agreement between Tunisia and the IMF. [redacted]

[redacted] the effect of the deteriorating economy and growing joblessness is being felt most acutely in the south. Government officials there cite widespread malnutrition and unprecedented crime levels in claiming that the economic and social conditions in their region are the worst they have ever seen. Disgruntlement with economic conditions, in general, has already led to several localized demonstrations against the government. Antigovernment sentiment has traditionally been strong in the south. Many of these towns are the same ones involved in the disturbances in January 1984 that quickly spread north to impoverished urban areas. [redacted]

Looking Ahead

The continuing slump in world oil prices along with poor performances in nearly every other sector of the economy presage a very difficult remainder of 1986. Economic growth could well be negative for the year—by as much as 3 percent—for the first time in over two decades. Tunisia also faces a sixth straight year of current account deficits. This year's could surpass 1984's record shortfall of slightly over \$1 billion. [redacted]

After months of ignoring mounting pressure from aid donors for action, the Bourguiba government is finally beginning to think seriously about the country's accelerating economic difficulties. According to Embassy reporting, Tunisia decided in June to implement a six-year structural adjustment program in conformity with reforms long advocated by the World Bank and other Western donors. The program will emphasize demand restraint and export promotion. Adjustments slated for implementation this year include price increases in basic commodities such as milk, sugar, corn, soy bean meal, bread, pasta, and cooking oil; no wage increases except the minimum wage; about \$250 million in budget and development spending cuts; modifications of price and import controls; and a free float of the Tunisian dinar

Table 2 *Million US \$*
Tunisia: Balance-of-Payments
Scenarios, 1985-86

	1985	1986	
		\$15 per barrel oil	\$10 per barrel oil
Current account balance	-825	-1,032	-1,060
Trade balance	-1,195	-1,332	-1,360
Exports ^{a b}	1,665	1,168	1,078
Hydrocarbons	655	288	198
Agricultural products	200	100	100
Phosphates and chemicals	300	270	270
Other	510	510	510
Imports	2,860	2,500	2,438
Hydrocarbons	380	185 ^c	123 ^c
Industrial goods	1,635	1,575	1,575
Food	335	255	255
Consumer goods	510	485	485
Net services and transfers	370	300	300
Of which:			
Tourist receipts	490	280	280
Worker remittances	290	200	200
Capital account balance	525	390	390
Long-term capital	500	340	340
Direct investment	190	140	140
Medium- and long-term loans	310	200	200
Official grants	25	50	50
Basic balance	-300	-642	-670
Short-term capital		425	425
Euroloan		175	175
Multilateral		200	200
Bilateral		50	50
Reserve position	203	-14	-42

^a Assumes crude oil production of 100,000 b/d and consumption of 51,000 b/d.

^b Assumes \$20 million in refined product exports.

^c Assumes refined product imports of 11.9 million barrels at a cost of \$15.60 per barrel and \$10.40 per barrel, respectively.

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that is expected to result in an 11- to 14-percent effective devaluation. Government changes announced in July, which elevated Minister of Economy and Finance Rachid Sfar to the post of Prime Minister and promoted Minister of Planning Khelil, the architect of Tunisia's adjustment plan, to Minister of Economy, Finance, and Planning underscore the government's new resolve. [redacted]

The structural adjustment program as presently written would significantly ease Tunisia's economic difficulties over the long run. Reduced government subsidies on food, development spending cuts, and continued wage restraints, for example, hit three major sources of budgetary deficits. Altering the country's exchange rate should also help Tunisian nonoil exports be more competitive and keep a lid on import demand. Moreover, an adjusted dinar along with reduced import controls and revised tariff and customs duties will eventually help promote new exports, broadening Tunisia's economic base and making the economy less susceptible to the vagaries of the world oil market. [redacted]

We believe, however, that many of the proposed reforms could easily spawn domestic unrest long before the program produces any benefits. A particularly explosive element in the government plan is the hardline stance against a broad increase in wages while gradually reducing most food subsidies. The food riots in 1984 underscore the catalytic effect of tinkering with government subsidies without an offsetting improvement in wages. The decline in consumer purchasing power would be even more sizable if accompanied by a hefty devaluation. Reduced development expenditures could also touch off unrest as project cancellations cause layoffs or firings at a time when unemployment is already at record levels. [redacted]

As a result, we believe that a stepping back from this year's goals or, at the very least, a stretching out of the reform timetable, is likely. In our opinion, the 1984 riots are seared into the collective memory of the Bourguiba government, and those memories will

temper any zeal for reform. At the same time, Tunis cannot abandon the adjustment package entirely for fear of losing promised international aid. For example, Tunis's proposed program probably was behind the World Bank's recent decision to provide about \$180 million in agricultural and industrial development loans. The Bank is also considering smaller loans in the public enterprise and housing sectors. Embassy sources claim that Tunis may use its structural adjustment program as collateral to draw on automatically available IMF funds and other multilateral aid sources for another \$160 million. These amounts are in addition to a \$175 million Euroloan secured earlier this year. [redacted]

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India: Amazing Facts or Demographic Estimates, Projections, and Social Characteristics

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Population Size

India is confronted with the prospect of providing for twice as many persons by the year 2000 as it strove to support in 1965. India's population, currently the second largest in the world, is likely to pass the 1 billion mark by the end of this century. The present assessment indicates that today's children will see India's population surpass that of China in their lifetime. The momentum of India's population growth is such that these events are expected to occur even as India reduces its present fertility rates and rate of population growth.

To place the magnitude of India's population in perspective:

- Every year India adds as many persons to its population as is added by the entire African continent.
- If India's largest state (Uttar Pradesh) were a country, its population would be the eighth largest in the world. The rest of India would be the world's second-largest country.
- There are more persons under age 13 in India than there are persons of all ages in the United States.

Fertility

By world standards, fertility in India is high. Fertility declined more rapidly in 1972-77 than in the late 1970s and early 1980s. The stagnation in the fertility decline in the latter period is believed to reflect the reaction to the coercive aspects of a population policy that later resulted in a drop in the use of contraception. Rejection of this policy also contributed to Indira Gandhi's election defeat in 1977. Renewed population and family planning efforts appear to be once again influencing fertility downward.

Nevertheless, the present birth rate of 33 births per thousand population combined with the total population size implies that:

- The number of babies born in India in one year equals the total population of Canada.
- The number of babies born in India in one day equals the number born in Switzerland in one year.
- While you slept last night, over 23,000 babies were born in India.

Although fertility is projected to decline in the near future, India is not expected to achieve its stated goal of replacement level fertility by the year 2000. By that time, women are anticipated to be bearing an average of three children. Furthermore, projected mortality declines will offset progress in the reduction of population growth rates. Consequently, the total population will continue to grow long after replacement fertility levels are achieved.

Mortality

Historically, India was one of a few countries where male life expectancy at birth was higher than female life expectancy. Not until 1980 were females estimated to live longer than males. Life expectancy at birth for both sexes in 1980 was estimated at 53 years and is projected to be 62 years by the year 2000.

High infant mortality contributes greatly to the country's low life expectancy at birth. One of every 10 babies born in India currently dies before reaching its first birthday. The large number of births, coupled with the high infant mortality rate, results in approximately 2.5 million infant deaths per year:

- As many infants will die in India this year as have died in the United States in the past 30 years.
- More infants die in one week in India than die in the United States in one year.

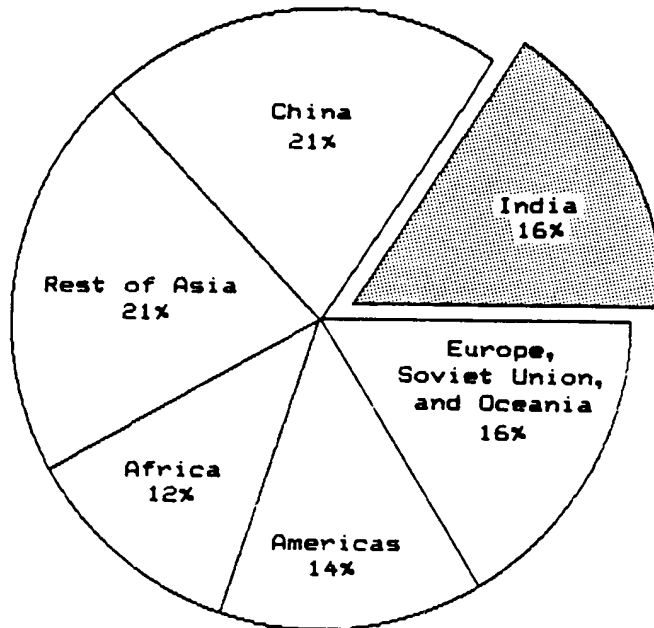
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1 August 1986

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India's Population as a Percent of the World: 1986



INDIA: POPULATION STATISTICS IN BRIEF

	1971	1986	2001
Total population (millions)	568	784	1,013
Percent under age 15 years	42	38	32
Birth rate	41	32	24
Death rate	18	11	8
Population growth rate, (percent)	2.3	2.1	1.5
Total fertility rate	5.9	4.2	2.9
Infant mortality rate	132	99	66
Life expectancy at birth	48	56	62

Characteristics in 1971 and 1981

Religious distribution (percent)	1971	1981
Hindu	83	83
Muslim	11	11
Others	6	6
Percent literate, ages 5+		
Both sexes	34	41
Male	46	54
Female	22	28

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Migration

International migration in India remains moderate in relation to the total population. Nevertheless, recent years have witnessed a marked increase in the number of Indians migrating to the oil-producing states in the Middle East. An increased flow to the United States also has taken place. In addition, international immigration to India has grown in the past several years, particularly from Sri Lanka.

Less than 2 percent of India's population was born in a foreign country, with 99 percent of those persons from Asian countries. The principal countries of origin of the immigrants in India are predictably the neighboring countries of Bangladesh, Pakistan, Nepal, and Sri Lanka. Also as expected, border states absorb the bulk of international immigrants, with over half of the immigrants during 1961-71 enumerated in the states of Assam and West Bengal.

Religion

Over 80 percent of India's population is Hindu. Muslims, although representing less than 12 percent of the population, number approximately 80 million, making this group the third-largest concentration of Muslims in the world, behind Indonesia and Pakistan. Other major religions in the country are Christians, Sikhs, Buddhists, and Jains. These groups, each only 2 percent or less of the total population, are often significant minorities (or even majorities) in particular states or union territories. Most notable is the Sikh majority of the population of the state of Punjab.

