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PEACE IN THE MIDDLE EAST: PROGRESS AND PROSPECTS

DOCUMENTS

REPORT

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STUDY MISSION TO EGYPT, SAUDI ARABIA,
JORDAN, AND ISRAEL

NOVEMBER 16-27, 1979

TO THE

COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES



DECEMBER 1979

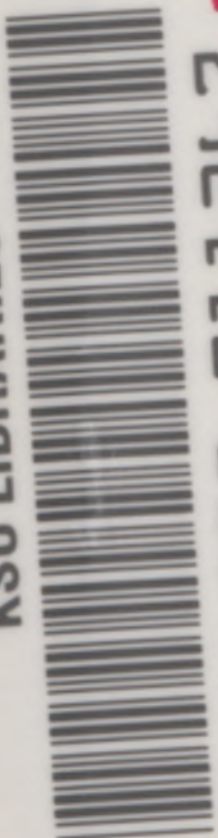
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(II)

FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D.C.

This report has been submitted to the Committee on Foreign Affairs by Hon. Tony P. Hall, who conducted a study mission to the Middle East from November 16 through 27, 1979.

The findings in this report are those of Representative Hall and do not necessarily reflect the views of the membership of the Committee on Foreign Affairs.

CLEMENT J. ZABLOCKI, *Chairman.*

(III)

FOREWORD

THE HOUSE OF REPRESENTATIVES
COMMITTEE ON HOUSE ADMINISTRATION
JANUARY 1954

This report has been submitted to the Committee on House Administration by the Joint Committee on the Organization of the House of Representatives, which was created by the House of Representatives in November 1947. The findings in this report are those of the Joint Committee and do not necessarily reflect the views of the members of the Committee on House Administration.

CHARLES J. CARROLL, Chairman

and

LETTER OF TRANSMITTAL

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C.

HON. CLEMENT J. ZABLOCKI,
*Chairman, Committee on Foreign Affairs,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: The search for a just and lasting peace in the Middle East has long been one of the most compelling goals of the United States. Yet, it has long remained an elusive goal in the face of the many complexities which characterize the current Mideast situation—complexities which have been compounded by historical animosities, religious differences, intense emotions, and often inflamed rhetoric.

The first major progress toward that goal, the Israeli-Egyptian Peace Treaty of March 1979, was based on President Carter's dedicated efforts in achieving the Camp David Accord. Still to be fully realized are the prospects for expanding that peace process into a comprehensive settlement.

In an effort to better understand these many difficult issues, I undertook a study mission to the area from November 16 through 27, 1979. That effort was productive and enlightening in many important ways. Contributing to the valuable insights I obtained were discussions with leaders in the area, onsite inspections of key areas and a generally intense exposure to the countries involved and their people.

The attached report of my study mission to Egypt, Saudi Arabia, Jordan, and Israel is based on those extensive discussions and other contacts. I sincerely hope the observations and findings it contains will not only prove useful and informative to others but also contribute constructively to the search for a comprehensive peace in the Middle East.

Sincerely,

TONY P. HALL,
Member of Congress.

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INTRODUCTION

The goal of this study mission was to learn as much as possible about the Middle East, one of the most complex and challenging areas of the world in terms of U.S. national security interests. Its factfinding and familiarization objective, guided throughout by an emphasis on quality over quantity, has been met. Making up the study mission was Representative Tony Hall. During the period November 16-27, 1979, it included visits to Egypt, Saudi Arabia, Jordan, Israel, and Great Britain.

Direct contacts with leaders of the countries visited, in-depth discussions with various informed and involved individuals and firsthand inspection of key areas and sites was invaluable. The learning process was as intense and satisfying as it will be longlasting and productive. While only a beginning, it was a solid foundation on which future undertakings can be based.

At times, unavoidable circumstances and events limited the ideal sought in scheduling and exposure. Throughout this study mission, however, every effort possible was made to maximize the opportunity.

Understanding the Middle East is not easy; complex subjects seldom are. Even more elusive is grasping the dynamics of peace, especially in an area as volatile and burdened with belligerency as is the Mideast. Accordingly, to the extent that the observations and other findings contained in this report adds enlightenment and understanding to others, so much more will its objective have been achieved.

