

1.3(a)(4)

NIE 36.1-65  
31 March 1965

*John Edgar Hoover*  
*Director*

**NATIONAL INTELLIGENCE ESTIMATE**

NUMBER 36.1-65

(Supersedes 36.1-64)

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Document # 37

**Problems and Prospects for the  
United Arab Republic**

Submitted by the  
**DIRECTOR OF CENTRAL INTELLIGENCE**

Concurred in by the  
**UNITED STATES INTELLIGENCE BOARD**

As indicated overleaf  
31 MARCH 1965

**APPROVED FOR RELEASE**

3 MAR 1992

No. 364

1.3(a)(4)

The following intelligence organizations participated in the preparation of this estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, and NSA.

**Concurring:**

Director of Intelligence and Research, Department of State

Director, Defense Intelligence Agency

Director of the National Security Agency

**Abstaining:**

The Atomic Energy Commission Representative to the USIB and the Assistant to the Director, Federal Bureau of Investigation, the subject being outside of their jurisdiction.

1.3(a)(4)

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**Problems and Prospects for the  
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# PROBLEMS AND PROSPECTS OF THE UNITED ARAB REPUBLIC

## THE PROBLEM

To assess recent trends in the United Arab Republic (UAR) and to estimate developments over the next few years.

## CONCLUSIONS

A. Nasser's government has had considerable success over the past decade in fostering economic growth, building up its military forces, exercising leadership in the Arab world, and making the UAR a country to be reckoned with in world affairs. During recent years, however, the UAR has become overextended as a result of trying to do too much too fast. Since 1960, it has spent over \$2 billion more than it has earned, but massive foreign aid has not prevented economic difficulties from becoming increasingly urgent. The UAR is bogged down in a costly military stalemate in Yemen; engaged in an increasingly expensive arms race with Israel, made more tense by the Jordan waters question; and faces further deterioration of its most important relations with Western powers. All these difficulties are producing discontent within the UAR, and some strains within the leadership. (*Paras. 1-3, 6, 8, 12*)

B. There appears little hope for Nasser to win a military victory or negotiate a satisfactory settlement in Yemen in the next year or so. The imbroglio will probably continue to cost him heavily in men, money, equipment, and prestige; it may again involve him in difficulties with the Saudis and even the US, and it is hampering efforts to establish Arab military cooperation against Israel. The United Arab Command is useful to Nasser for asserting leadership of the Arab unity and anti-Israeli causes, but it also saddles him with serious dilemmas if Arab-Israeli tensions reach a crisis. Nasser will try to

avoid a military test with Israel, but a defeat on the Jordan waters issue would cost him prestige. Although most other Arab leaders would be unlikely to follow Nasser in extreme measures against the West, no other leader is likely to replace him as the symbol of Arab nationalism. (*Paras. 27-29, 33*)

C. The UAR's relations with the West appear likely to worsen particularly with the establishment of West German-Israeli diplomatic relations. Any significant US arms aid to Israel would contribute to this trend. The corollary is likely to be greater emphasis on the common interests between the UAR and the Communist world in opposing Western influence in the Middle East and Africa. We also believe, however, that Nasser will remain determined to preserve his independence against any Soviet encroachments, and that his policies will reflect an underlying belief that the West would come to his aid if the Soviets turned threatening. (*Paras. 33-37*)

D. Given the UAR's growing population, limited resources, and the likelihood that foreign aid will at best decline, the regime will be forced to hold down investment and consumption. Cuts in the latter particularly will give rise to dissatisfaction, since improving living standards in the past 10 years have whetted appetites for more—particularly in the cities. Even if the UAR exacts substantial sacrifices from its people, its rate of economic growth will probably decline markedly. Nasser probably anticipates that his policies will produce a decline in aid from the West. If events lead to a virtual cessation of Western aid—including PL-480—the UAR's economy will suffer badly, though not to the point of collapse. The Soviets and the oil-rich Arab states might supply a part of the deficiency, but probably not enough to satisfy the UAR's needs. (*Paras. 37-39*)

E. In such circumstances, the Egyptians would be inclined to blame the West, and Nasser would strike out against Western interests. For example, he would make a major effort to force the UK and US out of their bases in Libya. He would probably default on some Western debt obligations. He would also probably try to persuade the oil-producing Arab states to bring pressure on the West, though probably with limited success. We doubt, however, that Nasser would take any action which he thought substantially increased the chances of a military confrontation with the West. (*Para. 40*)

[REDACTED]

F. Prolonged economic hardship and foreign policy frustrations could in time undermine Nasser's domestic position, but we consider this contingency remote. The UAR's intractable problems will continue to create strains and differences within the leadership, and subordinate figures in the regime will rise and fall, possibly more frequently than heretofore. Nonetheless, we believe that the military—the ultimate arbiter—will remain loyal to Nasser, and he is unlikely to be toppled from power even if his domestic political appeal is eroded.  
(*Paras. 43-44*)

## DISCUSSION

### I. NASSER'S REVOLUTION

1. The United Arab Republic (UAR), compared with other less developed countries, has achieved an impressive record of social progress, political stability, and economic growth since its 1952 revolution. It has ended the traditional dominance of the wealthy landlords, merchants, and foreigners; it has greatly expanded educational and medical facilities and other social services; and it has done much to modernize the economy. The regime has also fostered Egyptian pride and dignity by successfully operating the Suez Canal as a purely Egyptian enterprise and by building up the country's military strength. The UAR has secured large amounts of military and economic assistance from the Communist countries as well as extensive Western economic aid. The UAR is by far the strongest Arab state, plays a major role in the Afro-Asian world, and has become a nation to be reckoned with in world affairs.

2. During the past few years, however, the costs of the regime's efforts have begun to weigh more heavily on the country and the people. Extensive nationalization and socialization measures carried out since 1961 have hurt many people at least partially sympathetic to earlier-reforms. Continued expansion of the economy and rising living standards have been achieved only at the cost of extremely heavy foreign and internal borrowing, and the near exhaustion of the country's foreign exchange reserves. The foreign exchange squeeze has recently become so severe as to cause shortages of consumer goods and of materials needed to keep the UAR's factories operating. At the same time, the success of the regime in raising living standards has whetted popular appetites for more, and has increased the risks of discontent if these are not satisfied.

3. Difficulties at home have been compounded by the UAR's foreign policy problems. It is bogged down in a war in Yemen for which no solution is in sight. The confrontation with Israel is sharpened by the Jordan waters question and the accelerating Arab-Israeli arms race. In recent months, relations with Western countries have deteriorated markedly. Thus President Nasser today is a highly frustrated man, who is trying to cope with an assortment of problems more difficult individually and collectively than at any time in the past.

### II. DOMESTIC TRENDS

4. Nasser and his supporters, aware of the importance of the armed forces to their position, have made sure that the officer class has received many of the choicest fruits of the revolution. However, Nasser believes that for the revolution to succeed in the long run it needs a stable institutional foundation and broader participation by the Egyptian people. Two efforts in this direction—the Liberation Rally in the early years of the regime and the National Union in the late 1950's—failed to gain popular support, but a new and more ambitious

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effort is now in progress. Nasser has proclaimed a new constitution, re-established the national assembly, and set up a new political organization, the Arab Socialist Union (ASU). The ASU is a pyramidal structure reaching down to the village level, but is effectively controlled from the top. Its chief function so far is to try to rally popular support for government policies and provide a forum for criticisms and suggestions concerning government administration and relatively unimportant policies of the regime.