Significant demographic differences exist between the Hindu and Muslim populations of the country. For example:

- Muslim women have an average of one child more than Hindu women (5.6 versus 4.6 children in 1980).
- Infant mortality for Hindus is higher than for Muslims (117 versus 100).
- The Muslim population is growing at a much faster rate than the Hindu population (2.7 versus 2.2 percent average annually, 1971-81).

Hindu and Muslim women marry early, with some slight differences found in the young age groups in urban areas. Over half of the women of each religion are married before reaching age 20.

Education

Literacy in India has shown steady improvement in the 30 years since 1951. Still, less than half of the population over age 5 can read and write, and females continue to lag far behind males.

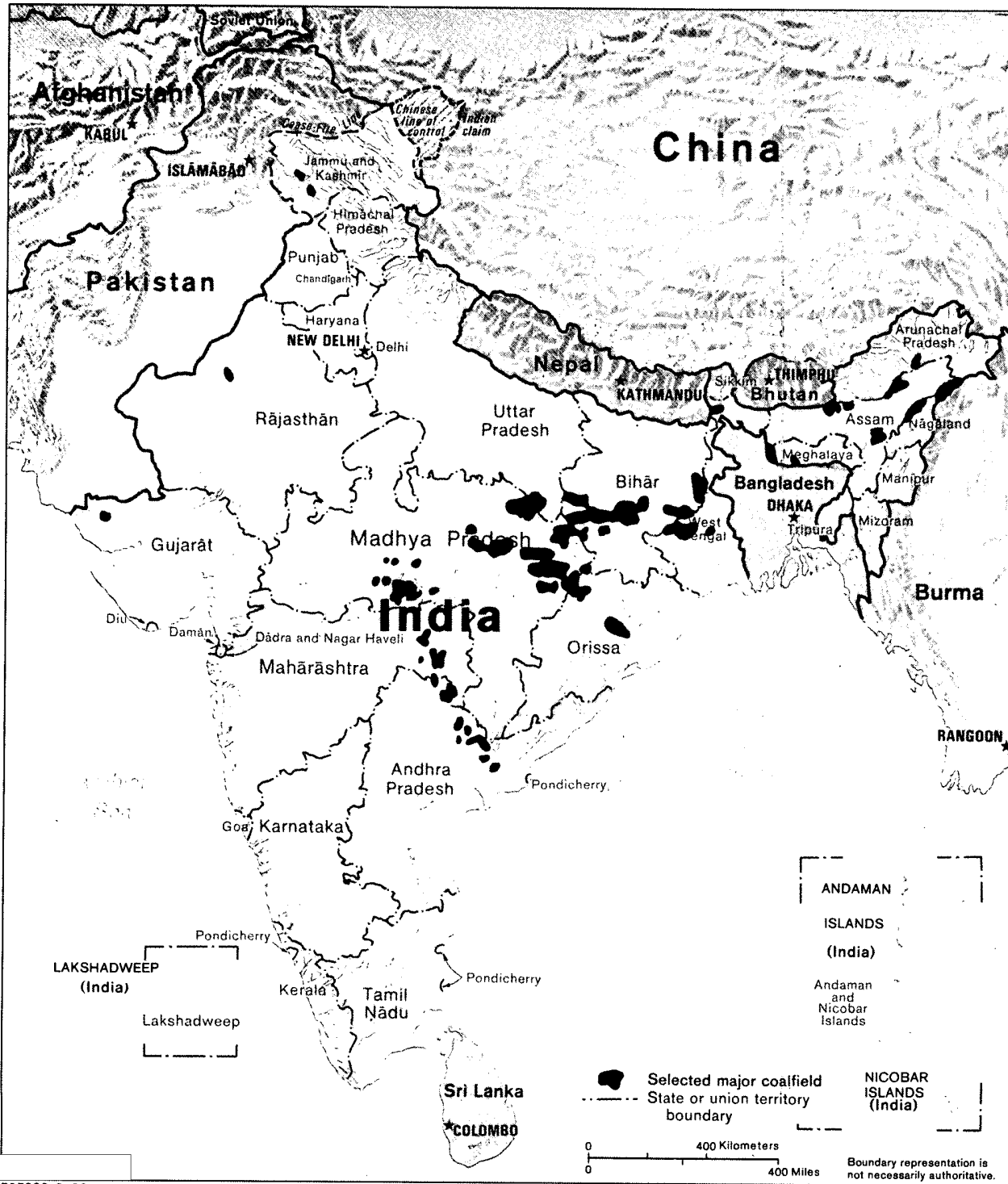
Variations in the percent of the adult population (over age 15) that are literate are also found among states and urban and rural areas. In 1981 urban literacy rates in the major states varied from 53 to 86 percent, with the corresponding rural percentages ranging from 20 to 77 percent. For all India, the adult literacy rate in urban areas (65 percent) was double the rural rate (33 percent).

Educational attainment in India also has consistently improved over the years. This improvement, as for literacy, has been experienced by each sex and within both rural and urban areas. The strong influence of urbanization on education is demonstrated by the fact that urban females actually have a higher percent of the population completing primary school and above than rural males, implying that in India urban residence has a greater impact than gender on the educational level of the individual.



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India's Coal Sector: Taking Its Lumps

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Increased use of coal is vital to India's long-term energy and economic plans. Indian planners believe higher coal production will be needed to satisfy energy demands because they anticipate little increase in domestic oil production over the next five years. Major problems hamper the Indian coal industry, however, and we believe that coal production and utilization will increase only slightly—if at all—during the coming decade. We believe that India will have to increasingly depend on foreign technological and financial assistance to overcome obstacles. Nevertheless, the bottlenecks will probably continue to aggravate India's chronic energy shortage and hinder economic development.

India's Energy Needs Increase

The 5-percent annual economic growth rate called for in New Delhi's most recent five-year plan will place increased demands on India's already strained energy resources. Presently, oil provides about 48 percent of India's energy consumption, with coal providing 45 percent and electricity generated by hydroelectric and nuclear power facilities, 7 percent. The government plan calls for coal demand to increase by 69 percent during the five-year plan and electricity demand, which is mostly generated by coal-fueled thermal plants, to increase by some 50 percent while oil demand increases 40 percent. Despite New Delhi's efforts to meet the country's electrical energy needs, a 10-percent gap still exists between demand for electricity and supply, according to US Commerce Department figures.

Government officials also are stressing the use of coal to avoid becoming increasingly dependent on foreign oil imports. Although domestic oil production currently accounts for most of the country's oil requirements, government planners believe oil production will grow slowly over the next decade, if at all. As a result, New Delhi's overall energy strategy involves meeting additional energy demand through expanded use of coal as well as shifting some of the present dependence on oil to coal.

Structure of India's Coal Sector

Coal India, Ltd. (CIL) was formed several years after the nationalization of India's coal mines in 1971. It was established as an umbrella organization with five subsidiaries—Bharat Coking Coal, Ltd. (BCCL), Central Coalfields, Ltd. (CCL), Western Coalfields, Ltd. (WCL), Eastern Coalfields, Ltd. (ECL), and Central Mine Planning and Design Institute, Ltd. (CEMPDIL). The coal mines in Assam and its neighboring areas, which were under direct control of CIL, were assigned to an organization called North Eastern Coalfields (NEC). The NEC is under direct control of the CIL. The CIL is mainly responsible for laying down corporate objectives, approving and monitoring the performance of subsidiary units, conservation, and research and development. The subsidiary companies are responsible for all operational matters, commissioning, and execution of new and existing projects. The CIL and its subsidiaries have a combined annual budget of over \$2 billion.

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India is the seventh-largest coal producer in the world, with reserves estimated at 148 billion tons. About 39 billion tons of the country's reserves are proven reserves—2 billion tons are coking coal, which is used in steel production, and 37 billion tons are noncoking coal. Using the government's demand projections, India's proven reserves of coking coal are expected to last 74 years, while noncoking reserves are expected to last 121 years.

Problems Ahead

Before New Delhi can move coal to the forefront of its energy production and use, it must overcome seven key problems:

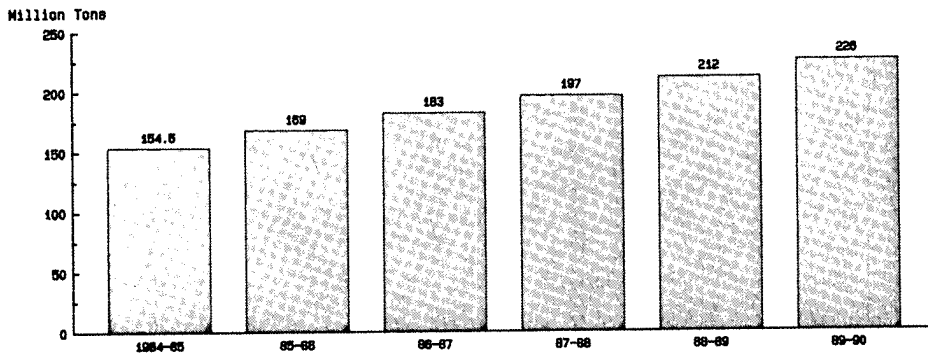
- Develop or acquire surface mining technologies and equipment suitable for developing large coalfields with shallow deposits. Increased opencast mining is

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NESA NESAR 86-018
1 August 1986

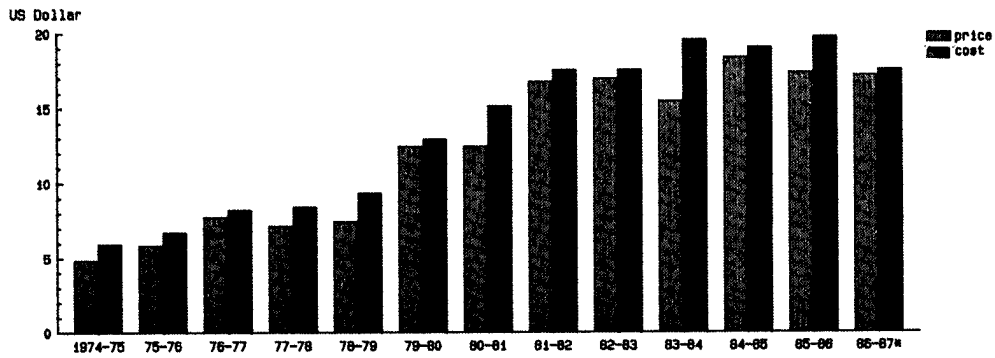
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Coal Production Targets



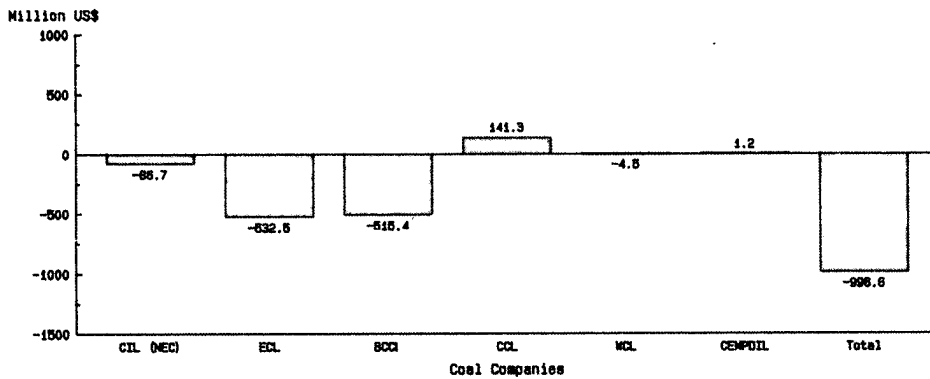
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Coal Price and Cost of Production (Per Ton)



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COAL SECTOR PERFORMANCE



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needed because of the relatively lower cost, higher safety, and shorter gestation period of such projects.