(1)

OBSERVATIONS

The study mission's visit to the Mideast was brief but intense. Discussions were held with heads of state and other government and private officials. Also highly beneficial were excellent briefings provided by the U.S. Ambassadors and Embassy staffs. Strong, first-hand insights were obtained in onsite visits to such strategically significant areas as the West Bank, the Jordan Valley, the vast and complex Saudi Arabian oilfields, and the Sinai. On the basis of these various and extensive contacts the following observations can be drawn:

Although the Egyptian-Israeli peace treaty has lessened overall tension in the area, a comprehensive settlement remains a long-distance and elusive goal. Strong mistrust and animosities persist throughout the area. Despite limited peace progress, military expenditures in both Egypt and Israel are expected to remain high for the foreseeable future and serious economic and social problems will continue.

Because the peace process has tended to heighten their isolation, both Israel and Egypt will be looking to the United States for increased economic and military support in the future. Both countries defend that prospect by emphasizing the sacrifices and risks each has taken for peace and by citing the friendly and strategic advantage they represent for the United States. Egypt in particular will be hard-pressed to restore a seriously decayed infrastructure. Nonetheless, in our enthusiasm to assist Egypt in that effort, the United States should proceed prudently. We should also be willing to respond to the legitimate security needs of both countries and thereby make possible further peace compromises built on confidence in their own strength. However, constraint should also be exercised in avoiding military aid which might be destabilizing or counterproductively excessive.

The full implementation of all of the Camp David understandings and objectives will be delayed. Determined effort by both sides distinguished by honest compromise and patience and hope will be needed. Already delicate negotiations on such matters as autonomy for the West Bank are made even more difficult by periodic sharp Arab rhetoric and such internal Israeli issues as the Mayor Shaka affair and the Eilon Moreh settlement problem. Decreased cohesion within the Israeli Government and the resulting mounting likelihood of early elections will delay the negotiations further and generally add uncertainty to the situation. Despite those challenges, every effort possible must be made to continue the positive momentum toward peace.

The impact of the Iranian revolution has injected apprehension in the Arab world with resulting negative influence on the general atmosphere of the entire area. That fact was dramatically reinforced during the study mission's visit in the takeover by radical Moslems of the Grand Mosque in Mecca and the burning of the U.S. Embassy in Pakistan. There is also widespread interest throughout the area in the U.S. Embassy hostage situation in Iran.

The Arab world, especially Saudi Arabia, tends to view the fall of the Shah as a reflection of U.S. weakness, from which they conclude that the United States may possibly be undependable. Some Israeli officials criticize what they view as the lack of forceful U.S. action in Iran, from which they see flowing possible future negative consequences for Israel. Accordingly, the United States should reassure our friends in the area and dispel them of the adverse implications drawn from these attitudes.

Although the Palestine Liberation Organization appears to enjoy acceptance among Palestinians, Yasir Arafat is not viewed in the Arab world as either a necessary ingredient or unsurmountable obstacle to peace. West Bank Palestinian leaders, fueled by the Mayor Shaka affair, voice heightened impatience with the continued Israeli presence and what they regard as the lack of genuine effort to satisfy Palestinian rights. However, they are also committed to recognizing Israel's right to exist and urge the Palestine Liberation Organization to do likewise, provided Israel in turn recognizes their own right to self-determination, or as President Carter phrased it, the right to participate in the determination of their own future. In the final analysis, while some form of federation of the West Bank with Jordan appears to be the most generally held goal among people visited, even that prospect seems elusive at least in the near future.

Resolving the issue of Israeli settlements in the West Bank is central to extending peace. Israel holds adamantly to the position that a continued presence is vital to its security. On the other hand, genuine compromise on the issue would go far to reestablish President Sadat's position with his fellow Arabs and, hopefully, make possible Jordanian and other Arab participation in the peace process—eventually leading to a comprehensive settlement.

The democratic process in Israel is extraordinarily vital and flourishing. It is producing within Israel a healthy diversity of opinion on many domestic and foreign policy issues. This fundamental debate is productive and its integrity should be protected from all outside pressures.

Among the many positive byproducts of the democratic process in Israel is a public opinion position which holds that settlement development is too expensive and is limiting needed housing development and other social needs. While not opposed to settlements in principle, many believe they are counterproductive for important economic reasons and because they interfere in the peace process. This view may be heightened by recently enacted economic austerity measures aimed at reducing Israel's current 100 percent annual inflation and curing other economic problems.

Relief from the financial burden of war would allow Israel and Egypt to devote scarce financial and other resources to solving serious economic and social domestic problems. In fact, given their apparent potential, poorer countries of the area could become highly viable economically and agriculturally. Joint ventures and other cooperative efforts could increase that promised potential manifold.