5. During the past two years Nasser has released several hundred Communists from detention. A number of these have been given important positions in the press and in the ASU. Others have found jobs in government ministries and in the trade unions. Nasser apparently is trying to make use of their organizational talents and other skills to further his socialist program. He probably also sees this manner of treating local Communists as a means of pleasing the USSR. However, there appears to be some public concern over the increasing role of local Communists and growing ties with Communist countries, and Nasser and other official spokesmen have recently stressed the incompatibility of communism and Arab Socialism. He rejects such basic premises of Marxism-Leninism as atheism, the class struggle, the dictatorship of the proletariat, and the international character of socialism. Nasser almost certainly believes he can control Egyptian Communists if they get out of line.

6. The difficulties of the past year have produced growing discontent within the UAR. There has been grumbling about food shortages, black markets, and high prices; there have been a few instances of small-scale protest demonstrations, and sporadic illegal strikes by various groups dissatisfied by government economic measures. There is also growing dissatisfaction with the cost of the war in Yemen. Especially in the cities, people are fearful that Western aid will be reduced or even halted, forcing further belt-tightening. Lack of freedom of expression continues to alienate the intelligentsia from the regime. Many of those who have benefited most by the revolution appear worried that Nasser's socialism curtails their prospects for further gains. All this coincides with an overall decline in the revolutionary elan which characterized much of the middle levels of society in the earlier years of the revolution. Nasser is worried over his domestic situation, and his public utterances are defensive in tone. There are also indications that these strains have led to disagreements among the leaders over how to proceed.

7. The top leadership has been remarkably cohesive though its membership has shrunk over the years. Our knowledge about the attitudes of and relationships among the handful of men at the top is limited. It appears that they are divided along lines of personal rivalry as well as over matters of policy. The principal figures are Prime Minister Ali Sabri, Nasser's right-hand man, a strong supporter of socialism and probably the chief proponent of a policy of close relations with the Communists; Army chief Abd al-Hakim Amir, who has strong backing from the military and is otherwise distinguished chiefly for his loyalty to Nasser; and Vice-President Zakariya Muhi al-Din, a trusted counselor who

has often resisted close ties with the USSR and who exerts effective control over the National Police and much of UAR intelligence. Former Vice-President Baghdadi, once influential, is at odds with Nasser over policies of socialism at home, activism abroad, and close ties with the Communist world. None of these men appears to have the capability in his own right to gain precedence over the others—much less challenge Nasser—and their rise and fall is in response to Nasser's manipulation of them.

### III. ECONOMIC DEVELOPMENTS

8. The UAR is nearing the end of its First Five-Year Plan (1960-1965) with its economy in severe straits as a result of the regime's attempt to do too much too fast. In the late 1950's, Nasser, concerned over population growth—even then about 2.5 percent a year—insisted that the country's economic development program aim at doubling national income between 1960 and 1970, despite the advice of Egyptian and Western economic advisors that such a task would require at least 15 years. He has compounded the difficulty of achieving this goal by encouraging a very rapid rise in domestic consumption and in welfare services.

9. Nasser's heavy outlays to increase the UAR's power and prestige have further burdened the economy. The current military budget is on the order of \$300 million a year. This is about seven percent of the UAR's gross national product (GNP)—a rate above that of most advanced industrial nations and more than double that of all but a few developing nations. This amount probably does not include the estimated \$35-50 million a year being spent on development of missiles and jet aircraft, and may not include payments for Communist military equipment, now about \$25 million a year. Further, we estimate that the war in Yemen and support of the Yemen Arab Republic costs the UAR some \$60-80 million annually, only part of which is in the military budget. Finally, expenditures for nonmilitary government activities abroad increased from about \$17 million in 1952 to \$65 million in 1963, covering items such as diplomatic representation, propaganda, and some subversive activities.

#### The First Five-Year Plan

10. The First Plan called for expenditures of nearly \$5 billion in order to achieve a 40 percent increase in national income and provide just over one million new jobs. The plan had a number of weaknesses: agriculture was not given sufficient resources to raise its growth rate from 2.5-3 percent annually to the scheduled 5 percent; limited attention was paid to the economic as distinct from the engineering feasibility of individual projects; and little effort was devoted to determining the particular pattern of investment which would make the best use of the UAR's limited financial resources. Moreover, the cotton crop failed in 1961, which cost the UAR about \$200 million in foreign currency earnings, and the wide-ranging nationalization and socialism degrees of 1961 placed almost the entire burden of running the economy on the government's inadequate bureaucracy.

11. UAR statistics indicate a growth rate of over six percent annually since 1960, but these statistics overstate the UAR's progress, and the actual rate is probably closer to five percent. The claimed rate of economic growth has been dependent on a very rapid rise in services, but a fair amount of this statistical gain represents no more than the addition of unneeded employees to government organizations. Agricultural output has barely kept pace with the 2.7 percent rate of population growth. Industry expanded about 8-10 percent a year until 1964, when the rate probably declined. Total investment has increased in each year of the plan, but the UAR acknowledges that it has amounted to less than 70 percent of planned levels.

12. The progress of the past five years has been due in large measure to sizable aid and financing from both the Communist and non-Communist worlds. Our figures are not precise, but it is fairly clear that the UAR will have received external grants and loans for its economic programs of nearly \$2.5 billion during 1960-1965. About \$500 million of this came from Communist countries and at least \$130 million from Kuwait. The UAR has also received Soviet military equipment priced at nearly \$250 million since 1960. During this period the UAR has repaid about \$600 million in foreign obligations. The official economic aid consists principally of Communist support for the Aswan High Dam and the industrialization program, large-scale food supplies from the US, and aid for a wide variety of projects from various Western countries. As of the end of 1964, short-term loans from Western commercial banks accounted for about \$200 million, drawings from the International Monetary Fund (IMF) amounted to \$139 million, and the UAR's deficit on bilateral trading accounts stood at about \$230 million.

#### The Present Economic Crisis

13. The UAR's over-ambitious goals have placed its economy in an extremely precarious position. Foreign economic and military debt repayments obligations have risen sharply to a sum estimated at about \$200 million annually—about 25 percent of the UAR's foreign earnings—and will rise higher in the years ahead. Personal consumption and nondevelopmental government spending have increased rapidly in recent years. Hence investment has failed to rise much above the share of gross national product it amounted to in 1960, and the ratio of domestic savings to total output may even have declined in recent years. Foreign aid was equal to something like 40 percent of gross investment by 1963, and probably has risen since that time. However, a substantial part of foreign aid is used for consumption rather than investment; indeed, a minimum of five percent of total UAR consumption is provided by foreign aid. Maintenance of factories and equipment has been badly neglected, which will limit the useful life of many UAR projects.