- Rehabilitate and modernizes deep underground mines to increase domestic supplies of coking coal and reduce the need for additional imports. India's imports of coking coal for 1986 have already amounted to \$200 million.
- Improve the availability of power. Frequent interruptions in the supply of electrical power have been a major constraint in achieving past coal production targets. At the same time, the lack of sufficient coal supplies has stymied the production of electricity.
- Install special processing and coal burning technologies to accommodate India's low-quality coal. India's coal is low in energy value: either lignite (often with high moisture content) or subbituminous coal with a high ash content. These coals require unique approaches to mining, transportation, and combustion.
- Expand transportation facilities, especially railroads. About 75 percent of India's coal is shipped by rail. Railroads will have to increase their capacity by roughly 10 percent annually if India expects to move the additional coal it intends to produce.
- Implement increased mechanization in the coal industry, which will cost many workers their jobs. The coal sector employs over 700,000 workers, of which the government estimates over 25 percent are unproductive. The featherbedding is caused primarily by politicians and party officials who press industry officials to hire workers to develop voting blocs for themselves.
- Find the funds to finance the new technologies needed in the coal industry. The inability of the domestic coal industry to create sufficient investment capital will be a major obstacle. Annual investment would have to increase 60 percent over the medium term to provide the \$7.5 billion required to successfully fund the planned acquisition of mining equipment alone.

New Delhi is attempting to overcome the technological and transportation obstacles, but progress is slow. The availability of electrical power in some mines in Bihar and Bengal has been boosted by the construction of a few captive power facilities, but New Delhi will have to complete additional units now under consideration to provide sufficient power just to enable existing coal mining equipment to function at capacity. A number of steps are also being implemented to improve the railroads' performance including line electrification, building new train routes that can more effectively move coal, and financing the construction of high-capacity wagons for bulk materials like coal. In addition, the government is urging the use of alternative methods to move coal, such as road and coastal shipping, and has implemented a pilot project of transporting coal in slurry form by pipelines. These improvements, however, will require years to implement.

The government is also trying to improve the industry's financial position. Earlier this year, New Delhi allowed a 14-percent increase in the price of coal. Because prices have been kept artificially low, the industry had suffered severe financial losses and could not meet its operational costs or generate its own investment capital. As a result, most of its expenses are met by government budgetary allocations. We believe that the price of noncoking coal will have to increase an additional 4 to 5 percent if the industry hopes to generate a small investment profit. Although higher coal prices would help promote more efficient coal usage in addition to mobilizing resources for investment and encouraging higher production, popular opposition against higher prices will probably prevent New Delhi from taking the step. At the same time, growing government budget deficits make it unlikely that sufficient funds will be available to provide the investment necessary in the coal sector.

Foreign Assistance Needed

We believe that foreign technology, equipment, training, and financing will play a growing role in the effort to exploit coal and could become major factors

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affecting the speed and magnitude of Indian coal development. India has already sought foreign assistance for importing advanced mining technology along with equipment for mining coal from open pit and underground mines. Joint projects with foreign companies include preparation of mining feasibility studies, technical assistance during implementation of projects, training of Indian engineers in foreign countries, and purchase of mining equipment not available in India.

The largest foreign participant in India's coal sector is the Soviet Union. There are presently a washery and 22 coal mining projects operating in cooperation with the Soviets. In addition, Moscow has agreed to assist India in establishing facilities to teach modern coal processing and mine construction techniques. The Soviets have also issued India two loans totaling nearly \$1.3 billion to finance the foreign exchange requirements of these projects. India is also receiving assistance from Poland and East Germany.

Major Western countries involved in assisting India's coal mining sector include Britain, France, and West Germany. The assistance from Britain is mainly confined to the purchase of equipment utilizing a \$20 million grant. France is assisting India with 11 projects mainly for exploiting deep underground seams. West Germany is also providing assistance to three projects. A credit agreement for \$225 million has been signed with Bonn and is available for financing these projects. India's insistence on concessional aid and limited foreign reserves have made it reluctant to turn to the United States for equipment and technology.

In addition, New Delhi has also successfully secured multilateral aid from the World Bank. So far the World Bank has extended two project loans totaling \$400 million. The projects are expected to boost coal output by 10.5 million tons per year.

Outlook

Because of its enormous coal reserve base and dwindling reserves of oil, we believe that India will continue to emphasize coal in its long-term energy plans. It will, however, probably not be able to devote the resources needed in the short to medium term to overcome the obstacles to attaining its goal.

We believe the key to what progress the Indians make will lie in developing state-of-the-art equipment in coal extraction and in use of energy transfer technologies, such as large-capacity lignite-fired boilers, coal-slurry pipelines, and ultrahigh-voltage electricity transmission systems. The inability of the Indian manufacturing sector to provide quality equipment on time will provide foreign companies with increasing opportunities to provide assistance. Because of the country's deteriorating balance of payments and reluctance to engage in commercial borrowing, foreign firms or countries will more than likely have to provide concessional financing, accept countertrade in place of payment, or engage in joint ventures before they can penetrate the Indian market.

The failure to expand coal output and use probably will severely hamper India's economic growth by widening the gap between supply and demand for power in the country. In addition, an increase in the frequency and duration of power shortages during the late 1980s and 1990s would probably lower the output of key metallurgical, defense, and, to a lesser extent, agricultural facilities. Furthermore, many power plants burning coal as their primary fuel would have to continue using more fuel oil than planned because of low-quality coal and coal shortages. This situation would hamstring Indian efforts to free additional oil for alternative domestic uses. Last, shortages of coking coal will continue to be a drag on steel production, adversely affecting Gandhi's modernization programs and adding another import item to India's shopping list.



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India: Arun Nehru Recovering

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Despite his recent heart attack, we believe Arun Nehru remains well placed to become the next prime minister of India should Rajiv Gandhi, his third cousin, be removed from office. As Indian Minister of State for Internal Security, many Indian politicians regard him as the second most powerful person in politics. His political career to date has been linked inextricably to that of Rajiv, and he is a member of the elite Nehru dynasty. Nehru's colleagues respect him for his intelligence and managerial abilities, but some see him as a ruthless man who does not let individuals stand in the way of his goals.

Nehru's Rise to Power

Arun Nehru formally severed his ties to private business to enter politics in 1980 when Indira Gandhi let him contest the traditional Nehru family parliamentary seat. At Indira Gandhi's direction, following the death of Sanjay Gandhi in June 1980, Nehru became Rajiv's chief political adviser. Nehru helped Rajiv in running the Ninth Asian Games in New Delhi, in managing Rajiv's first parliamentary campaign, and in recruiting and revitalizing the youth wing of the Congress Party.

After Indira Gandhi's assassination, Rajiv named Nehru to replace him as General Secretary of the Congress Party. Within weeks Rajiv brought Nehru into his Cabinet as Minister of State for Power. Nehru brought about a record 5-percent improvement in the efficiency of power plants nationwide, pushed through several gas turbine projects, and initiated a new procedure for financing power projects. Nehru demonstrated the results-oriented leadership that Rajiv Gandhi extols.

In September 1985, Rajiv Gandhi rewarded Nehru with a new Cabinet post—Minister of State for Internal Security. With this appointment Gandhi gave Nehru responsibility for all aspects of domestic law and order—including Sikh terrorism in Punjab. Nehru took the lead in upgrading the equipment and training of the paramilitary and police forces under

the Home Ministry, in consultations on political and security matters in Punjab, in conducting tax and narcotics raids, and in reorganizing the Intelligence Bureau and the Central Bureau of Investigation.

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Nehru suffered a mild heart attack on 26 May while vacationing in Kashmir. The heart attack followed closely on a period of intense activity in Punjab. Nehru was responsible in early May for the operation in which paramilitary forces reentered the Sikhs' Golden Temple in Amritsar to oust Sikh extremists. Most likely he also advised Gandhi on political options for dealing with dissent in the Haryana state government.

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The speculation surrounding Nehru's heart attack includes assertions that Nehru will lose power in New Delhi. According to the Embassy, Nehru's duties at the Home Ministry were divided among other officials following his heart attack. Initially, Home Minister Buta Singh took over Nehru's responsibilities on Punjab, while P. Chidambaram was named to fill in temporarily as Minister of State for Internal Security. Shortly before Nehru returned to resume a reduced schedule at the Home Ministry, Chidambaram was asked to continue pinch-hitting on all subjects requiring day-to-day attention. According to US Embassy reporting, Nehru was discharged from the hospital on 23 June and resumed partial duties on 8 July.

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Influence and Access

We believe Nehru's influence with Rajiv Gandhi far exceeds that implied by the formal description of his several positions. According to the Embassy, Gandhi relies on a very small inner circle—his wife Sonia, Arun Nehru, and Minister of State for Defense Research and Development Arun Singh—for advice on a wide range of issues.

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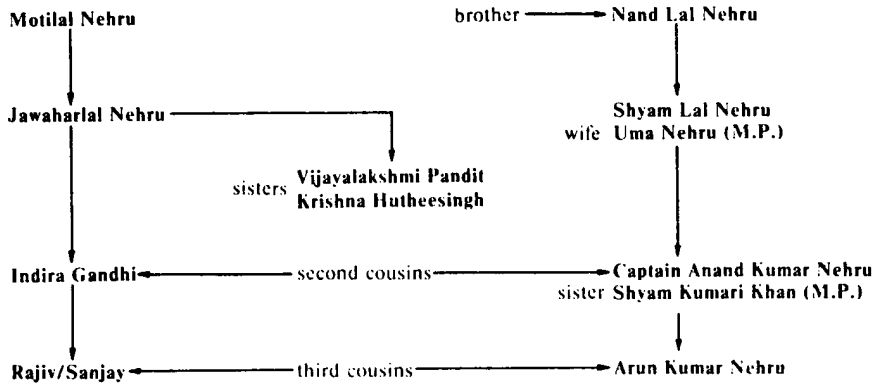
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1 August 1986

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The Nehru Family Tree



[Redacted]

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[Redacted] between Nehru and Singh, who was also promoted in the Cabinet changes last September, Nehru received by far the greater relative promotion.

