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TO PRIORITY FCO

TELNO 62 OF 3 FEBRUARY

AND TO PRIORITY BANGKOK (FOR PRIVATE SECRETARY)

INFO ROUTINE TEL AVIV, JEDDA, AMMAN, DAMASCUS, BEIRUT, BONN
AND WASHINGTON.

SAVING TRIPOLI, KHARTOUM, PARIS, ROME.

VISIT OF PRESIDENT MUBARAK : 6/7 FEBRUARY.

1. IN THE PAST FOUR MONTHS PRESIDENT HUSNI MUBARAK HAS EMERGED FROM THE LONG SHADOW CAST BY ANWAR SADAT AND NOW HOLDS THE REINS OF POWER FIRMLY IN HIS HANDS. THE OUTLINE OF HIS FOREIGN AND DOMESTIC POLICY IS BEGINNING TO EMERGE.

EGYPTIAN AGENDA FOR THE TALKS.

2. ACCORDING TO OSAMA AL BAZ (PRESIDENT MUBARAK'S CHEF DU CABINET), MUBARAK WOULD LIKE TO COVER THE FOLLOWING SUBJECTS IN HIS DISCUSSIONS WITH THE PRIME MINISTER:

- (I) HIS DISCUSSIONS IN WASHINGTON INCLUDING HIS ASSESSMENT OF US MIDDLE EAST POLICY.
 - (II) HIS VIEW OF EGYPT'S FUTURE ROLE IN THE ARAB WORLD.
 - (III) A REVIEW OF THE AUTONOMY TALKS INCLUDING THE PROSPECTS FOR AN AGREEMENT AND LIKELY TIME SCALE.
 - (IV) TO THANK THE UK FOR CONTRIBUTING TO THE MULTI NATIONAL FORCE.
 - (V) TO HEAR THE PRIME MINISTER'S ASSESSMENT OF THE SITUATION IN EUROPE, WITH PARTICULAR REFERENCE TO POLAND.
- MUBARAK IS UNLIKELY TO RAISE ANY BILATERAL ISSUES.

MUBARAK THE MAN.

3. BOTH IN PERSONALITY AND STYLE MUBARAK COULD HARDLY BE MORE OF A CONTRAST TO HIS PREDECESSOR. THE KEYNOTE, EXEMPLIFIED BY HIS LIFE-STYLE, IS HARD WORK. HE RISES EARLY, PLAYS SQUASH FOR AN HOUR, WORKS LONG HOURS AT HIS DESK, AVOIDS UNNECESSARY TRAVEL, PERSONAL EXTRAVAGANCE, LONG SPEECHES, AND KEEPS HIS WIFE IN THE BACKGROUND. ON ALL MAJOR ISSUES HE INVITES ADVICE. WHERE THERE ARE DIFFERENCES OF VIEW, HE WILL WANT, IF POSSIBLE, TO SUPPORT THE MAJORITY.

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4. HIS CURRENT POPULARITY STEMS AS MUCH FROM DISENCHANTMENT WITH HIS PREDECESSOR AND A FEELING THAT HE IS MORE IN TUNE WITH EGYPT'S PROBLEMS AS FROM ANYTHING HE HAS DONE (RATHER LITTLE SO FAR OTHER THAN THE RELEASE OF SOME OF THE MORE PROMINENT DETAINEES AND AN UNIMPRESSIVE MINISTERIAL RESHUFFLE). HE HAS CORRECTLY IDENTIFIED THE FRUSTRATIONS OF ORDINARY EGYPTIANS; SADAT'S BROKEN PROMISES, THE GROWING INEQUALITIES BETWEEN RICH AND POOR, CORRUPTION IN HIGH PLACES, THE APPALLING LIVING CONDITIONS IN THE URBAN SLUMS. HIS APPROACH TO EGYPT'S MANY DAUNTING PROBLEMS WILL BE TO PROCEED CAUTIOUSLY AVOIDING EXTRAVAGANT PROMISES, TO TACKLE INDIVIDUAL ISSUES THROUGH LONG-TERM PLANNING ARRIVED AT BY CONSENSUS, AND TO STAMP HARD ON CORRUPTION. HE LACKS SADAT'S VISION AND APPEARS TO HAVE NO OVERALL CONCEPT OF THE EGYPT THAT HE WOULD LIKE TO SEE. THE HUMAN RESOURCES AT HIS DISPOSAL ARE VAST BUT, WITHIN THE GOVERNMENT INTELLIGENCE, DRIVE AND BASIC MANAGERIAL SKILLS HAVE BEEN STIFLED BY YEARS OF PUNDEROUS BUREAUCRACY. THE DANGER IS THAT THE LEVERS OF POWER, WHEN HE PULLS THEM, WILL COME AWAY IN HIS HAND. IF HE IS NOT PREPARED OCCASIONALLY TO IGNORE THE BUREAUCRACY AS SADAT WAS, HE MAY PROVE INCAPABLE OF RESPONDING TO CHALLENGE, PARTICULARLY IN THE ECONOMIC FIELD WHICH HE HAS IDENTIFIED AS HIS FIRST PRIORITY.