14. Awareness of these dangers has only gradually and partially penetrated the top levels of the UAR, despite several warnings in recent years by the IMF, the World Bank, and other authorities. Beginning in early 1964, some prices

and taxes were increased and some consumer subsidies decreased, and attempts were made to deal with the foreign exchange problem by cutting back on imports. Such measures had the effect of slowing down industrial production and curtailing the availability of consumer goods in urban markets without, however, significantly reducing consumer demand. Incomes have risen steadily over the past few years, and city dwellers have come to expect such goods as television sets, refrigerators, sewing machines, and—among favored groups—even cars. They have also become accustomed to a better diet as a result of imported wheat and meat. Adequate funds and fears of shortages spurred increased buying and hoarding. By late 1964 available supplies of food, clothing, and manufactured goods in city stores dwindled, and black markets became common. Prices, which had long been stable, have increased noticeably during the past year or so.

15. The UAR has taken a series of actions which have postponed the day when more difficult and far-reaching decisions must be made. It recently sold part of its gold holdings to cover arrears in short-term debts. It is also trying to obtain sizable new assistance from Kuwait. Nasser apparently has made several attempts to secure a hard currency loan from the USSR, and though both Khrushchev and his successors apparently refused, the Soviet leaders did recently agree to postpone some UAR debt repayments. Some Western banks have done the same. Moreover, several Communist countries have apparently agreed to allow the UAR larger deficits in its bilateral trading accounts and to accept UAR goods in place of hard currency when UAR trade deficits go above these new levels. UAR trading organizations have been ordered to import from the East in order to save hard currency even if prices are higher than in Western countries.

#### The Second Five-Year Plan

16. The current problems make it extremely difficult for the UAR to draw up a meaningful final version of the Second Five-Year Plan, which is due to start in July 1965. When the ten year development program was drawn up in 1959, the Second Plan called for investment of about \$5 billion to achieve a 43 percent increase in output and the creation of nearly two million additional jobs. The average level of investment called for is not much above the levels planned for the later years of the First Plan, but is far above the levels actually reached. Nasser has recently reiterated his aim of doubling national income between 1960 and 1970, a highly unrealistic goal in view of the shortfalls of the First Plan and the country's present financial position. However, the government apparently intends to go ahead only with those projects for which foreign aid has been secured. Much of the aid now in sight is from Communist countries for heavy industrial projects with which the UAR has little experience, e.g., heavy machinery and machine tools. In addition, in some cases aid has been secured for specific projects but not for the necessary associated facilities, nor is an adequate supply of raw materials, spare parts, or competent technicians and managers in sight.

17. The UAR would have to achieve several simultaneous improvements in economic performance if it is to limit net drawings on external resources during the Second Plan to the level of recent years, while meeting its debt service obligations and maintaining its recent rate of economic growth. Earnings from exports, the Suez Canal, and tourism would have to grow at least as rapidly as debt service payments—and reach about \$100 million a year more by 1970. Import and other foreign currency payments would have to be held at present levels. Finally, domestic savings and the proportion of investment goods produced in the UAR would have to increase rapidly enough to offset the necessary rise in total investments.

18. The simultaneous performance of all three of these tasks is most unlikely. Foreign currency earnings from the Suez Canal and tourism probably will continue to grow steadily but unspectacularly. UAR cotton exports will continue to face sharp competition in world markets, but other exports probably will show moderate gains.<sup>1</sup> On balance, the UAR probably will increase its foreign earnings by about \$100 million annually by 1970. Holding down imports and shifting production from consumer items to investment goods—at the same time that exports are being increased—will require both considerable belt-tightening and much improved economic management. We think the UAR is unlikely to make sufficient progress toward the latter. The task of running the entire economy is increasingly complex and the changes required in current practices are many and difficult. Hence, a considerable degree of inefficiency seems likely to persist. However, there is considerable scope for holding consumption in check, and the UAR probably will make some progress on this score. All things considered, we believe the shortfall in these various tasks will be such that additional foreign aid of some \$100 million annually will be required if major cutbacks in the UAR's programs are to be avoided. Thus the UAR will need about \$3.5 billion in foreign economic aid between 1965 and 1970, minus any debt postponements which it can arrange.

#### IV. MILITARY AFFAIRS

19. The UAR army has more than doubled in size over the past decade, increasing from 71,000 men in 1955 to 165,000 today. Army capabilities have improved considerably through receipt of large quantities of Soviet arms, adoption of Soviet military doctrine, reorganization along Soviet lines from division level down, and from better training. The general calibre of Egyptian military men has improved, but only in the case of junior officers has this change been significant. Ship strength of the 8,000-man UAR navy has more than doubled in the past 10 years, and now includes six destroyers, 10 submarines, 19 patrol ships (including eight KOMAR guided-missile boats) and 25 motor torpedo boats. Air force capabilities have increased even more dramatically, and the

<sup>1</sup> The UAR has recently made promising oil strikes, which in time probably will improve its trade balance. However, it is too early to judge the likely extent of this improvement.

9,000 man air force today possesses over 300 jets, including MIG-21's and TU-16 medium jet bombers. The logistic capabilities of both ground and air forces have improved significantly, but shortages of technically trained people and dependence on foreign sources of supply are continuing problems, particularly as equipment becomes more complex.

#### UAR ARMED FORCES \*

| <i>Ground Forces</i>              | 1956    | 1965    |
|-----------------------------------|---------|---------|
| Personnel .....                   | 108,000 | 165,000 |
| Infantry Divisions .....          | 4       | 4       |
| Armored Division .....            | 1       | 1       |
| Anti-Aircraft Division .....      | ...     | 1       |
| Anti-Aircraft Brigade .....       | 2       | ...     |
| Division Being Organized .....    | ...     | 1       |
| Independent Brigades .....        | 3       | 7       |
| <br><i>Air Force</i>              |         |         |
| Personnel .....                   | 4,000   | 9,000   |
| Jet Fighters .....                | 126     | 251     |
| Jet Light Bombers .....           | 45      | 44      |
| Jet Medium Bombers .....          | ...     | 25      |
| Prop Transports .....             | 58      | 68      |
| Turboprop Transports .....        | ...     | 17      |
| Helicopters .....                 | ...     | 41      |
| <br><i>Navy</i>                   |         |         |
| Personnel .....                   | 7,100   | 8,000   |
| Destroyers .....                  | 4       | 6       |
| Submarines .....                  | 1       | 10      |
| Guided Missile Patrol Boats ..... | ...     | 8       |
| Motor Torpedo Boats .....         | 21      | 25      |
| Mine Warfare Ships .....          | 13      | 6       |
| Patrol Craft .....                | 10      | 11      |

\* See the military annex of NIE 30-65, "The Arab-Israeli Problem," dated 10 March 1965, for additional information on the UAR military forces.

20. The Yemen campaign has given the UAR armed forces their first combat experience since they were reorganized and re-equipped following the Suez conflict. They have benefitted in terms of staff planning, logistical support, and small-scale combat experience, though the latter would be of only limited usefulness in any war with Israel. For over a year nearly one-third of the army has been in Yemen, and most units have seen service there as the result of rotation. The air force has obtained bombing and strafing experience, although it remains untried against a modern air defense system, such as that of Israel. However, the units in Yemen have generally not covered themselves

with glory, and the failure to win a decisive victory and the difficult conditions in Yemen probably have had a detrimental effect on the self confidence of the armed forces.