[Redacted]

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[Redacted] Nehru, who had considerably less authority and access to Gandhi than Singh before the Cabinet appointments, has now at least matched Singh's influence. This change, in our opinion, suggests that Rajiv is convinced of Nehru's loyalty.

[Redacted] Arun Singh was given a Ministry of State portfolio to move him out of the Prime Minister's office. The Prime Minister may have been influenced by Arun Nehru,

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[Redacted] Nehru and Singh's appointments signaled that the Prime Minister, himself barely in his forties, wanted a generational change in his Cabinet. [Redacted]

[Redacted]

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[Redacted] US Embassy contacts report that the Prime Minister believed Singh was becoming too powerful in his position as parliamentary secretary. [Redacted]

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Unlike most members of the Cabinet and Congress Party hierarchy, Nehru has his own political following, independent of his relationship with the Prime Minister. His support in the Congress Party—which would elect a prime minister should Gandhi be removed from the scene—is undisputed and growing. In our view, Nehru poses no current threat to Rajiv, but his political ambitions could eventually lead to problems with Rajiv, particularly if they get out of hand and the Prime Minister starts to perceive a threat from him. [Redacted]

Vulnerabilities

[Redacted]

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Arun Nehru in the late 1960s. [redacted]

Arun Nehru's intense rivalries with Arun Singh and Finance Minister V. P. Singh could cost him influence with Gandhi, [redacted]

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[redacted] Nonetheless, [redacted] the rivalry between Nehru and Singh is real and continuing.

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Another intense rivalry exists between Nehru and Minister of Finance V. P. Singh. The two have competed for several years for political influence in their home state of Uttar Pradesh. Now they also compete in the Cabinet, where their respective areas of ministerial responsibility overlap. According to press reports, a delay in the establishment of a special narcotics control bureau is due, in part, to a dispute between Nehru and V. P. Singh over who should head the newly formed organization. V. P. Singh also heads a tax enforcement office that he has turned into a headline-grabbing agency for fighting tax evasion. Nehru, whose duties in home affairs put him in charge of internal security, sees both areas as ones that he ought to control. [redacted]

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Outlook

Arun Nehru still is well positioned to take charge if Rajiv suddenly leaves the political scene. In the near term he is the only alternative to Rajiv from the Nehru dynasty. He has an independent political base in the Congress Party that would support his bid for office. As de facto Home Minister, Nehru will occupy a central role in maintaining law and order in the event of an assassination of the Prime Minister. [redacted]

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[redacted]

Since Nehru has been a Cabinet minister under Rajiv, he has been portrayed in the press as a reformer and crusader against corruption. His responsibilities for tax raids on business, narcotics arrests, and curtailing corruption in the paramilitary and intelligence services have helped to erase his reputation as a suspect party financier. The responsibility for party finances has been shifted to Minister of State for Parliamentary Affairs Sitaram Kesri. [redacted]

Nehru's return to part-time work within six to eight weeks of his heart attack suggests that his recovery is proceeding smoothly. His moderate weight loss and willingness to adhere to a reduced workload also indicate that he has accepted the advice of his doctors. It is still possible that there will be long-lasting

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Arun Nehru with Rajiv Gandhi and Gandhi's son, October 1985. [redacted]

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physical or psychological effects that will alter his ambition or capacity for work. It will be necessary to monitor Nehru's recuperation over the next three to six months to assess how well he adjusts. It will also take that long to measure the political consequences of Nehru's absence from office. [redacted]

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India-Pakistan: Naval Mine Warfare Capabilities [REDACTED]

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India's principal advantage over Pakistan in naval mine warfare is its numerous ports, many of which are beyond the range of the Pakistani Navy. The Indian Navy also has more mines, delivery systems, and mine countermeasures ships than Pakistan, as well as a modest mine warfare modernization program. As a result, India probably can keep its maritime trade relatively intact, while Pakistan's single major port, Karachi, is vulnerable to closure by Indian mining. The Pakistanis, however, have limited their vulnerability by stockpiling fuel and ammunition sufficient to fight a war lasting up to one month. In a future war, we would expect both sides to begin defensive mining before the outbreak of hostilities. The overall effect of mine operations would not be significant unless hostilities were prolonged or either side scored a major propaganda victory by sinking several major naval combatants with mines. [REDACTED]

[REDACTED]

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Delivery Systems. The Indian Navy has over 25 Soviet-built warships specifically configured for minelaying. We estimate that over the next five years India will add 10 submarines and six more surface vessels fitted with mine rails to its fleet. The Indian Navy could also lay mines, albeit less efficiently, with any of its more than 50 surface warships. [REDACTED]

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The Navy can also deliver mines by air. Its five Soviet-built IL-38 May maritime patrol aircraft will be complemented by eight Soviet Bear antisubmarine warfare bombers before the end of the decade. We suspect the Indian Air Force's Canberra bombers and Jaguar attack aircraft, some of which are assigned a maritime strike role, also might be used to drop mines. [REDACTED]

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Mines. We estimate that the Indian Navy has more than 1,000 operable seamines that can be delivered by submarine, surface vessel, and aircraft. India purchased over 1,100 contact moored mines from the Soviet Union and 1,000 bottom mines from the United Kingdom. Some of these mines were used in 1971 against Pakistan, and we estimate that half are still in the Indian inventory. [REDACTED]

Countermeasures. We judge that the Indian Navy can sweep moored contact mines and has a basic capability against acoustic and magnetic mines. India's minesweeping and countermeasures assets include the nine minesweepers based in Bombay and six Soviet-built Yevgenya inshore minesweepers stationed at Cochin. Another six Soviet-built minesweepers are on order, [REDACTED]

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[REDACTED] Italy will be the principal future supplier of advanced sophisticated mines to the Indian Navy. [REDACTED]

[REDACTED] in late May the Indians purchased 96 Misar MRP mines for \$5 million with an option to buy 50 additional mines. These deep-water mines have an in-water life of two years and can be programmed to respond to a variety of influences to defeat countermeasures. Other defense attaché sources indicate the Navy may buy as many as 2,000 multiple influence mines by 1991, some of which may be British Stonefish mines. [REDACTED]

The Indian Navy wants modern vessels capable of neutralizing multiple influence mines, which its current minesweepers cannot detect. [REDACTED]

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[REDACTED] the Indian Navy wants to buy two modern West European mine countermeasures ships and produce under license six others to complement its current holdings. Open sources say as many as 10 might be built, probably in Goa. The Indians have expressed interest in the British Hunt

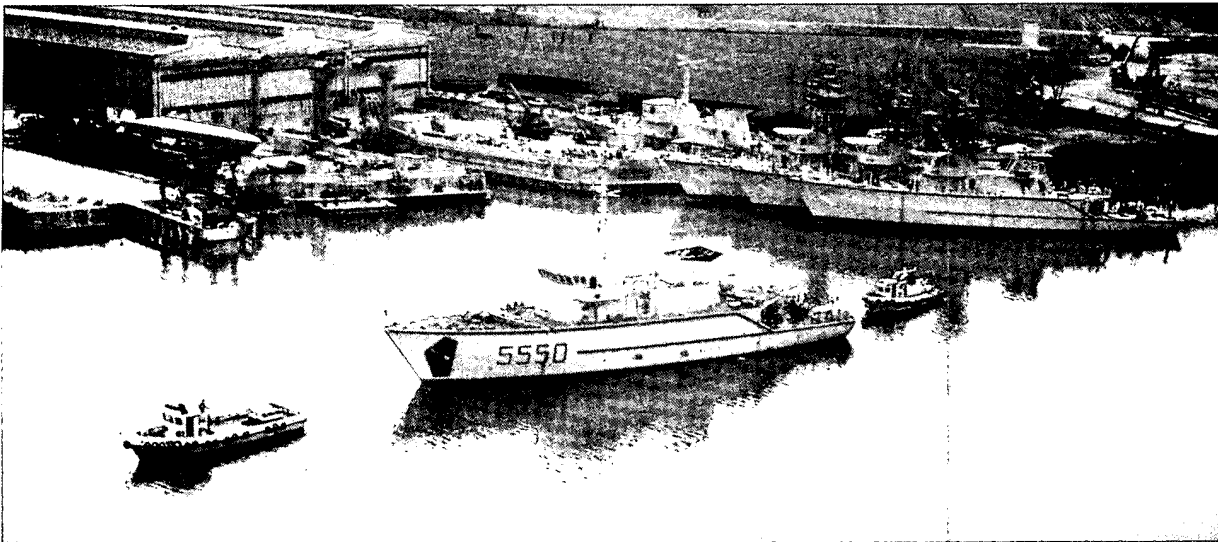
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1 August 1986

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Lerici-class minehunters.

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class, a new Swedish vessel, and the Italian Lerici and Gaeta classes
Four Italian Lerici-class ships built for Malaysia visited Bombay this spring, probably as part of a sales effort.

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Pakistan

Pakistan's mine inventory and delivery systems are more limited than India's. We believe Pakistan has an unknown number—probably a few hundred—of Chinese moored and Italian Limpet mines, as well as some magnetic mines. The Pakistani Navy has 16 Chinese-built patrol boats fitted with mine rails, but these ships lack the range and capabilities of their larger Indian counterparts. The Pakistani Navy could also lay mines from its 25 other surface ships and five submarines.

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The Pakistanis have four maritime reconnaissance aircraft that could be used for mine warfare, but they are older and less capable than India's. Islamabad has asked the United States to sell or lease three modern P-3 antisubmarine warfare aircraft, which could carry mines. The Pakistanis might also use attack or cargo aircraft to sow mines, but, given India's overall numerical superiority in the air, we judge these aircraft would be used for more vital missions.

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The Pakistani Navy's minesweeping assets are almost nonexistent. Its three ex-US Adjutant-class minesweepers can get under way and have participated in exercises, but we believe their minesweeping gear is inoperable. The Pakistani Navy's two Chinese-made remote-controlled minesweeping vessels also are inoperable, but three new Chinese minesweepers may be on order.