Generalities about the area are not possible. Each country has a readily definable and distinctive character. Even within the

Arab world unique features and qualities of style and substance distinguish each country. That fact in turn requires equally tailored approaches to each country, coordinated for the area and reinforced by constant openmindedness and sensitivity.

U.S. tax laws and regulations appear to be placing an undue burden on U.S. contractors and other businessmen in Saudi Arabia. The resulting clear disadvantage makes the United States increasingly noncompetitive with other countries. The ultimate byproduct is fewer jobs for American workers.

It is highly likely that the current Saudi oil price of \$18 per barrel will be raised in the near future. At the same time there is no certainty that Saudi Arabia will be able to maintain its current 9.5 million-barrel-per-day production beyond the end of 1979. There are two internally generated reasons why the Saudis may succumb to upcoming OPEC-pressured increases and may have to consider reverting to their normal production level of 8.5 million barrels per day. First, the Saudis are apprehensive over the erosive effect of inflation on their holdings and investments in the United States. Second, although they do not readily concede it, their highly accelerated economy and the resulting boomtown atmosphere it has created is placing stresses on traditional Saudi cultural and religious structures. Accordingly, they see the need to slow down, so that people can catch up and avoid becoming alienated from their own country.

THE ROLE OF THE UNITED STATES

These various observations reflect several crucial considerations for the United States. They include challenges and opportunities, the handling and ultimate resolving of which will seriously affect a wide range of U.S. economic and security interests. Accordingly, throughout its visit, the study mission gave careful and special attention to U.S. efforts in this difficult situation.

Highly reassuring was the respect with which the United States is held. Where slight strains are evident, efforts are underway to establish renewed trust and confidence. Given its full partnership role in the peace process, the United States should continue its initiatives to find further compromise and pursue a comprehensive settlement.

While the challenges ahead are extensive, we should be encouraged by the obstacles already overcome. In the final analysis, further progress toward peace will be slow and difficult. Patience, perseverance, trust, and goodwill will be necessary by all parties.

These observations summarize and integrate the findings from each of the countries visited. What follows is a more detailed and specific outline of discussions held in each country.

EGYPT

INTRODUCTION

The study mission visited Egypt from November 17 to 19, 1979. During that time it met with President Anwar Sadat, Prime Minister Mustafa Khalil, Minister of Planning Abdel Meguid, and other Egyptian Government officials. On November 19 the study mission joined President Sadat and a U.S. delegation headed by Ambassador Robert Strauss in ceremonies marking the return to Egypt of a portion of the Sinai at the St. Catherine's Monastery at the foot of Mount Sinai. In addition, excellent briefings were provided by U.S. Ambassador Roy Atherton and members of the Embassy staff. On the basis of these various meetings and field trips, the following observations were drawn.

MIDEAST PEACE AND PRESIDENT SADAT

Egypt obviously remains intensely committed to the peace process initiated by President Sadat's historic visit to Jerusalem in November 1977 and partially fulfilled in the Israeli-Egyptian Peace Treaty of March 1979. In the person of President Sadat it remains optimistic regarding the ultimate achievement of a comprehensive settlement. At the same time it recognizes that patience and determination will be needed to achieve that goal. While Arab sanctions have proved economically troublesome for Egypt, the effects of its isolation do not appear insurmountable. Clearly, President Sadat's position appears to be firm and he enjoys the deep love and respect of his people. That affection and other ample evidence clearly reinforces President Sadat's fulfillment of a destiny demonstrated by too few political leaders in the world today. The leadership he has exercised in the long-sought search for peace in the Mideast should always be remembered and respected.

ECONOMIC FACTORS

Egypt's economic problems are deeply rooted and complex. They are dramatically reflected in a badly deteriorating infrastructure, a per capita income of \$280, and acute housing shortages. Exacerbating this sagging economic posture is a 2.3-percent annual population growth rate which, if unchecked, could boost Egypt's current population of 40 million to 60 million by the year 2000. Partially offsetting these negative factors is a relatively stable balance of payments situation, a 9-percent annual growth rate, and anticipated increased revenues from Suez Canal tolls and oil sales. Arab sanctions have placed serious stress on Egypt's economic situation. Accordingly, continued real progress in the peace process would help to relieve these pressures and also assure Egypt's stability and reinforce its position in the Mideast as a friend of the United States.