21. The UAR seems bent on strengthening its armed forces, and appears assured of acquiring about all the modern arms its forces can assimilate, at least until 1970. By that time it may increase the standing army to something like 200,000 men, and the air force and the navy by some 10-20 percent. The regime will continue its effort to expand the UAR's defense production and to lessen its dependence on foreign sources for armaments. There is no prospect of the UAR becoming self-sufficient in defense production, but it may gradually increase its capability to produce the less sophisticated items needed for its armed forces. Present attempts to produce jet aircraft and surface-to-surface missiles are likely to yield items of only limited military value, but considerations of prestige probably will lead the regime to continue the programs despite their high costs.

## V. FOREIGN AFFAIRS

### A. The UAR and the Great Powers

22. The UAR's conduct of external affairs reflects Nasser's personal convictions and temperament particularly strongly. He wants to establish the fullest measure of Arab unity under his aegis and play a leading role in the world as an anti-imperialist. A successful revolutionary himself, he is emotionally and ideologically attracted to revolutionary and anti-Western movements and believes that the UAR's and his own interests are generally best served by actively supporting such forces in the Arab world and former colonial areas. The heritage of three-quarters of a century of British domination of Egypt has left Nasser, as well as most modern Egyptians, deeply sensitive to anything which might appear to be Western interference or exploitation. In addition, Nasser sees the West, with its support of Israel and his conservative Arab opponents, as an obstacle to his objectives in the Near East and Africa. The corollary of this feeling is that the UAR leaders feel a certain community of interest with the USSR; they regard the Soviets as being free of the colonialist stigma, as likewise favoring revolutionary goals, and as sharing Cairo's desire to eliminate Western political, military, and economic positions in the Middle East. These motives and interests have sometimes resulted in Nasser acting as middleman for the Soviets. In the case of Cyprus, he provided the base facilities and training for the Soviet equipment supplied to the Greek Cypriots, while receiving more modern replacements. He has facilitated shipment of arms to the Congo rebels. Seen from Cairo, it is the Communist countries which support the UAR, not the UAR which backs them.

23. This Egyptian view has been reinforced by the Communist world's consistent and forthcoming aid policy toward the UAR over the last decade. Since the 1955 Soviet-sponsored arms deal broke the Western monopoly of arms supply to the Middle East, the bloc has supplied over \$1 billion worth of arms

for about \$500 million. Communist economic credits through 1963 amounted to about \$740 million of which about half has been drawn to date. The UAR has received about one-third of all economic aid that the USSR has supplied to non-Communist countries. The USSR has furnished to the UAR about as much arms aid as to Indonesia, and far more than to any other non-Communist country. About half of UAR's exports have gone to the Communist world in recent years in payment for such assistance and in bilateral trade.

24. Over this period, however, the West has supplied about 75 percent of the UAR's imports and purchased about half of its exports. Suez Canal tolls—paid largely by Western shipping—along with Western tourism provide about 35 percent of the UAR's hard currency earnings. Moreover, through 1963, Western credits, which amounted to some \$1.3 billion—exclusive of \$700 million in PL-480 foodstuffs—exceeded the amount of Communist economic aid. However, the sharp increase in Communist credits extended since early 1964 and the apparent decline in Western willingness to extend new credits suggest that Nasser will find it more difficult to avoid overdependence on the Communist countries in the future.

#### GEOGRAPHICAL BALANCE OF UAR TRADE <sup>a</sup>

(in percentages)

| UAR EXPORTS                            | 1961 | 1962 | 1963 | 1st half |                   |
|--|------|------|------|----------|-------------------|
|  |      |      |      | 1963     | 1964 <sup>b</sup> |
| Communist Countries <sup>c</sup> ..... | 45.7 | 44.1 | 47.8 | 48.4     | 50.2              |
| Rest of the world .....                | 54.3 | 55.9 | 52.2 | 51.6     | 49.8              |
| UAR IMPORTS                            |      |      |      |          |                   |
| Communist Countries .....              | 27.8 | 26.0 | 20.4 | 19.4     | 17.4              |
| Rest of the world .....                | 72.2 | 74.0 | 79.6 | 80.6     | 82.6              |

<sup>a</sup> This does not include military equipment.

<sup>b</sup> Latest figures available for 1964.

<sup>c</sup> USSR, East Europe, China, Cuba, and Yugoslavia.

25. Despite the extensive economic ties between the UAR and the West, political relations have fluctuated between fair and very bad. The UAR view that revolution and radical change are the correct means to shake the Arab and underdeveloped worlds out of their backwardness has conflicted with the West's preference for orderly progress, with minimum disturbance to existing governments, military bases, and commercial interests. This incompatibility has surfaced in a variety of places and issues in the past—e.g., Western base rights in Libya and Saudi Arabia; US backing of Middle Eastern monarchies and other moderate governments; and UAR support for rebel movements in sub-Saharan Africa and in the Arabian Peninsula. Underlying all this is the Arab conviction that the US stands as the sponsor of Israel, which has embittered the UAR leadership and has set strict limits on the range of US initiatives in the Arab world.

## B. The UAR, the Arabs, and Israel

26. After a number of years of quiescence, the Arab-Israeli dispute is heating up again. In response to planned Israeli diversion of water from the Jordan Valley to southern Israel, Nasser obtained the agreement of Arab leaders on a program to divert the rivers flowing into the Jordan basin, to build up their military forces to protect the diversion works, and to contribute substantial sums, on a continuing basis, to support these programs. These efforts at Arab cooperation have experienced a fair amount of success to date, and even Lebanon and Jordan, traditionally cautious about cooperating with Nasser or provoking Israel, feel compelled to join in the common Arab effort. These developments have caused growing alarm in Israel, which feels increasingly isolated and is concerned that a major turning point in its dispute with the Arabs may be occurring.<sup>2</sup>

27. Militarily, Nasser's chief aim in this activity is defensive—at least for the next few years. He does not want to provoke a military conflict between Israel and its Arab neighbors, because he still fears defeat. He doubtless dreams of the reduction of Israel as a power factor and even of its ultimate elimination as an independent state, but we believe he sees such hopes as resting far in the future. Meanwhile, he sees the United Arab Command basically as a means of increasing the Arab's defensive capabilities against Israel and of increasing UAR influence over the Arabs. He also recognizes that little can be accomplished by military force as long as the major world powers refuse to countenance any armed Arab attempt to eliminate Israel.

28. The UAR's continuing involvement in Yemen threatens such Arab solidarity as has been achieved. It was initially viewed by Nasser as an opportunity to bolster his prestige by supporting like-minded revolutionaries and to gain a foothold on the Arabian Peninsula—all at a relatively modest cost. Two and a half years later he has some 45,000-50,000 troops bogged down in a military stalemate with the Saudi- and British-supported royalists. UAR unpopularity among Yemenis of almost all areas and political factions has risen to epic proportions as a result of UAR heavy-handedness and determination to dominate the Yemen Arab Republic. In consequence, many Yemenis, once favorable to the republic, have fallen away, either to join the royalists or to build up an independent force opposed to the Egyptians. The costs of the campaign have steadily mounted, and include an estimated 5,000-8,000 Egyptian dead, and perhaps 10,000 to 20,000 wounded, captured, or missing.