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Vulnerabilities

Pakistan. Pakistan has only one major port, Karachi, which it probably cannot keep open under wartime conditions. It is the only Pakistani port capable of handling crude and refined petroleum products and is well within range of Indian minelaying aircraft and ships. Its channel requires constant dredging to maintain a depth of 12 meters from April through September, according to defense attache reports, making it highly susceptible to shallow-water mines that could halt dredging operations. In our judgment, the Pakistanis believe that Indian airstrikes and warships will keep the port closed for the duration of any conflict.

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Pakistan's most effective mine countermeasures effort has been to stockpile munitions, fuel, and spare parts sufficient to fight a 30-day conflict. We believe the

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near impossibility of protecting Karachi has forced the Pakistanis to prepare for a cutoff of all vital imports during what they believe will be a relatively short war. We also judge that, like most Third World navies, the Pakistani Navy has focused on procuring more visible and multipurpose surface ships and submarines rather than highly specialized mine countermeasures vessels. [redacted]

Pakistani plans call for building additional ports to reduce their dependence on Karachi, but these will take years to implement and will not leave the Pakistanis substantially better off. [redacted] plans call for upgrading the port of Bin Qasim—east of Karachi at the mouth of the Indus River—to handle petroleum imports. Construction of a 2 to 3 km jetty, 10 to 16 km of pipeline, and tankage facilities is expected to take seven years. Qasim's 20-km channel also requires constant dredging, however, and is easier to mine than Karachi's. The western port of Gwadar is to be upgraded with a new breakwater, dredging, and logistic facilities. It is out of range of most Indian combat aircraft, but it is also far from Pakistan's main north-south transportation network. [redacted]

India. India's numerous ports, many of which are located along its southern and eastern coasts, make it less vulnerable to mine warfare. India has nine ports other than Bombay with tankering facilities. Most of these ports are out of range of Pakistani aircraft and minelaying ships. [redacted]

Bombay, which handles about one-quarter of India's port traffic and is the home port for the Indian Navy's Western fleet, is slightly less vulnerable than Karachi. Its main channel is fairly deep, but [redacted] the immediate area around the docks requires occasional dredging. If the Pakistanis successfully mined Bombay, they could disrupt Indian naval operations, forcing the Indian fleet to operate out of more austere facilities at Goa and at Cochin more than 400 kilometers south of Bombay. [redacted]

The Indian Navy plans to reduce its vulnerability by building a modern base south of Goa at Karwar. This port has a deep harbor requiring little dredging and is well out of range of Pakistani aircraft. No date has

Mine Warfare in 1971

Both countries commenced mining operations before the outbreak of the 1971 Indo-Pakistani war. The Indian campaign, [redacted]

[redacted] played a minor, but significant, role. The Indians made extensive use of aircraft from their carrier, the Vikrant, to lay mines in Pakistani harbors. [redacted]

Mine clearing operations in Indian and Bangladesh waters after the war required 19 ship months by Indian vessels and 44 ship months by Soviet minesweepers. [redacted]

been set for construction of the naval base, which probably will not be complete until the mid-1990s. [redacted]

Wartime Operations

We believe Indian and Pakistani mining operations would closely follow the pattern set in 1971. Before the outbreak of hostilities, we expect both navies would sow defensive minefields with their surface vessels near their respective coasts and harbors. These fields would help to simplify antisubmarine warfare operations by allowing the Indians and Pakistanis to concentrate their antisubmarine warfare assets. Defensive minefields also would limit enemy mining operations. [redacted]

Offensive mining operations would be carried out principally by submarines, which would attempt to mine the approaches to Karachi and Bombay and other Indian ports as soon as hostilities began. We judge that neither country's antisubmarine warfare capabilities are strong enough to prevent submarine mining operations from succeeding. We estimate that, by using only its two larger Agosta-class submarines and reserving its four smaller Daphne-class boats for antishipping operations, the Pakistani Navy could lay about 80 mines. We speculate that the Pakistanis

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might attempt to distribute these along the shipping channels of as many as four to 10 Indian ports. The Pakistanis might calculate that only a few mines would be necessary to scare commercial shipping away from India's eastern ports. Moreover, by attacking as many ports as possible, the Pakistanis could force the Indian Navy to adopt a defensive posture.

[Redacted]

India could lay enough mines to close Karachi using only one of its estimated five operational Foxtrot submarines, each of which can carry over 40 mines.¹ We judge that the Indians might assign a mine warfare role to a second submarine to cover Gwadar and Bin Qasim, reserving the rest of its Foxtrots to antisubmarine and antishipping missions. Indian requirements for a mine delivery capability on its new Kilo and West German Type 1500 submarines indicate they plan to replace the Foxtrots with newer vessels in the mine warfare role.

Both the Indian and Pakistani Air Forces have sufficient aircraft allocated to maritime strike missions to threaten mining operations by surface vessels close to their principal ports. For this reason offensive mining by surface vessels would be limited. The Pakistani Navy might attempt to use its Chinese-made patrol boats to mine the Gulf of Kutch to cut off some of India's offshore oilfields. If the Indians succeeded in reducing the Pakistani antiship threat, they might risk sending their larger minelaying frigates and destroyers to mine the approaches to Karachi, along with smaller mine warfare ships.

Pakistan lacks the means to clear mines from its harbors. We believe India would attempt to use its nine ocean minesweepers to remove Pakistani mines near Bombay. India might also employ its six Yevgenya coastal minesweepers to help keep Bombay

¹ Open sources indicate the United States used only 36 mines to close Haiphong harbor for 300 days during the Vietnam war.

open, but these ships are based in Cochin and rarely sail to Bombay, suggesting that the Indians plan to use them to keep their southern ports open.

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Strategic Significance

In our judgment, Indian and Pakistani mine warfare plans reflect their overall military strategies.

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Closing Karachi effectively prevents Pakistan from replacing wartime losses of tanks, other armored vehicles, and sizable quantities of munitions, thereby limiting Pakistani warfighting capabilities to one to two months. After this period, India's quantitative advantages in manpower and equipment, presumably maintained through continued imports of largely Soviet-made ground forces equipment, would help it win a war of attrition.

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Pakistan, in contrast, would attempt to raise the costs of the conflict for India as quickly as possible by scoring propaganda victories that might cause New Delhi to negotiate a cease-fire. By mining Bombay, the Pakistanis could close India's biggest port and possibly sink or damage several major combatants. By laying mines elsewhere, the Pakistanis could hope to force the Indians to defend many ports, preventing them from massing their naval forces for an amphibious attack along the Pakistani coast or a naval surface and air attack on Karachi.

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Mine warfare also would play an important role in setting the economic costs and political dimensions of a future conflict. Pakistan's, and to a lesser extent India's, economy would suffer severely from mine warfare. Mining operations probably would close Karachi, Bombay, and a handful of Indian ports for the duration of the war and possibly for months afterward until minesweeping operations could be completed. Imports constitute almost one-fifth of Pakistan's GNP, while exports account for 8 percent. More important, about 85 percent of Pakistan's crude oil and petroleum needs are met by imports. India is far less dependent on foreign trade, with imports and

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exports accounting for less than 8 percent and 5 percent of GNP, respectively. India also imports only 35 percent of its crude oil and refined petroleum.²



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We believe mine warfare, more than air or ground action, is likely to involve and affect third parties. During a war, foreign civilian vessels probably would suffer casualties from Indian and Pakistani mines. On the basis of the willingness of foreign ship owners to risk, and foreign governments to tolerate, loss of crews and vessels to widespread antiship missile attacks in the Persian Gulf, we doubt losses to mines by ships plying the less strategic Arabian Sea routes would play a major role in halting the fighting. After a war, however, mine-clearing operations by some combination of Soviet, US, and West European navies would be required. These operations probably would be part of international efforts to arrange a cease-fire and a settlement of the conflict, giving contributing powers some leverage in negotiations. 

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Extent of Afghan-Pakistani Border Most Frequently Violated



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Pakistan: Implications of an Aerial Refueling Capability [redacted]

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Acquisition of tanker aircraft would improve only marginally Pakistan's ability to defend against Soviet and Afghan air violations. The Pakistani Air Force already can fly continuous patrols along much of the 500-kilometer stretch of the border where most violations have taken place. We believe Pakistan's main goal in acquiring such aircraft is to improve its capability against targets in southern India. US assistance in helping Pakistan obtain tankers would undercut Indian Prime Minister Gandhi's attempts to improve relations with the United States and Pakistan. [redacted]

Most attacks—as well as most overflights—have not penetrated more than 9 kilometers, according to the Foreign Ministry. The deepest attack, 25 kilometers, occurred in May 1985. [redacted]

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Interest in Tankers

[redacted] in late 1985 and again this year for US equipment and training to convert as many as three Pakistani Boeing 707 commercial aircraft into aerial tankers. It also wants the US military to train Pakistani personnel to use the aircraft. We estimate that the conversion and training would cost less than \$20 million and would take about two years. [redacted]

Impact of Refueling Tankers

An aerial refueling capability would not add appreciably to Pakistan's capabilities along the part of the western border where most Soviet and Afghan air violations have taken place. The Pakistani Air Force already can conduct continuous patrols of much of this portion of the border. Pakistan's F-16s, which began flying random border patrols last February, can remain in the air for three hours at a time, and the Air Force has enough operational F-16s to replace aircraft returning to their base at Sarghoda for refueling. Because most violations are usually in support of Soviet and Afghan troop operations just across the border in Afghanistan, we believe Air Force officers have a good idea of where to direct the F-16s. Moreover, air violations to date have occurred only during daylight hours. [redacted]

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The tankers could rendezvous with fighters up to 1,700 kilometers from their bases and transfer more than 54,000 kilograms of fuel—enough to refuel at least 10 of Pakistan's 40 F-16s. They could not refuel other aircraft in the Pakistani inventory. [redacted]

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[redacted] that they need aerial tankers to defend against increased Soviet and Afghan air violations. According to the Pakistani Foreign Ministry, aircraft have crossed the border about 500 times so far this year compared with about 275 incidents in all of 1985 and 100 in 1984. Roughly one-fourth of the violations were bombing or rocket attacks, usually lasting less than 15 minutes and involving four to six aircraft. The others were probably in search of insurgent camps or overflights in the wake of bombing runs on the Afghan side of the border. Most of the violations have occurred along a 500-kilometer stretch of the northwestern border, according to the Foreign Ministry. [redacted]

Tankers could improve Pakistan's defenses in Baluchistan, along the southern half of the Afghan border. The Air Force cannot patrol Baluchistan as easily because of the distances from the F-16 base at Sarghoda. Nor can it station [redacted]