To that end the United States has undertaken an extensive economic assistance program for Egypt. For fiscal year 1980, for example, we

are providing \$750 million in security supporting assistance, two-thirds of which is on a grant basis. Of the total U.S. assistance, \$200 million is intended for a commodity import program and \$300 million for agricultural and industrial production projects, with strong emphasis on further development of the private sector. It is hoped and anticipated that a proportionately larger project assistance program will increase in the future.

Despite the challenges facing them, Egyptian economic planners and officials remain guardedly optimistic. They are also admirably candid in recognizing ingrained patterns, slowness, and other deficiencies in their own bureaucratic system which impede economic progress. At the same time they assert they need to move carefully so that national priorities are balanced and the long-term consequences of various projects are fully and accurately assessed.

On the basis of a relatively limited exposure to the varied and complex Egyptian economic situation, the following observations appear warranted:

The pace of U.S. assistance efforts should be moderate and carefully geared to reasonable assurances of Egypt's ability to effectively implement any given program. Simply throwing large amounts of money at big problems will not solve them.

Every effort possible must be made to stimulate private foreign investment. While law 43 constitutes a basically sound foundation on which to accomplish that goal, vast gaps exist between its enactment and the manner in which it is interpreted and implemented by various agencies of the Egyptian Government.

Breaking a long-established pattern of centralized decision-making would help to expedite economic progress and more effectively utilize well-educated and talented but underemployed younger people in government.

While recognizing and respecting religious considerations which mitigate against a concentrated program of population control, it must still be noted that Egypt's burgeoning growth rate will severely limit real economic growth in the future.

Serious and prompt consideration must be given to making adjustments in Egypt's long-established program of subsidizing staple commodities. Unless and until this issue is squarely confronted the country's economic problems will persist.

Although some progress has been made in enhancing Egypt's enormous potential for tourism, there remains considerable room for expansion and improvement in that area with resulting economic gain.

THE SINAI

The study mission had the unique and memorable opportunity to witness firsthand one of the first fruitions of the Israeli-Egyptian Peace Agreement by attending ceremonies marking the return to Egypt of a portion of the Sinai captured by Israel in 1973. In his remarks at that event, President Sadat appealed from the foot of Mount Sinai for the people of the world to strive for "goodness and the avoidance of bloodshed, violence and hatred." In marking the second anniversary of his trip to Jerusalem, Mr. Sadat praised President Carter and Israeli Prime Minister Begin as "my good friends" and credited them for making peace possible.

The trip to Sinai also provided the study mission with an opportunity to see and better appreciate the desolate and difficult terrain of the area and gain some insight into its strategic significance. Finally, it also allowed a visit to the sixth century monastery of St. Catherine's.

SUMMARY

Since signing the peace treaty with Israel in March 1979, Egypt has grown both increasingly isolated from other Arab States and steadily closer to the United States. Today U.S. influence and prestige in Egypt is preeminent. President Sadat repeatedly emphasizes Egypt's continued commitment to a comprehensive settlement. Nonetheless, the chances for continued real progress in the peace process appear dim for sometime to come. That fact in turn will preclude meaningful and effective solutions to serious economic problems. It will also require significant levels of U.S. assistance for sometime to come.

SAUDI ARABIA

INTRODUCTION

During its stay in Saudi Arabia from November 19 through 22, 1979, the study mission met with various Government officials. Those meetings concentrated on economic, oil and planning issues and were reinforced by excellent briefings from U.S. Ambassador John West, the American Consulate in Dhahran, and the U.S. Liaison Office in Riyadh. Additional informative insights were provided by the U.S. Army Corps of Engineers and in an extensive flyover of the Arabian-American Oil Company (Aramco) facilities near Dhahran. The study mission also met with representatives of the American business community in Saudi Arabia.

MIDEAST PEACE PROCESS

Saudi Arabian officials do not accept the Camp David peace formula chiefly because they do not believe it offers a workable solution. Paramount in their minds is the status of Jerusalem and self-determination for Palestinians. However, there is considerable uncertainty as to their position regarding the creation of an independent Palestinian state. They also doubt the seriousness of Israel's commitments to peace. Accordingly, in compliance with their Baghdad Conference commitments, they have terminated all direct assistance to Egypt. In addition, while any linkage between oil and the U.S. role in the peace process is denied, some degree of subtle relationship appears to be present.

OIL PRODUCTION AND PRICING

Despite divided official opinion on the desirability of doing so, Saudi Arabia increased its oil production level in July 1979 from 8.5 to 9.5 million barrels per day. Saudi officials currently tend to express doubt that the added 1 million barrel per day production rate can be held beyond January 1, 1980. Two reasons appear to generate that view.