29. Nasser has three broad choices in Yemen. He could renew efforts to seek a negotiated solution with Saudi Arabia and the contesting Yemeni factions, recognizing that this would be likely to result in the establishment of a government distasteful to him. Secondly, he could pursue the general line of his present policies, which would entail a continued drain with no prospect

<sup>2</sup> See NIE 30-65, "The Arab-Israeli Problem," dated 10 March 1965, for a fuller discussion of Arab-Israeli matters.

[REDACTED]

for either a victory or a settlement. Finally, he could step up his military effort, including renewed air attacks on Saudi Arabia, in the hope of either winning a military victory or greatly improving his position for any future negotiations. He is not yet ready to accept the loss of prestige that would be involved in the first choice, and he probably would be hesitant to follow the third course very far owing to the dangers involved. In these circumstances, we believe that his most likely course will be the second, though he probably will at times step up the fighting and let the attack spill over the Saudi Arabian border. A serious Saudi-UAR clash would cause Faisal to call on the US for support. In time, however, we believe Nasser will feel compelled to renew negotiations, but the longer the stalemate drags on the less satisfactory the settlement is likely to be to him.

## VI. THE GENERAL OUTLOOK

30. "Positive neutralism," the hallmark of Nasser's foreign policy on matters outside the Middle East, rests on an assumption that the UAR is extremely important to both the West and the Communist states. If either side should abandon its interest, the policy would be undercut, but his conviction of the importance of the UAR in the Middle East, in Africa, and on the world scene makes such a development scarcely conceivable to him. Meanwhile, he derives considerable comfort and freedom of maneuver from the underlying conviction that he can count on the Soviets to protect him from any unfriendly moves by the West and, conversely, that the interests of the Western powers would require that they come to his help if the Soviets turned threatening. The history of the past ten years provides much support for this thesis, and it is likely to remain fundamental to his thinking.

31. We believe that positive neutralism will remain a central doctrine of Nasser's foreign policy, but this will not mean evenhandedness as between the USSR and the US; there are too many areas in which Soviet policy and interests are more immediately compatible with the UAR's than the policies of the US are, or can be made to be. This is generally true of the Arab-Israeli conflict, of remaining Western facilities and special political positions in the Middle East and Africa, and of Western commercial and oil interests in the area. In Nasser's mind, these matters often loom larger than calculation of the UAR's economic interests. It will probably at times be possible, and to the interests of both sides, to de-emphasize these differences, but they will remain impediments to good relations.

32. In contrast to the situation in the early 1960s, US-UAR relations now seem headed for a difficult time. In part this is due to a belief by the UAR leaders that the present US administration lacks sympathy for the UAR, a feeling of some importance in view of the Arab tendency to place great stress on the personal relations between heads of state. In addition, the UAR's present active policies in the Congo, in the Yemen, and in the Arab-Israeli controversy have brought it into particularly sharp conflict with the US. Strong criticism of Nasser in the US press has intensified his antagonism.

33. UAR mistrust of the US was enhanced by the revelation that the US approved and, in part, sponsored West German arms aid to Israel. The situation was further complicated by the visit of East German President Ulbricht to Cairo, by Bonn's efforts to stop the visit, by its suspension of economic aid to the UAR, and by the prospective establishment of diplomatic relations between Israel and West Germany. Nasser is attempting to get all the Arab states to break relations with West Germany. However, several North African states have refused to do so, and this stand encouraged others, such as Jordan and Saudi Arabia, to go slow. While the UAR and certain other Arab states will probably break diplomatic relations with West Germany, most will probably maintain commercial and other ties with it. It is unlikely that any Arab state will recognize East Germany, save possibly Cairo and one or two others. The Arab states will continue to pressure the West on the issue of Israel, but few of them would be willing to take extreme measures against the West, especially the US, which would damage their basic interests.

34. Whether the Arab-Israeli conflict erupts into fighting or remains confined to political tensions, it is already creating additional strains in Nasser's relations with the West, and will probably create even more in the years ahead. Revelation of any US decision to supply significant quantities of arms to Israel would probably be interpreted in Cairo as confirmation that, in the last analysis, US sympathies are basically with Israel rather than the Arabs. Nasser will probably step up attacks on the West for its part in the creation and maintenance of Israel and for its political and military support of his chief adversary. This approach will also involve continued pressures on the more moderate Arab governments to follow suit. Yet if this trend seems inescapable, there is one important limitation on how far it might go: just as Nasser often exaggerates the degree of Western support and responsibility for Israel, he also regards the US as the party most able to restrain what he considers aggressive Israeli intentions if it chooses to do so. This belief does not reconcile him to US support for Israel, but it may set some limits on how far he feels he can alienate the US over the Arab-Israeli controversy.

35. The UAR's growing estrangement from both the US and West Germany comes at a time when the UAR is at odds with the other major Western countries as well. The UAR will continue its pressure against the British position in the area. Apart from continuing to organize and support guerrilla and terrorist operations in Aden and Oman, the UAR will encourage Kuwait and other Persian Gulf states to loosen their ties with the UK. Nasser will continue to support elements opposed to the British bases in Cyprus, Libya, and Malta as well. The UK, in turn, is likely to continue its support for royalist forces in Yemen and increase its ties with Saudi Arabia in order to oppose the UAR's efforts in the Arabian Peninsula. Nasser apparently admires de Gaulle for his independent attitude toward the US and the UK. There is likely to be an increase in French-UAR economic relations, along the lines of the recent French agreement to provide some 400,000 tons of wheat on favorable credit terms. There may even be some measure of political cordiality, but

ties between the two countries are unlikely to expand much as long as France opposes the spread of Nasser's influence in the Levant and continues as a major supplier of weapons to Israel.

36. The serious differences between the UAR and the West will make for greater cooperation between the UAR and the Communist world, particularly when it comes to opposing Western interests in the Near East and elsewhere in the underdeveloped world. Nasser's experience in cooperating with the USSR for over a decade without losing his independence has increased his belief in his ability to do so safely. Moreover, he is aware that the Communist world is no longer monolithic, and probably feels that if a Rumania can assert its will against Moscow there is little danger that the UAR will lose its independence as a result of closer cooperation with and greater dependence on the USSR.

37. The UAR's relations with outside powers are particularly significant in view of its heavy dependence on foreign aid for its economic development. Its total foreign aid requirements for the next five years probably will be nearly \$3.5 billion—including that needed for debt repayments. The UAR has already secured \$865 million in credits from Communist countries for use in the next five years. A continuation of PL-480, say at the average level of the last three years, would represent another \$800 million. This would leave \$1.8 billion (at least \$350 million annually) to be obtained, minus any debt repayment that could be postponed beyond 1970.<sup>3</sup> The UAR has no chance of obtaining this amount. Aid from Western governments almost certainly will decline substantially from its recent level of about \$175 million in new credit extensions annually—at least for the next few years. Nasser is likely to seek considerably more help from oil-rich Arab states, such as Kuwait, Libya, and Iraq, but we doubt that aid from these countries will fill more than a modest part of this gap. Nor do we think the Communist countries will increase their aid markedly. Very little opportunity remains for obtaining more loans from Western banks or increasing bilateral trading deficits, though some further postponement of debt repayments might be arranged. All things considered, we think the UAR will receive some \$200 million annually less than it would need to continue its present programs.