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[redacted] According to the Pakistani Foreign Ministry, however, less than 10 percent of the air violations occur over Baluchistan. [redacted]

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The Indian Target

In our view, Islamabad's main goal in seeking a tanker capability is to improve its ability to attack

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1 August 1986

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Boeing 707 tanker. [redacted]



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Indian targets. [redacted]
Pakistani political and military leaders believe that a major Indian attack aimed at dismembering Pakistan is more likely than a Soviet invasion. [redacted]
[redacted] 14 of Pakistan's 17 divisions are oriented toward India and that most of the new US-supplied military equipment is closer to India than to Afghanistan. [redacted]

of a US desire to arm Pakistan against India. We believe that New Delhi may be particularly apprehensive about a Pakistani air refueling capability in light of Israel's success with converted Boeing tankers in the raid against PLO bases in Tunis last October. [redacted]

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Pakistan's F-16s can currently attack targets only in the western half of India—including Bombay and New Delhi—but tankers would enable Islamabad to strike important targets in southern India. If tankers refueled F-16s over the Indian Ocean, the Pakistani Air Force could attack Indian defense plants at Bangalore, Hyderabad, Avadi, and Aravanadu that produce jet fighters, helicopters, patrol boats, and tanks. The Pakistani Air Force also could strike targets at a small Indian naval base at Cochin and at Karwar, where New Delhi plans to build a large naval base. [redacted]

Improved Indo-Pakistani relations—a key US goal in the region—would also be harder to achieve in the wake of a tanker deal. New Delhi would consider the Pakistani purchase as further proof that Islamabad's main military goal is to extend its military reach into India. Indian political and military leaders would almost certainly link a Pakistani aerial refueling capability to its nuclear weapons program. Although the Indian Air Force probably could tolerate a few sorties by Pakistani aircraft with conventional weapons, it would have to make significant redeployments to increase air defense coverage to protect against nuclear attacks. Because of this increased threat, we believe Prime Minister Gandhi would have a harder time overcoming hostility—particularly within the military—to his efforts to reduce tensions with Islamabad. [redacted]

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Implications

A decision to help Pakistan convert commercial aircraft to tankers probably would be an obstacle—at least temporarily—to Washington's efforts to strengthen Indo-US relations through sales of military equipment and increased military exchanges. New Delhi would interpret a sale to Pakistan as a sign of Washington's insensitivity toward India's security concerns. Critics of Gandhi's efforts to improve ties to the United States would cite the sale as an indication

Islamabad places a higher priority on obtaining other US military items, in our view. Pakistani defense officials are interested particularly in obtaining the shoulder-fired surface-to-air Stinger-POST missile

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and the laser-guided Copperhead artillery shell. Moreover, the Pakistani Army—the country's premier service—probably would not be upset if the Air Force did not obtain aerial tankers. Because of the tankers' capabilities and relatively inexpensive price, however, we believe that Islamabad will continue to ask for a refueling capability.

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Pakistan: The Military After Martial Law [redacted]

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The Pakistani military is pleased to see the end of martial law and to be relieved of domestic security responsibilities. Although the officer corp has a low opinion of Pakistani politicians and is skeptical about how well the civilians will do, the Army is willing to stand aside and give the fledgling democracy that President Zia has crafted a chance to work. If maintenance of law and order significantly deteriorates, however, the military probably would move to reimpose martial law. [redacted]

of senior officers who participated in the martial law administration. We believe that many younger officers also are cynical about their superiors who benefited materially as a result of their stint in the martial law administration. We believe, however, that, no matter how unhappy these officers are with the current situation, they will remain loyal to whoever fills the Army Chief of Staff position.

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Morale in the Pakistani Army has risen considerably since the end of martial law because Army officers believe that they can now concentrate on national defense issues rather than being distracted by domestic politics, according to US Embassy reporting. Many within the military believe that the Army's role in the martial law administration tarnished the military's reputation for honesty and incorruptibility. [redacted]

Benazir's Return

Senior military officers have assumed a wait-and-see attitude toward Benazir Bhutto's political activity.

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Senior officers tend to view the world through a relatively narrow prism. The military's foreign policy perceptions remain dominated by the threat posed by India, according to US Embassy reporting. We believe even the situation in Afghanistan is seen partly in this light. Pakistani military officers believe that the Afghan situation can be contained unless a campaign of pressure and subversion coincides with an Indian attack. [redacted]

Some senior officers fear that Benazir is bent on revenge for the Army's role in the execution of her father, Prime Minister Zulfikar Ali Bhutto, in 1979. Although Zia remains the center of her wrath, high-ranking Army officers believe that they could also come in for some of the blame [redacted]

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Pakistani officials believe that a major Soviet attack is unlikely at the present time. The Pakistani Army believes that it could contain limited Soviet or Afghan Army raids into the North-West Frontier Province. [redacted]

[redacted] Senior officers also have been stung by Benazir's criticism of the military for having lost the Siachen Glacier to the Indians. [redacted]

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Junior officers appear more favorably disposed toward Benazir [redacted]

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[redacted] We believe that some of these officers are interested in more rapid social and economic change and see her as a potential leader for change. [redacted]

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[redacted] Prime Minister Junejo and President Zia—who also holds the position of Army Chief of Staff—have clashed over control of officer retirement, promotion, and assignment. Junejo has sought to build a following among younger field grade officers who are disappointed with the slowness of promotions resulting from the delayed retirement

Military Issues

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The Pakistani military has more confidence in its capabilities—in part because of the modern equipment received under the current five-year US

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NESA NESAR 86-018
1 August 1986

Secret

aid package—but doubts that it could defeat the Indians in a prolonged conventional war. We believe the Pakistani Army appreciates US security assistance but is skeptical—based on prior experience—of US ability or willingness to aid Pakistan in an emergency. [redacted]

The senior Pakistani military leadership is now determining how to apportion the funds to be received under the newly negotiated US security assistance package. We believe that modernization of the Pakistani Army and improvement in air surveillance capabilities have the first priority, while the Air Force and Navy equipment modernization programs are less important. The force structure issues now being discussed will determine the shape and composition of the Pakistani Armed Forces well into the 1990s. [redacted]

The Pakistanis are involved in sporadic gunbattles with the Indian military along the cease-fire line in Azad Kashmir and the Punch area opposite Islamabad, but these are not considered particularly worrisome by the military. We believe that the Pakistanis, while willing to hold discussions with the Indians on the Siachen Glacier dispute, are prepared for more fighting and are ready to use sophisticated armaments. [redacted]

The Soviet-sponsored destabilization effort among Pakistan's Pushtun border tribes and terrorist bombings in the North-West Frontier Province and Baluchistan have escalated in the last year. Soviet and Afghan violations of Pakistani airspace have been met on occasion by Pakistani anti-aircraft fire, including surface-to-air missiles, and by F-16 aircraft, but we believe the Pakistanis have sought to emphasize restraint in responding to Soviet and Afghan activities. According to Embassy reporting, Pakistani officials believe that the Soviets have deliberately escalated attacks on Pakistani military and civilian targets along the frontier to increase pressure on the new civilian government to reach an accommodation with the Soviets over Afghanistan. [redacted]

Outlook

If Pakistan's domestic political situation were to deteriorate seriously, the Army undoubtedly would reintervene because it believes it is the ultimate guarantor of Pakistan's national identity and sovereignty. Should the Army take action, we believe that it would not allow President Zia a second chance at martial law and that the Army would turn to another senior military officer or group of officers to run the country. [redacted] however, most officers hope that the democratization process will succeed so that the Army can remain apolitical and build a more professional organization concerned with the country's defense from external forces rather than with administration and internal security. [redacted]

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The Afghan Refugees in Pakistan: Shifting Dynamics

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Interviews conducted among refugees who fled from Afghanistan to Pakistan in 1985 revealed the results of increasingly brutal Soviet military tactics. Although the refugees talk about going back to Afghanistan, some worry that the war is not going well for the insurgents. They follow news of peace negotiations closely but have only the vaguest notions on the shape of a settlement. The refugees in the camps appeared to have little respect for the alliance of seven insurgent groups. The Pakistanis, for their part, worry about the impact of the refugee presence.

The Early Refugees

Interviews of Afghan refugees conducted in 1983 suggested the large flow of refugees into Pakistan in 1980-81 was mainly because of panic as a result of the massive Soviet invasion. Some tribal leaders also brought their units to Pakistan as a political protest against the Communist government in Kabul. Economic problems were another important factor. Farming was no longer possible in many regions because of fighting, destruction of irrigation systems, disrupted distribution of seed and fertilizer, and manpower shortages.

The refugees during 1980-83 left Afghanistan as whole villages or tribes in groups of from less than 100 to over 1,000. Travel in the rural areas near the Pakistani border was relatively easy and safe, making large-group travel feasible. Many came out by bus or other vehicles. By late 1983 the migration had slowed in part because of a lull in the fighting in the eastern provinces and because those who were in the most immediate danger had already left.

The Newer Refugees

The refugee flow to Pakistan increased in 1985 compared with 1984—although it remained much less than in the early 1980s. The increase in 1985 largely



reflected increased air attacks and a general upsurge in the fighting in the border areas, especially in the plains of Paktia Province and the Konar Valley. Pakistani officials estimate that about 35,000 people a month came out in the summer and fall. We believe the Soviets intentionally drove the people from Afghanistan so that guerrilla infiltrators could be more easily spotted and destroyed and so that the insurgents would not have a populace to feed and house them and provide them cover for their operations.

Because movement across the border became more dangerous and difficult in 1985, refugees had to travel in small groups and at night to avoid attack. Even so, many were attacked from the air as they crossed exposed areas, such as mountain passes or open plains. The attacks on fleeing unarmed refugees created further panic among the general population of Afghanistan.

The refugees in 1985 were more often wounded, hurt, or in shock from the fighting than the earlier refugees. Because of food shortages in parts of Afghanistan, many of the more recent refugees, especially the children, are suffering from varying degrees of malnutrition and are in generally poorer health. They came with little except the shirts on their back, whereas the earlier refugees often arrived in Pakistan with more possessions, especially commercial vehicles or domestic animals that they could use to make a living.

Many newer refugees attempted to find tribal or kin members in Pakistan for help. Tribal codes dictate that tribesmen are obligated to help fellow tribesmen. But often the conditions for those already in Pakistan are strained and they can offer little help. Many of the newly arriving refugees had no tribe or kinship group to fall back on because they came from areas of greatest devastation and most members of their tribe or village had been killed.