FOREIGN POLICY

5. FINAL ISRAELI WITHDRAWAL FROM SINAI ON 25 APRIL, WHICH WAS TO HAVE BEEN SADAT'S CROWNING ACHIEVEMENT, REMAINS FOR MUBARAK THE FIRST AND MOST IMPORTANT FOREIGN POLICY GOAL. THERE WILL BE NO GOING BACK ON THE PEACE TREATY WITH ISRAEL. (THE EGYPTIANS POINT OUT, IN ANY CASE, THAT A DECISION BY THEM TO ABROGATE THE PEACE TREATY WOULD CERTAINLY END ANY PROSPECT THAT OTHER ARAB COUNTRIES COULD HOPE TO RECOVER TERRITORY FROM ISRAEL BY NEGOTIATION.) PEACE IS ESSENTIAL FOR EGYPT AND EGYPTIANS HAVE SACRIFICED MUCH FOR IT. BUT BEGIN'S UN-NEIGHBOURLY BEHAVIOUR WILL INEVITABLY COOL THE NORMALISATION PROCESS. IN THE AUTONOMY TALKS THE TWO SIDES ARE MILES APART, AND THE EGYPTIANS HAVE NO INTENTION OF SELLING OUT PALESTINIAN INTERESTS, EITHER BEFORE OR AFTER 25 APRIL. AN AUTONOMY AGREEMENT SEEMS HIGHLY UNLIKELY THOUGH THE EGYPTIANS WILL BE READY TO CONTINUE THE NEGOTIATIONS FOR SOME TIME YET.

6. MUBARAK HAS ALREADY BEGUN TO LAY THE BASIS FOR A RECONCILIATION WITH THE MODERATE ARAB STATES. THOUGH PERSONALLY NOT INCLINED TO WOO THEM, HE NO DOUBT RECOGNISES THAT CONTINUING ISOLATION REPRESENTS A THREAT TO EGYPT'S SECURITY. CRITICISM OF OTHER ARAB STATES CEASED WITHIN HOURS OF SADAT'S DEATH AND SECRET CONTACTS ARE NOW TAKING PLACE WITH SAUDI ARABIA AND JORDAN. BUT THE EGYPTIAN MESSAGE IS CLEAR: RECONCILIATION CANNOT BE AT THE EXPENSE OF THE PEACE TREATY.

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7. MOREOVER, WITH THE COLLAPSE OF THE FEZ SUMMIT, THE EGYPTIANS WILL BE IN NO HURRY TO MEND FENCES AFTER APRIL. THEY RECOGNISE THAT TIME WILL BE NEEDED TO COMPOSE ARAB DIFFERENCES. CERTAINLY THEY WOULD LIKE TO SEE THE OTHER ARAB STATES AGREE ON A FAHD PLAN, OR SOMETHING LIKE IT, SINCE ONLY IN THIS WAY CAN EGYPT'S RECOGNITION OF ISRAEL BE MADE RESPECTABLE. BUT THEY ALSO SEE THAT THE FAHD PLAN, EVEN IF ACCEPTED BY THE ARABS, IS NON-NEGOTIABLE AT PRESENT. IF THE MODERATE ARABS RUSH TO A RECONCILIATION WITH EGYPT BEFORE THE NECESSARY SPADE-WORK HAS BEEN DONE TO PROMOTE ACCEPTANCE OF THE FAHD PLAN, THERE ARE BOUND TO BE FRESH RUMPUSES WITHIN THE ARAB RANKS. ACCORDING TO OSAMA AL BAZ THE EGYPTIANS HAVE RECENTLY DISCUSSED ALL THIS WITH THE SAUDIS AND BOTH SIDES HAVE AGREED THAT THEY SHOULD BE IN NO HURRY TO BRING ABOUT A PUBLIC RECONCILIATION.