38. Under these circumstances, Nasser will almost certainly be forced to curtail both consumption and investment. He will be most reluctant to cut defense spending; any cuts in this area are likely to be small and there may even be some increases. One of the few bright spots for the UAR is that the High Dam is to go into operation in a few years, and when it does its benefits in the form of greater irrigation and electric power output gradually will be felt throughout the country. However, over the next few years the rate of economic growth will probably decline markedly, and perhaps not be much above the rate of population growth. Moreover, unemployment will rise and some factories will be

<sup>3</sup>There is about \$350 million in Western aid in the pipeline, but this could not be drawn down much within the five-year period without damaging future growth prospects.

forced to curtail production for lack of raw materials and spare parts, as most of the UAR's foreign assistance would be from Communist countries for new projects.

39. A virtual cessation of Western aid—including substantial reductions of PL-480—would confront the UAR with a major economic crisis. While the UAR could reduce its needs for imported foodstuffs somewhat by curtailing consumption, it probably would have to make up part of any major curtailment by imports from other sources. For example, the near elimination of PL-480 assistance probably would require the UAR to spend about \$75 million above present levels for food imports. Such outlays, in conjunction with the reduction of other Western aid, would probably lead to a sharp decline in industrial production, since UAR industry is heavily dependent on imported raw materials and semi-manufactured goods. The rate of economic growth would decline drastically, at least for a few years. While the economy would not collapse, it would be faced with growing dislocations accompanied by widespread urban unemployment.

40. Such drastic cutbacks in Western aid would almost certainly lead Nasser to strike back at the West. He would almost certainly cancel the limited US military air transit rights through the UAR. He would probably default on some Western debt obligations. He would also make a major effort to force the US and the UK out of their bases in Libya, pressuring the Libyan government itself and stirring up the Libyan people to force the government's hand. He would also probably try to persuade the oil producing Arab states to bring pressure on the West. We are doubtful that these states would cooperate in any scheme, such as cutting off the flow of oil to the West, that would cost them heavily. However, they probably would provide loans or grants to the UAR lest Nasser appeal to the Arab masses to push for nationalization of the oil companies or the overthrow of their regimes. We doubt, however, that Nasser would take any actions which he thought substantially increased the risks of a military confrontation with either the West or Israel for a variety of reasons, one being that he doubts the availability of effective Soviet support in such an event.

41. If UAR-Western relations deteriorate seriously, there is likely to be a marked increase in activities and attitudes within the UAR favorable to the Soviets, most conspicuously in the press, radio, and movie fields. Some of the few hundred UAR Communists would probably be allowed greater prominence in the ASU or other activities of the regime. However, we believe that the UAR's leaders, while prepared to use local Communists and the East-West dispute for their own political advantage, will remain ready and able to repress the Communists if they seem to threaten the regime's interests.

42. A sharp curtailment of Western aid would pose difficulties as well as opportunities for Moscow. While the USSR probably would make available some additional assistance—and postpone debt repayments—for the propaganda and political benefits involved, we do not think it would move to fill more than

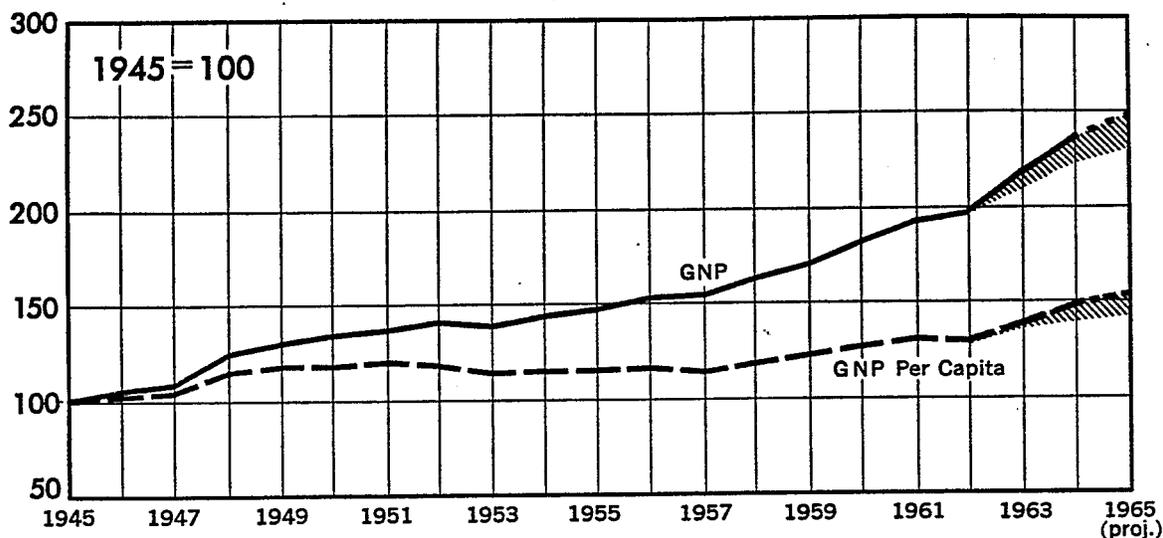
[REDACTED]

a modest part of the gap left by a Western withdrawal. Moscow would probably feel that events were already moving in a fashion satisfactory to its interests. Though it would take advantage of the situation to entrench itself in the UAR, it would not want to risk actions that might push Nasser back toward the West, such as making crude attempts to dominate the UAR. If Moscow should attempt to use its leverage to gain greatly increased political influence, we believe that Nasser would react by seeking to mend fences with the West, and by making political efforts to curtail Soviet influence in the Arab world generally. He would count on other Afro-Asian countries to support him.

43. Nasser would probably have considerable initial success in rallying domestic support by blaming the UAR's economic troubles on the West, but the level of discontent and even disaffection would soon rise. There would be strains within the leadership as the pinch was felt and hard decisions became more inescapable and more urgent. While Nasser remains fully in control of the UAR today, his position is not invulnerable to a sustained period of reversals. Prolonged economic hardships and continued stalemate in Yemen would gradually undermine his domestic support. Under these conditions, Nasser would probably resort to whatever repressive measures he felt were needed to keep himself in power.