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NESA NESAR 86-018
1 August 1986

Secret

Refugees in Pakistan—A Profile

According to the Pakistani Commissioner of Refugees, 2.7 million Afghan refugees are registered in Pakistan, with another 500,000 unregistered. There are 312 refugee camps in three provinces: 240 in the North-West Frontier, 61 in Baluchistan, and 11 in Punjab. [redacted]

The refugees in Pakistan are primarily Pushtu, the ethnic and linguistic group that also dominates the North-West Frontier Province and the area of Afghanistan closest to the Pakistani border. [redacted]

The size of the refugee camps varies greatly. Near Peshawar, the center for Afghans in exile, the camps are large, well organized, and generally affluent. Several "show" camps near Peshawar routinely entertain foreign visitors and journalists. Farther from Peshawar, the camps tend to be small and less well organized, and the quality of life is considerably poorer. [redacted]

The Pakistan Refugee Organization

Over 10,000 Pakistani administrators are involved in managing the refugees under the overall supervision of SAFRON, the State and Frontier Regions Division. A Chief Commissioner for Refugees in Islamabad answers directly to SAFRON and provincial commissioners for each of the three provinces. In addition, there are district administrators, area administrators (each in charge of five camps), and camp administrators. It is the stated intent of the Government of Pakistan to let the refugees settle their own disputes through tribal jirgas, or councils, and to govern themselves except where they deal directly with the laws of Pakistan.

The task of the Pakistani administrators is largely to dole out humanitarian assistance to the refugees. [redacted]

Registration and Rations

The major tensions of camp life stem from the related issues of registration and the distribution of humanitarian assistance. To be eligible to receive rations, a refugee first must be registered as an official refugee and then receive a ration card. To become registered as a refugee, a newly arrived Afghan must get a letter from one of the seven insurgent groups and then apply for a card from the local Pakistani refugee office. This requirement politicizes the registration process. [redacted]

Refugees encounter several problems in obtaining a ration card. The refugee must register at one of the official camps, but the camps in the desirable areas are full and have long waiting lists, especially the camps near Peshawar and those near the border. The refugees do not want to be too far from the border because many cross back and forth. These people include the insurgent fighters, but also farmers and traders who often bring their families out to refuge in Pakistan and return to farm or trade. [redacted]

Other reasons prompt Afghan refugees to stay near the border. The topography there is similar to Afghanistan—mountainous with high plains. In addition, the Pakistani people in the border areas are ethnically and linguistically similar to the Afghans, whereas the Pakistanis of areas farther inland are traditional and bitter enemies. [redacted]

Pakistani Discomfort With Refugees

The Government of Pakistan has firmly supported the refugees. President Zia has announced many times that he welcomes the Afghan refugees as Islamic brothers who need help in a time of need. He usually adds that he sincerely hopes that they will soon be able to return to their homeland. The Government of Pakistan has treated the refugees well, spending about \$1 million a day on them.

But Pakistan is facing increasing concerns about the Afghan issue. It is a major topic of conversation among the Pakistani public and has been the subject of editorials and public forums. The position of the citizens of Pakistan as a whole on the refugees is hard to gauge. Pakistan is a diverse multiethnic and multilingual country.

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In the North-West Frontier Province, where the crush of Afghan refugees is greatest, the people are the most hospitable. There are two reasons for this. First, the code of the Pushtuns, called Pushtunwali, requires them to help fellow tribesmen when they are in need. Second, the ex-governor, Fazle Haq, was a supporter of the Afghan refugees and would personally intercede when potential conflicts came up between Afghans and Pakistanis. Fazle was well liked and respected in the North-West Frontier and set the tone for public opinion and action.

Opinion in Punjab toward the refugees is more negative, but not significantly so. Part of the Punjabis' concern reflects historic ethnic animosities. Punjabis, especially the educated, see the Afghans as crude and wild. Tension between the people of Punjab and the Pathans predates British rule. Some Pakistanis complain about the refugees who do not stay in the camps. Peshawar and Quetta are crowded with Afghans—buses are jammed, the city parks are full.

Penetration of the Afghans into the Pakistani economy has been tolerated because the Afghans' labor skills and their commercial vehicles have been needed. Moreover, many Pakistani workers have found employment abroad, mostly in the Persian Gulf states. Afghans serve as shopkeepers, craftsmen, traders, truck drivers, and general laborers in all parts of Pakistan. Although the Government of Pakistan has tried to curb these activities when they compete with Pakistani businesses, officials have not pursued this policy aggressively. Ordinances forbidding Afghans from buying real estate or from engaging in business in some areas are largely ignored.

To the Government of Pakistan, however, the Afghans' economic presence is a time bomb. Pakistani workers are beginning to return from the Gulf states because of the collapse of oil prices. While it is not clear that the returnees will directly compete with the Afghans for jobs, they will nonetheless make the job market tighter.

The Refugees and the Alliance of Seven

The refugees in the camps in December 1985 and January 1986 had little good to say about the insurgent alliance in Peshawar. The fundamentalists

in the alliance represent a militant new ideology that means little to the average Afghan. The so-called traditionalists in it are too disorganized and unstructured to be of real consequence. To the Afghan refugee, the alliance must be taken seriously only because it controls important resources.

Many refugees see the alliance as a small group of people enriching itself while they suffer. The refugees live in tents or mud huts in crowded camps, and they believe the leaders of the alliance are living in relative grandeur and are indifferent to the refugees' plight. The refugees suspect the alliance leaders of being in league with Pakistani officials to get rich on money designated for the refugees. Local insurgent commanders, who have gained power at the expense of the Peshawar leaders, say they are now faced with three difficulties: the burden of fighting the war in Afghanistan, providing for what might be left of their people in Afghanistan, and taking care of the refugees in Pakistan.

War Weariness

The interviews detected some war weariness inside Afghanistan. Villagers assert that insurgent activity in their areas often makes them a target of aerial bombardment. Many said they would prefer to be left alone by both sides.

Although most refugees put little credence in the recent tribal "Loya Jirga" called by Kabul, they note that some tribes or parts of tribes are cooperating with the regime—or at least not cooperating with the insurgents. Refugees expressed concern that Kabul's plan to establish village militias to keep out the insurgent fighters could succeed, although they were careful to say that they knew of no village that had yet gone along with the plan.

Will the Refugees Return?

In the camps, the Afghans themselves frequently talk of returning to Afghanistan. They believe that they will be going back, although most realize that it will probably be later than sooner. They closely follow events in Kabul for any sign that the regime is

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weakening or that a settlement is near. In late 1985 the camps were full of rumors from Afghanistan regarding a settlement.

Interviews in the camps revealed some realism regarding the shape of a settlement of the Afghan hostilities. The Afghans believe that the insurgents will eventually be victorious, but often say that the war is not going well and that the Soviets are becoming more difficult and cunning. When asked what kind of settlement or government might be acceptable to all sides, most Afghans have no answer. Even though King Zahir Shah was ousted 13 years ago, he is still the leader most mentioned to reunite Afghanistan.

Pakistani officials suggest that the number of refugees who return to Afghanistan will depend on the nature of the settlement, the political stability in Afghanistan after any settlement, and the degree to which the refugees have penetrated the Pakistani economy. Most Pakistanis believe that those refugees who have been politically active in Pakistan could not return. The Pakistanis believe that Afghans who have received asylum abroad will also not return to Afghanistan after a settlement.



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**Sri Lanka's Muslims:
A Growing Force?** [redacted]

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Muslims in Sri Lanka are an important factor in the communal conflict. Their concentration in the strategically important Eastern Province, their prominence in areas of commerce and trade, and their ties to Islamic states in the Middle East have given them a growing role in the three-year-old conflict between Sinhalese and Tamils. Fighting in the east has escalated dramatically in recent months, and we expect Muslims to become more caught up politically and militarily in the struggle. Both the government and the militants are courting Muslim support, and it is unclear what course the Muslim community will follow. [redacted]

Ceylon Muslim League, which represents a broad range of the country's Muslims. Its members include Foreign Minister Hameed and Minister of Transport and Muslim Affairs M. H. Mohamed. The Muslim League has generally supported the UNP government, largely because President Jayewardene's economic liberalization policies have benefited the widespread commercial interests of the Muslim community. [redacted]

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Background

Sri Lanka's 1.3 million Muslims are the third-largest ethnic group in Sri Lanka after the Sinhalese and Tamils, with about 7.6 percent of the country's total population. They are concentrated in the urban areas of the Eastern Province, where they represent 34 percent of the population, and in Colombo. Their control of Sri Lanka's lucrative gem trade, their prominent role in a wide range of other commercial enterprises, and their ties to financially important Middle Eastern states make them a valuable economic asset. Almost all Muslims in Sri Lanka are Tamil speaking, but they constitute a distinct religious minority and have not identified themselves with the predominantly Hindu Tamil community.¹ [redacted]

Faced with escalating fighting between the government and Tamil insurgents in the Eastern Province in 1985 Muslims became concerned that their interests were at risk. In response, they formed several new Muslim interest groups. The Muslim Congress was founded in the summer of 1985 specifically to represent the political interests of Eastern Province Muslims. It is composed of Muslim representatives from each of the three districts in the Eastern Province and is governed by a presidium of five and a secretary general [redacted]

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[redacted] The Congress's representation in all districts is probably designed to challenge Tamil plans to isolate Muslims in one district in the province. [redacted]

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Also in reaction to the violence in 1985, some Muslim youths organized a radical group that received support from Libya. [redacted]

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the Federation Association of Muslim Youth of Sri Lanka (FAMYS) is an umbrella organization for 19 Muslim youth groups and is affiliated with the organization "Islamic Call" or Da'wa.² The group's leader is a former senior state counsel or in the

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Muslim Organizations

Sri Lanka's Muslims do not have their own political party. They form large voting blocks in the two major Sinhalese parties—the ruling United National Party (UNP) and the opposition Sri Lankan Freedom Party (SLFP). They have also formed several important Islamic interest groups and lobbying organizations. The largest and most politically active is the All [redacted]

² Islamic Call is a name applied to several Islamic organizations including Shia fundamentalist groups in Iran, Iraq, and Bahrain and a government missionary society in Libya. Shia Da'wa groups have been responsible for terrorist acts in the Middle East, and the Libyan organization has been connected with intelligence and subversive activities since the early 1980s. We believe FAMYS is affiliated with the Libyan organization, [redacted]