The first related to obvious mounting displeasure over the eroding effect of inflation and exchange rate changes on their holdings and investments in the United States. In fact, they argue that the difference between an annual inflation rate verging on 14-15 percent and the average 7-percent return received on their investments makes the United States one of the largest indirect beneficiaries of Saudi "foreign assistance." As a solution to the problem, they are strenuously seeking what would in effect be an indexing arrangement to preserve the purchasing power of their investments by insulating them from inflation. The specific mechanics of achieving that objective, they say, should be devised by the United States.

The second factor strongly influencing the likely decision to reduce production relates to the stresses and strains on traditional social and

religious patterns caused by an accelerated economy and the resulting potential destabilizing impact on internal security. The latter concern is expressed in terms which suggest the need to slow down "so that people can catch up and not become alienated from their own country." Contributing to this sensitivity are the varied effects of such influences as extensive foreign presences in Saudi Arabia and booming construction and military programs. Clearly, the lesson of Iran has been carefully noted in Saudi Arabia.

As to oil prices, there is a clear strong likelihood of a boost in the current Saudi price of \$18 per barrel. While acknowledging the probability and recognizing the further negative impact of a price increase on world economic stability and growth, Saudi officials point to upcoming OPEC-initiated price rises and the current spot market price of more than \$40 per barrel as factors. Also noted emphatically is the fact that the difference between the current Saudi price of \$18 per barrel and the \$28 charged by Iran, for example, represents a daily income loss for them of \$95 million. Finally, in relating the production level and pricing issues they observe that they need only a 4 to 4.5 million barrel per day production level to sustain their current 5-year plan development program.

GULF AREA SECURITY AND INTERNAL POLITICAL DEVELOPMENTS

Unavoidably, the study mission devoted limited attention to broad area security issues and related internal developments. Nonetheless it is obvious that the restive atmosphere generated throughout the Middle East by the revolution in Iran has clearly influenced Saudi Arabia. The fact was dramatically illustrated during the study mission's stay in Saudi Arabia when a group of heavily-armed Sunni Moslems took over the Grand Mosque in Mecca. No Iranians were among what the Saudis described as the "Islamic renegades" who took over the Mosque. In fact, an estimated 80 percent of the group were Saudi nationals with others described as Yemenis, Egyptians, Pakistanis, and Moroccans.

The full significance to Saudi Arabia of Iran's Islamic revolution is still to be evaluated and determined. At this point, however, it appears that the country is uneasy; also open to reconsideration and yet to be fully evaluated is the degree to which the previously assumed steady internal security of the country is still intact. A careful and comprehensive review of its implications to the United States is certainly warranted. More immediately, the United States would calm Saudi concerns by correcting possible misunderstandings over the integrity and intensity of the U.S. commitment to the protection of the area.

In response to the loss of Iran to gulf security the Saudis stress the need for U.S. assurances embodied in an over-the-horizon presence. Particularly reassuring to them was the expedited and decisive U.S. response to their call in March 1979 for arms shipments to North Yemen, which was under attack from its Communist-dominated neighbor, South Yemen. That outbreak of hostilities on Saudi Arabia's southern border served to reinforce the Saudi obsession over what they see as a Communist-generated "arc of crisis" closing in on them and their vast oil resources. That fear now extends to the point of regarding the Soviet Union as the ultimate beneficiary of the ongoing turmoil of the Iranian revolution. Particularly distressing to Saudi Arabia would be the possibility that Arab States receiving Saudi aid might acquire Soviet arms.

U.S. BUSINESS INTERESTS

The study mission's intensive review of economic issues leads to the overwhelmingly obvious and regrettable conclusion that the U.S. share of the booming Saudi market is steadily declining. U.S. business in general and American contractors in particular are losing the competitive race to help return millions of petrodollars to the United States.

For example, according to reliable data the U.S. share of the lucrative Mideast construction market since mid-1978 has dropped from 10.3 percent to 1.6 percent. Even the billions in Saudi construction managed by the U.S. Corps of Engineers goes predominantly to South Korea, Philippines, and other foreign firms with U.S. contractors getting only 5 percent. As recently as 1975 the United States share of Corps-let contracts was 35 percent. Today, Korean firms rank first in contracts awarded and the United States twelfth.