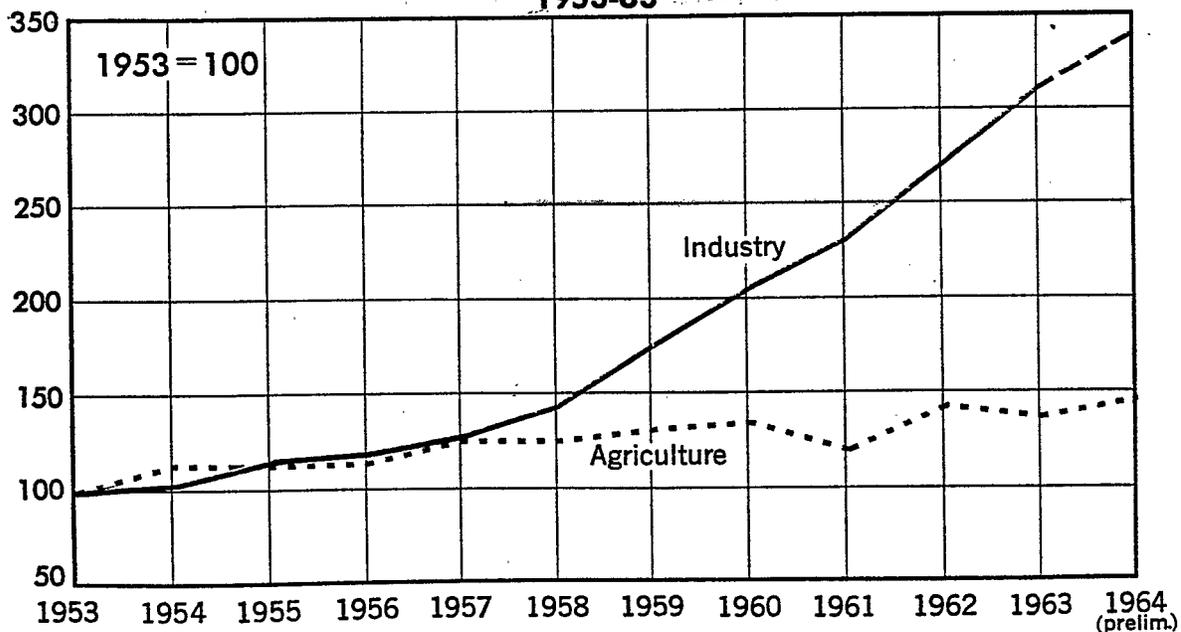
44. Moreover, the key military officers are loyal to Nasser as well as to the revolution. There is no reason to believe that he will lose his considerable adroitness in playing off subordinates against one-another, and in assuring that popular blame for hardships and mistakes is deflected from himself. All things considered, we believe that he is likely to remain in control of the UAR.

### UAR INDEXES OF ESTIMATED GNP AND GNP PER CAPITA 1945-65\*



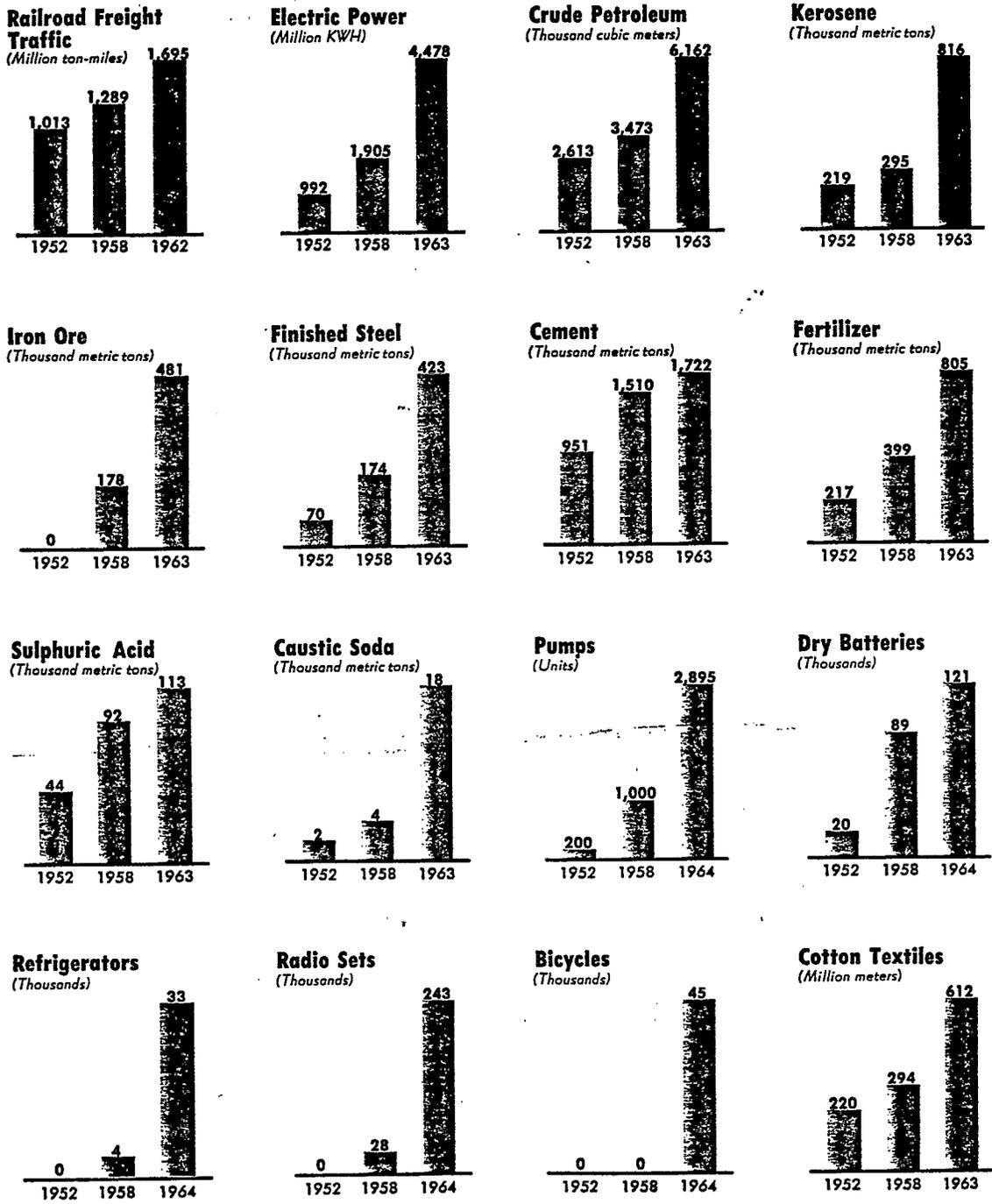
\*1945-54 are calendar years, 1954-65 are fiscal years.

### UAR INDEXES OF INDUSTRIAL AND AGRICULTURAL PRODUCTION 1953-63



# UAR

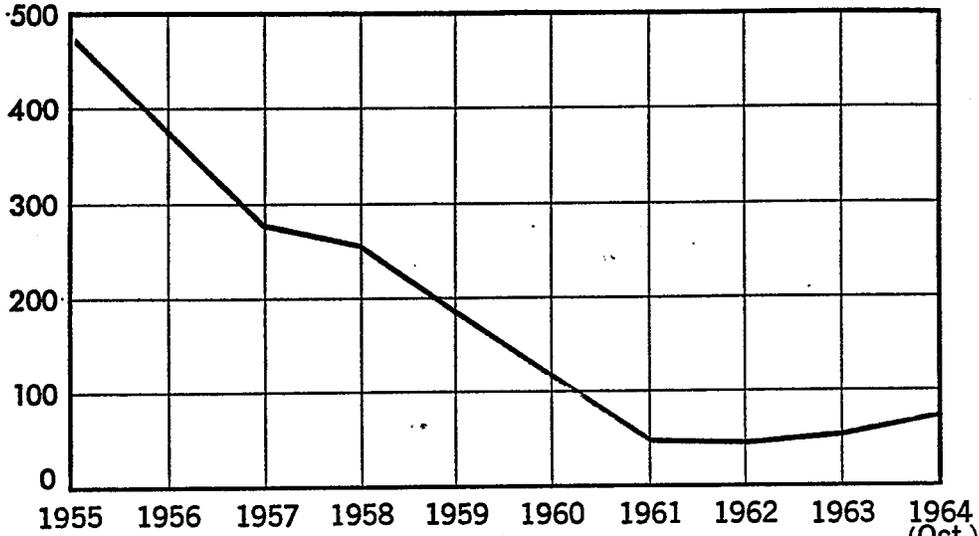
## SELECTED INDICATORS OF INDUSTRIAL OUTPUT



Figures for 1964 are based on fiscal year beginning 1 July 1963. All other years are calendar years.