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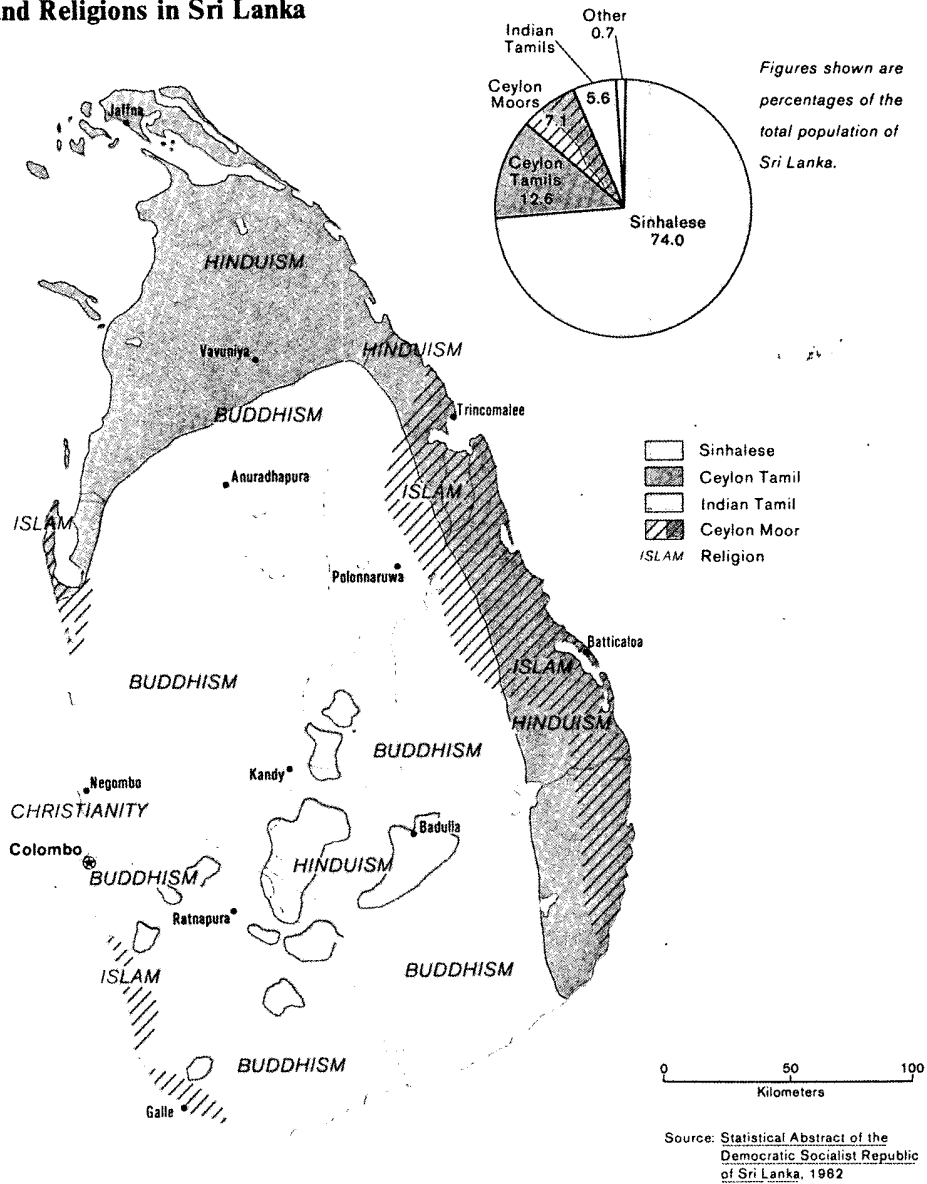
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NESA NESAR 86-018
1 August 1986

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Ethnolinguistic Groups and Religions in Sri Lanka



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Attorney General's Department, and [redacted] FAMYS represents almost 10 percent of the Muslim youth in Sri Lanka.

[redacted] The radical ties of FAMYS represent, in our view, a potential for increasingly militant Muslim activity in Sri Lanka, especially if the security situation continues to deteriorate. [redacted]

The Eastern Province: Muslims Caught in the Middle

Sri Lanka's Muslim community has generally opposed the Tamil guerrilla movement. [redacted] although a significant number in the Muslim community support increased Tamil autonomy, they oppose formal linkage or merger between the Northern and Eastern Provinces to form a Tamil homeland. Their major concern is the potential loss of political power that a linkage plan would represent for their community. Muslims would comprise only 17 percent of the population in a unified province, compared with their current 34 percent plurality in the east alone, and would lose their relative strength in any future elected provincial government. [redacted]

The government's counterinsurgency in the Eastern Province is forcing Sri Lanka's Muslims ever more directly into the conflict. President Jayewardene has agreed to double the number of Home Guard units—a semiofficial militia often given to excesses against Tamil civilians—from its current 10,000 to 20,000, [redacted] This move is likely to increase the number of Muslims in the Guard units and may prompt Tamil militants to direct attacks specifically against the Muslim communities.

[redacted]

President Jayewardene has also appealed to Muslim political interests. In June and July he held unofficial meetings with Eastern Province leaders during a political parties' conference to discuss his proposed peace package for Sri Lanka's Tamils. Jayewardene has also used Muslim Foreign Minister Hameed for negotiations with India to show government concern for the Muslim community, although Hameed remains an outsider in Jayewardene's Cabinet. [redacted]

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The insurgent's overtures have yielded a limited Tamil-Muslim rapprochement. According to the US Embassy, a Tamil civic leader from Batticaloa claims that since his meeting in May with Tamil militant leaders in Madras, in which he urged militants to find a common ground with Muslim community leaders, there has been a marked improvement in Tamil-Muslim relations in the Eastern Province. The possibility of Tamil attacks against Muslims believed to be collaborating with the government—either directly or indirectly, by not supporting the struggle for a Tamil homeland—remains a significant threat. [redacted]

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[redacted] harassment of Muslims by the most active militant group, the Tigers, has increased, principally through kidnappings and motorbike thefts. During the violent Tamil-Muslim strife in October 1985, Tamil militants burned Muslim homes in Trincomalee and executed

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several Muslims by chaining them to lamp posts and shooting them, leaving the bodies as a warning to other Muslims. The Muslims responded by burning down several Tamil homes in the region. [redacted]

communal tensions, and, if substantial numbers of Muslims change allegiance, the UNP would face an even stiffer challenge in 1989. [redacted]

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Moving Away From Jayewardene

The accelerated pace of the peace talks, together with the worsening security situation in the east, has created strains between the Muslim community and President Jayewardene. Although the two largest Muslim groups have historically supported the UNP, we have indications of increasing disenchantment with Jayewardene's policies. [redacted]

Outlook

The deteriorating security situation in the east and the fluctuating peace negotiations have prompted the Muslim community to search for avenues that will safeguard their interests in Sri Lanka. Several options are available to them, and it is unclear which they will follow. [redacted]

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[redacted] the Muslims are beginning to see their future as a minority in Sri Lanka in terms of the Tamil experience. There is a perception that, although the Muslims have prospered under Jayewardene's liberal economic policies, the UNP has done little for the community except take their votes. [redacted]

The most likely option is that Muslim leaders will work to protect their interests through existing political avenues via one of the two major Sinhalese political parties. Continued Muslim backing for the UNP would give additional support to Jayewardene's efforts to resolve the communal conflict, while support for the more chauvinist SLFP would probably wreck the peace process. In either case, we expect Muslims to step up lobbying efforts and attempt to present a united front during the next round of negotiations. Although Muslim leaders differ in their opinions of Jayewardene's proposals for devolution of power and among themselves regarding their own counter-proposals [redacted] most leaders believe Muslims should support the President's efforts because he is the Sinhalese Buddhist politician most sympathetic to Muslim interests. [redacted]

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senior Muslim leaders believe Jayewardene is determined to proceed with his peace package with or without the support of other political parties—including the Muslims. Muslim leaders object to the present proposals, believing that, even if the Northern and Eastern Provinces remain separate, the creation of provincial councils represents a sacrifice of Muslim interests in favor of the Tamils. [redacted]

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Jayewardene and his government are also perceived to be pro-Israeli. Some Muslim leaders are concerned that the Israeli Interest Section in Colombo will be elevated to full diplomatic status if Jayewardene is elected to another term. [redacted]

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As Muslim support for the UNP erodes, support for the opposition SLFP has begun to grow. [redacted]

A less likely possibility is that the Muslims will form their own political party to guarantee their representation in Parliament and to eliminate reliance on presidential appointments for Muslims to achieve positions of influence in the government. The incentive for forming their own political party is strong, based on a perception that the government and the Tamil separatists only curry Muslim favor to further their own objectives. The head of the All Ceylon Muslim League told the US Ambassador in July that "We Muslims must remember that both the Sinhalese and Tamils are communal minded, and either could turn on us one day." [redacted]

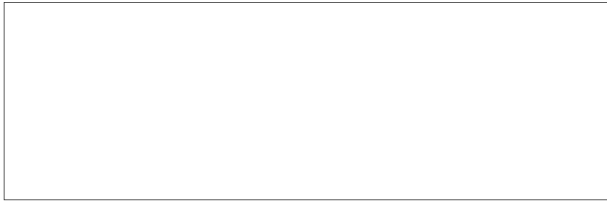
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[redacted] although Muslim support for the SLFP had previously ranged between 10 and 25 percent, almost 60 percent of the Muslims voted against the UNP in an April byelection in southern Sri Lanka. He said that, if the UNP continued on its current course and a national election were held in 1989 as scheduled, the majority of Muslims would support the SLFP. If true, Muslim support for the Sinhalese hardliners would probably increase

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A more remote possibility is the increased radicalization of Muslim youth and involvement of extremist Islamic states in Sri Lanka's communal conflict. The formation of FAMYS last year has brought the specter of Islamic fundamentalism to Sri Lanka. Muslims constitute about 15 percent of Colombo's population, and they could pose a serious terrorist threat if they turn to militant activities. It is more likely that militant Muslim activities would be organized from the Eastern Province—the group that protested the establishment of the Israeli Interest Section most strongly in 1984. If violence in the east is directed specifically against the Muslim community in the east and in Colombo, whether committed by Tamil militants or government forces, it could spark a widespread turn by Muslim youth to radicalism.



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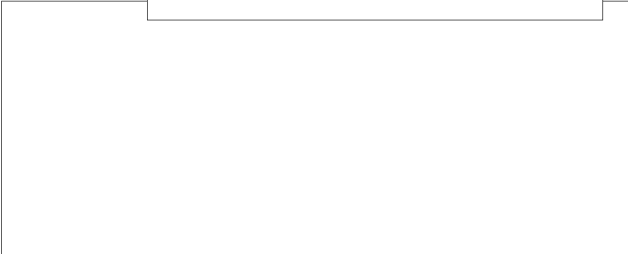
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[redacted] we believe that several Tamil separatist groups have received insurgent training in Libya, setting a precedent for Tripoli's involvement in the conflict.

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