8. THE MESSAGE FOR THE EUROPEANS IS, I SUGGEST, THAT WE TOO MAY NEED TO MARK TIME BEFORE ATTEMPTING TO PROMOTE ALTERNATIVES TO THE AUTONOMY TALKS. ANYTHING WE CAN DO MEANWHILE DISCREETLY TO PROMOTE AN ARAB CONSENSUS, EG OVER MUTUAL BUT CONDITIONAL RECOGNITION BETWEEN THE PLO AND ISRAEL, WILL BE WELCOME TO THE EGYPTIANS. SO TOO WILL EUROPEAN ADVOCACY OF GREATER AMERICAN PRESSURE ON ISRAEL. BUT IT MAY BE MANY MONTHS BEFORE THE MAJORITY OF ARAB STATES CAN FIND A FORMULA FOR NEGOTIATION WITH ISRAEL WHICH WILL ENABLE THE ARABS TO SETTLE THEIR DIFFERENCES, AND AT THE SAME TIME ACCEPT EGYPT BACK IN THE FOLD. WHAT THAT FORMULA MIGHT LOOK LIKE IS TOO EARLY TO SAY. SEEN FROM HERE, THERE IS MUCH TO BE SAID FOR OUR REMAINING IN THE BACKGROUND UNTIL THE INTER-ARAB DISCUSSION IS FURTHER ADVANCED.

9. MEANWHILE THROUGH THE INTELLIGENT DIPLOMACY OF DR BOUTROS GHALI, WHO HAS RECENTLY VISITED BOTH DELHI AND BELGRADE, MUBARAK IS SEEKING TO BOLSTER EGYPT'S POSITION IN THE NON-ALIGNED AND AFRICAN FORA. HIS TACTICAL OBJECTIVE IS TO SECURE EGYPT'S PLACE AT THE NON-ALIGNED AND OAU SUMMIT MEETINGS. HE ALSO SEEKS TO MINIMISE THE EFFECTS OF EGYPT'S ISOLATION IN THE ARAB WORLD AND TO DEMONSTRATE THAT EGYPT IS NOT AMERICA'S LACKEY. MORE WITH A VIEW TO IMPROVING RELATIONS AND THUS ADDING CREDIBILITY TO EGYPT'S NON-ALIGNED CREDENTIALS. BUT ANY RAPPROCHEMENT WITH THE ^{Russians} RUSSINGS WILL BE LARGELY OPTICAL. THE RELATIONSHIP WITH THE WEST (ESSENTIALLY THE US) WILL REMAIN PARAMOUNT.

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ECONOMIC POLICY

10. MUBARAK HAS CALLED AN ECONOMIC CONFERENCE FOR 13 FEBRUARY, TO INCLUDE ACADEMICS, REPRESENTATIVES OF THE OPPOSITION PARTIES AND FORMER MINISTERS IN ADDITION TO THE PRESENT GOVERNMENT TEAM, TO WORK OUT AN ECONOMIC STRATEGY FOR THE NEXT FINANCIAL YEAR BEGINNING IN JULY. EGYPT'S MAIN ECONOMIC STRENGTHS ARE OIL (WHICH NOW ACCOUNTS FOR 2/3 OF EXPORT EARNINGS), REVENUES FROM THE SUEZ CANAL, TOURISM AND REMITTANCES BY EGYPTIANS WORKING OVERSEAS. BUT INCOME FROM THESE SOURCES WHICH HAD BEEN RISING RAPIDLY AND HAD LED TO A GREATLY IMPROVED BALANCE OF PAYMENTS, MAY NOW BE REACHING A PLATEAU. AND ON THE NEGATIVE SIDE THERE IS A HUGE AND GROWING IMPORT BILL (MAINLY FOR FOOD), STAGNATION IN THE PUBLIC SECTOR (WHICH STILL ACCOUNTS FOR SEVENTY PERCENT OF GDP) AND SERIOUS DEFICIENCIES IN INFRASTRUCTURE.