American businessmen in Saudi Arabia blame U.S. tax laws for their competitive disadvantage and the resulting loss to the United States. Those laws, they contend, tax not only the income but the various living allowances of their workers. Monetary incentives to employees are thereby virtually eliminated. No other countries tax such incomes. The resulting restrictions and disadvantages place U.S. firms in a clear noncompetitive position. By contrast with other governments, American businessmen also note, the U.S. Government does not provide government-backed loans and other financial commitments, thereby compounding their competitive disadvantage.

In practical terms, it is estimated that a firm can hire 2.5 British or other foreign national engineers, for example, for what it would cost to hire one American. The understandable byproduct of that fact is that contracts are frequently written to British specifications, thereby resulting in further U.S. losses.

Counterbalancing these negative factors are U.S. Department of Commerce figures which indicate that overall U.S. exports to Saudi Arabia are up \$100 million in the first 9 months of 1979 as compared to the same period in 1978. However, the overall U.S. share of the Saudi market continues to decline.

SUMMARY

The United States and Saudi Arabia share several mutually beneficial concerns and objectives. Although periodic misunderstandings strain that relationship, it appears essentially strong and secure.

In the near term the question of Saudi oil pricing and sustained production levels have particular significance to the United States. Further real progress in the Mideast peace process, especially on the issues of Palestinian self-determination and the status of Jerusalem, could also soften Saudi resistance to the Camp David Accord and thereby ultimately enhance the stability of the entire area. At the same time, the Iranian revolution has cast a disconcerting shadow across Saudi Arabia, the full meaning of which has yet to be understood.

In the final analysis, all of these developments mandate the absolute need for full, constant, and honest communication between the United States and Saudi Arabia.

JORDAN

INTRODUCTION

The study mission's stay in Jordan was unavoidably brief. During the period November 22-23, 1979, it allowed a briefing on the work of the U.N. Relief and Works Agency (UNRWA) on behalf of Palestinian refugees as well as a tour of the Marka Palestinian refugee camp near Amman. An extensive field trip was also made through the Jordan Valley to review the effects of U.S. assistance on the agricultural and economic development of the valley. Excellent and comprehensive briefings were provided by U.S. Ambassador Nicholas Veliotis. On the basis of these various exposures, the following observations were drawn.

MIDEAST PEACE ATTITUDE

Jordan's critical and aloof position regarding the Camp David agreements is based chiefly on the view that the accord's West Bank framework is vague at best. In its most extreme rendering, that position sees the almost inevitable failure of West Bank issue negotiations since, by Jordan's reckonings, Israel is not genuinely committed to any reasonable compromise. Accordingly, Jordan argues that to enter the peace process will merely contribute to, if not assure, that assumed outcome with the result being to Jordan's detriment and Israel's advantage. Other points of Jordanian resistance to the peace process as outlined in the Camp David formula center on Jordan's desire for Arab sovereignty over East Jerusalem, complete Israeli withdrawal from the occupied territories, and assurances regarding the Palestinian problem.

Among other objectives Jordan is pursuing within its own peace process framework is that of opening a United States-PLO dialog, a stated PLO commitment to affiliate any Palestinian West Bank entity with Jordan, and a refining of U.N. Resolution 242 in order to more specifically address Palestinian grievances. Jordan sees these elements of its own peace process as not inconsistent with the U.S. objective of a comprehensive settlement.

Clouding the current atmosphere of United States-Jordanian relations is a chilling lack of contact and communication at the highest level. Overcoming that hurdle through a renewed and cordial dialog could help set the stage for important and positive steps along the road to peace in the Middle East.

PALESTINIAN REFUGEES

Out of a total 1.8 million Palestinian refugees, some 600,000 reside in Jordan of which nearly 250,000 live in 10 refugee camps operated by the U.N. Relief and Works Agency (UNRWA). With a staff of 6,500 and a \$200 million annual budget (including \$26 million contributed last year by Jordan), UNRWA provides such basic humani-

tarian needs as food, health services and education. Clearly, any reduction in UNRWA funding would be highly detrimental to the excellent program of assistance it provides.

In addition to having the largest Palestinian population of any Mideast country, Jordan is unique in providing them full citizenship. Large numbers of Palestinians are employed in labor-short Jordan and throughout the gulf area.

Nearly 400,000 (two-thirds) of Jordan's Palestinian population have been there since 1948. Although large numbers of those, now in second generations, have been fully assimilated into Jordanian life, they still reportedly retain a strong sense of Palestinian identity and profess the desire to return to their original homes on the West Bank. However, given the depth of the roots they have sunk in Jordan and in view of the fact that many of the younger generation have known no other home, it remains questionable if, in fact, many would return. Apparently not in question is the reported "overwhelming sympathy" those in refugee camps have for the PLO.