**UAR**  
**FOREIGN EXCHANGE HOLDINGS\***  
1955-64

Million  
Dollars

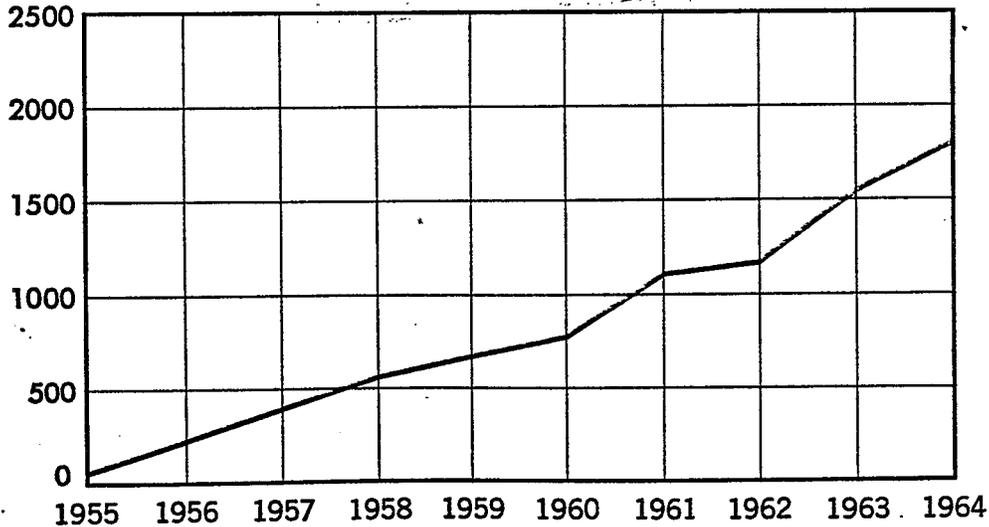


\*Exclusive of gold holdings which varied between \$174-188,000,000 until late 1964 when they dropped to about \$140,000,000.

Data approximately as of end of period.

**UAR**  
**TOTAL FOREIGN CURRENCY DEBT\*\***  
1955-64

Million  
Dollars



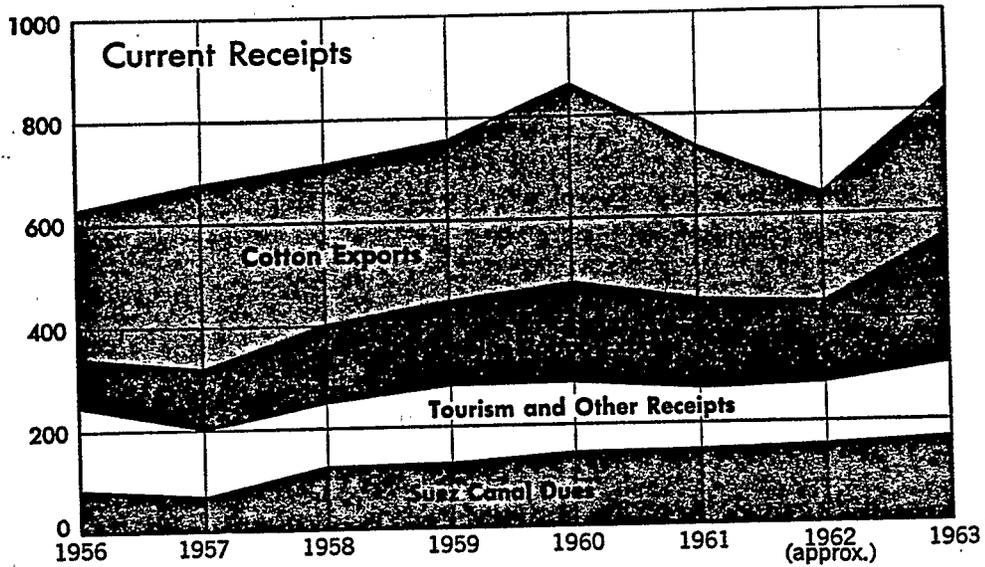
\*\*Excluding US loans repayable in Egyptian pounds.

Data approximately as of end of period.

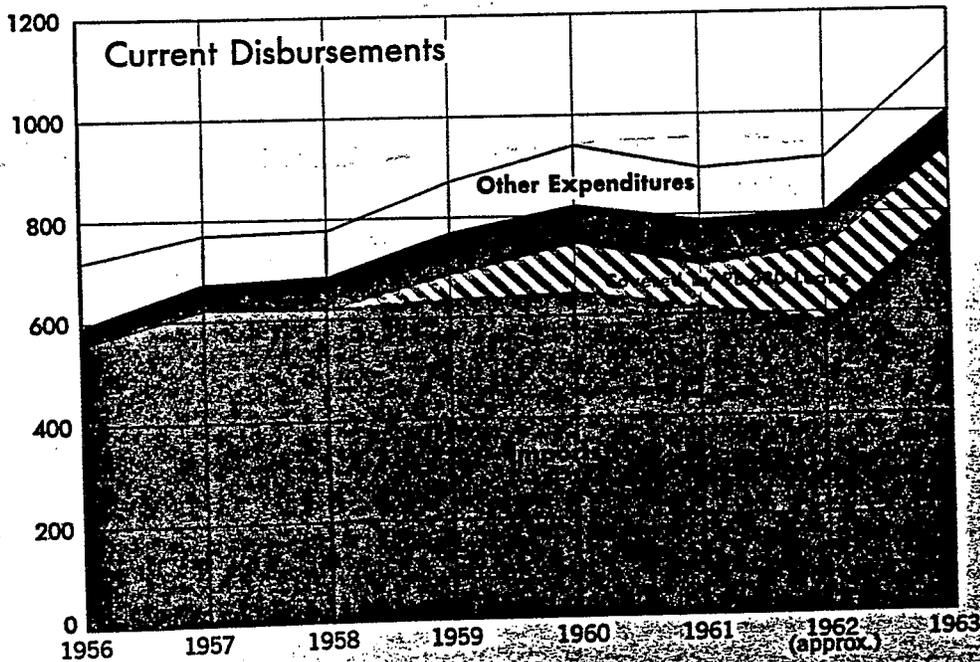
Figure 4

# UAR FOREIGN RECEIPTS AND PAYMENTS (Official UAR Estimates)

Million US Dollars\*



Million US Dollars\*



\*Converted at par rates: ££ = US \$ 2.872 through 6 May 1962  
 ££ = US \$ 2.3 thereafter

Imports are understated to an unknown extent (perhaps \$75-\$125 million annually) by incomplete coverage of goods under long term credit.

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