11. MUBARAK'S ROOM FOR MANOEUVRE IS THUS LIMITED AND THE MAIN CHANGED FROM THE ECONOMIC POLICIES OF HIS PREDECESSOR MAY BE PRINCIPALLY OF STYLE. HE HAS ALREADY EMPHASISED HIS SUPPORT FOR SADAT'S OPEN DOOR POLICY AND THE ROLE OF FOREIGN AND OTHER ARAB INVESTMENT. BUT HE HAS STRESSED THAT THIS MUST BE DIRECTED TO IMPROVING PRODUCTION RATHER THAN INCREASING CONSUMPTION. THUS WHILE HE WILL CONTINUE TO SUPPORT FREE ENTERPRISE HE WILL BE LOOKING TO CONTROL CONSUMPTION AND IMPORTS OF LUXURY GOODS.

12. HE IS UNLIKELY TO BE ANY MORE SUCCESSFUL THAN SADAT IN DEALING WITH THE CRUCIAL PROBLEM OF FOOD AND ENERGY SUBSIDIES (COSTING TOGETHER SOME LE5 BILLION PER YEAR) OR IN OBTAINING A REASONABLE RATE OF RETURN OUT OF THE PUBLIC SECTOR. ONE OF THE OBJECTIVES OF HIS CURRENT TOUR WILL BE TO SEEK NOT ONLY THE CONTINUATION OF GENEROUS AID, PARTICULARLY FROM THE US, (AND MEASURES TO IMPROVE THE DISAPPOINTINGLY SLOW RATE OF DISBURSEMENT) BUT UNDERSTANDING OF THE PROBLEMS HE FACES AND THE REASONS WHY HE WILL CONTINUE TO HAVE TO MOVE SLOWLY.

THE INTERNAL SITUATION

13. INTERNALLY MUBARAK HAS

DRACKED DOWN HARD ON THE ISLAMIC EXTREMISTS. SADAT'S ASSASSINS ARE ON TRIAL AND HUNDREDS OF OTHER EXTREMISTS, SOME CHARGED WITH CONSPIRING TO SET UP AN IRANIAN-STYLE REGIME, WILL SHORTLY FOLLOW THEM TO THE COURTS. MUBARAK IS NOW WORKING BEHIND THE SCENES TO BRING THE POWERFUL SECURITY FORCES UNDER HIS PERSONAL CONTROL. THE ARMED FORCES ARE LIKELY TO REMAIN PASSIVE SO LONG AS HE RETAINS POPULAR SUPPORT AND HALTS ANY FURTHER EROSION OF THEIR PRIVILEGED POSITION.

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14. ANOTHER SUCCESSFUL PLOT AGAINST THE LEADERSHIP IS UNLIKELY IN THE SHORT TERM. NEVERTHELESS, THE ASSASSINATION, FOLLOWING IN THE WAKE OF THE IRANIAN COUP, HAS DOUBTLESS GIVEN THE ISLAMIC FUNDAMENTALISTS A BOOST. MUBARAK KNOWS THAT THE THREAT WILL PERSIST AS LONG AS ORDINARY EGYPTIANS, PARTICULARLY THE YOUNGER ONES, FEEL THAT THEY HAVE NO HOPE OF IMPROVING THEIR PRESENT LOT. THIS AWARENESS DICTATES THE HIGH PRIORITY ACCORDED TO ECONOMIC REFORM. THE INCREASED PROSPERITY OF RECENT YEARS MUST BE DISTRIBUTED MORE EVENTLY. IF IT IS RESTRICTED TO A PRIVILEGED FEW, IT WILL MERELY SERVE AS A TARGET FOR A FURTHER FUNDAMENTALIST CRUSADE.

FCO PSE PASS SAVING ADDRESSEES.

REEVE

[THIS TELEGRAM WAS NOT ADVANCED]

[REPEATED AS REQUESTED]

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