THE JORDAN VALLEY

One of the focal points in U.S. economic assistance is the Jordan Valley, the richest potential source of agricultural production in the country. U.S.-funded irrigation projects in the valley have already resulted in increasing irrigated land by some 35,000 acres, about one-third of the total land to be irrigated in the valley. Coupled with other U.S.-financed programs affecting transportation, agricultural modernization, and the development of Jordan's potash industry, U.S. assistance programs have made a significant contribution toward Jordan's economic development. The continuation of such U.S. aid will substantially enhance the prospects of the valley, becoming a "breadbasket" for all of Jordan as well as to attract Jordanians in overpopulated urban areas such as Amman to work and live in the valley.

An admirable feature of the overall Jordan Valley development is the complementary way in which U.S.-financed projects have coordinated with those financed by West Germany, Japan, and Kuwait among others. Regrettably, negotiations between Israel and Jordan for construction of the Maqarin Dam in the Yarmouk River have broken down. If and when agreement is reached, hopefully soon, financing will be provided by a consortium of donors, including the United States.

SUMMARY

United States-Jordanian relations, warm and friendly for more than 25 years, are currently experiencing certain strains and challenges. Generated chiefly by Jordan's reluctant attitude toward Camp David and the peace process, these stresses have been reflected in a recent downturn in U.S. economic and military aid, most recently demonstrated in the Jordanian decision to purchase British rather than U.S. tanks. The fissure is also evident in recent lapses in contact between United States and Jordanian officers at the highest level. A resumption of these contacts would go far toward eliminating misunderstandings and otherwise restoring friendly relations and progress toward mutual objectives and benefits.

ISRAEL

INTRODUCTION

While in Israel from November 23 through 26, 1979, the study mission met with Prime Minister Menachem Begin, Minister of Defense Ezer Weizman, Chairman of the Knesset Foreign Affairs and Security Committee Moshe Arens, Prof. Amnon Cohen of Hebrew University and former adviser to Coordinator of Occupied Territories, Mr. Efraim Davrath, Economic Adviser to the Ministry of Finance, Maj. Gen. Mati Sharoni, Chief of Planning in the Ministry of Defense, Mr. Michael Harish, Chairman of the Labor Party International Committee, and a representative political cross section of Members of the Knesset. The study mission was also briefed extensively by U.S. Ambassador Samuel Lewis, U.S. Consul General in Jerusalem Michael Newlin, and members of the Embassy and consulate staff. In addition to a meeting with representatives of various private voluntary organizations, the study mission also made an extensive inspection tour of the West Bank and conferred with four West Bank mayors.

MIDEAST PEACE PROCESS

Israeli leaders repeatedly stress the "great sacrifices and risks" Israel has taken to achieve its peace agreement with Egypt. That preoccupation and the gnawing question of how much more sacrifice and risk is possible partially explains the Israeli position on the current slow pace of further negotiations in the peace process. In an attempt to find answers to those questions, there is underway in Israel today a vibrant debate over various related domestic and foreign policy issues. Reflective of a genuine and healthy democratic process in Israel, that debate appears to have left the Begin government beleaguered on many fronts. Its ultimate outcome, however, will significantly influence Israel's strategy on the peace process and, hopefully, eventually generate a public consensus supportive of that strategy. In the interim, the tensions of the debate itself will place pressures upon Israel which will require patience and understanding. Above all, the integrity of the debate must be protected and preserved.

The wide and often extreme spectrum of views within Israel on such central issues as settlements in the West Bank and autonomy for Palestinians defy easy solution. Middle-ground compromises remain elusive. One factor that may force such compromise is the need for economic survival—a vital dimension of national security. Israel is now burdened by a 100-percent annual inflation rate, heavy debt servicing costs, and negative balance-of-payments problems—all of which have been fueled in large measure by a constant war economy consuming 30 percent of Israel's GNP and one-third of its annual budget.

Austerity measures imposed in November 1979 aimed at braking inflation and otherwise restoring a semblance of economic stability

resulted in protest demonstrations. The austerity plan eliminated long-established subsidies on all but a few items and imposed a 1-year freeze on public building and a 4-percent real cut in next year's budget. Despite the intense negative public reaction to what was a drastic but needed remedy, the belt-tightening plan is expected, at best and with luck, to limit inflation next year to 60 to 70 percent. Among other byproducts of the newly imposed austerity program, however, was a reinforced public attitude which holds that the settlement policy is too expensive and siphons off scarce funds for urgently needed housing.

In the final analysis, it appears that the peace process in Israel will move slowly at best for some time to come. The possibility of a change in government would delay the process even further. Amid that overcast projection it is encouraging to note that a warm personal relationship has developed between President Sadat and Prime Minister Begin and Defense Minister Weizman. Nonetheless, leading Israeli officials strongly assert the understandable need to remain alert and maintain a strong military defense posture, especially in the face of what they see as the increased belligerency of other Arab States and their enlarged arsenals. To help them deter that threat and achieve a strong level of preparedness, Israeli officials look to the United States for continued and increased economic and military assistance. In defense of that need they point out that the United States is a direct beneficiary of the Israeli-Egyptian Peace Treaty and should regard its aid as an investment in its own national security. In a related connection, some leading Israeli officials cite what they see as the potential destabilizing influence throughout the Arab world of the Islamic revolution in Iran and the resulting implications it has for Israel. In addition, they express simultaneous impatience and concern over what they regard as the lack of forceful U.S. action over the hostage situation in Iran. In anticipation of possible spinoff significance for Israel, they also express the hope that the situation will signal the end of a post-Vietnam mentality in the United States.

WEST BANK, THE MAYOR SHAKA AFFAIR AND PVO'S

Central to the important goal of maintaining the momentum of the Mideast peace process is the urgent need to resolve difficult matters relating to the West Bank, especially the issue of settlements. Meaningful progress in the ongoing autonomy negotiations would also offer concrete assurances to recalcitrant Arab States and strengthen President Sadat's position. Desirable as such compromise would be in making possible a comprehensive peace, an honest appraisal of the situation leads unavoidably to the conclusion that a long and arduous effort is likely. Partially contributing to this conclusion is a firsthand exposure to the effects of Israeli Government land and water policies in the area and discussions with persons representing key factions.

One recent event, the Mayor Shaka affair, illustrates both the delicacy and complexity of the problem on the West Bank. Its chief effect seemed to be that of heightening and solidifying Palestinian resistance to the Israeli presence, as exemplified by the unanimous resignation of all West Bank mayors in support of Shaka. The incident also undermined those within Israel fostering a policy of creating trust among West Bank leaders as a base on which to build greater under-

standing and compromise, and muffled the voices of those on both sides who foster moderation as a steppingstone to honest compromise.

The entrenched position of West Bank leaders has given new impetus to what they describe as their full and unanimous support of the PLO. At the same time, however, they emphatically state not only their own willingness to recognize Israel's right to exist but their urging of the PLO to do likewise, provided in turn that Israel recognizes the right of the Palestinians to self-determination and the creation of a Palestinian entity. Beyond an absolutely needed PLO pledge to recognize Israel's right to exist, there is the need for a similar PLO pledge to renounce terrorism.

Amid this often tumultuous atmosphere there exists on the West Bank a sure and steady force of positive and effective action in the form of various private voluntary agencies (PVO's) working there. Highly commendable is the work carried out in the area by such groups as Anera, the American Friends Service Committee, Catholic Relief Services, the Community Development Foundation, and the Menonnite Central Committee. The able and dedicated representatives these groups have in the field gain maximum impact from limited resources (including modest U.S. aid funds) in a variety of education, health, water, agricultural, and other basic necessity projects they support on the West Bank. Despite bureaucratic delays, time-consuming reviews, and other impediments, their record of achievement is impressive. They deserve every possible support and assistance from all parties concerned.

SUMMARY

From the Israeli perspective, time and patience offer the only balm which may heal serious internal problems and ultimately facilitate further progress in the Camp David peace process. Although the Egyptian-Israeli Peace Treaty has brought a certain relief, high military expenditures will continue and thereby serve to exacerbate Israel's already dire economic plight. Internal agitation channeled by a strong democratic process is seeking outlet through a healthy and vigorous national debate on a wide range of related domestic and foreign policy issues. But an already beleaguered Government could possibly succumb to the tremors of that debate and delay even further any meaningful movement toward peace. Continued PLO terrorist attacks and Israel's understandable concerns over its security, stand in the way of meeting the May deadline for establishing an autonomous Palestinian administration on the West Bank. Other obstinate forces on both sides make compromise difficult for now.

Despite this less-than-encouraging situation, it is imperative for the United States to continue pursuing the Camp David objectives, no matter how difficult or time consuming they may be.



