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INTELLIGENCE MEMORANDUM

TRENDS IN THE DEVELOPMENT
OF SOVIET BLOC ECONOMIC INFLUENCE
IN THE ARAB WORLD

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29 May 1959

~~W A R N I N G~~

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CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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~~C O N F I D E N T I A L~~

TRENDS IN THE DEVELOPMENT
OF SOVIET BLOC ECONOMIC INFLUENCE
IN THE ARAB WORLD*

Summary

In spite of the current strained relations between the USSR and the United Arab Republic (UAR), it is unlikely that either country will undertake any action in the near future which may result in a rupture of political and economic relations, and it is evident that the Soviet Bloc's economic offensive will continue to place emphasis on expansion of ties with Arab countries of the Middle East.

The Bloc's economic offensive in the Middle East, although basically opportunistic, nevertheless falls into two fairly well-defined phases. The first phase, 1954-56, represented a period of initial penetration, highlighted by unprecedented arms agreements with Egypt, Syria, and Yemen. The second phase, since 1957, has been a period of expansion and entrenchment in which emphasis has been placed on large-scale aid for long-term economic development.

Trade between the Bloc and Arab countries has been significant only for the UAR and Yemen, where sizable increases in trade followed implementation of the arms agreements.

The Bloc is now a major source of external capital for economic development in the UAR, Iraq, and Yemen. Agreements to provide economic aid to these countries, however, followed the conclusion of the initial arms agreements.**

During 1958, there emerged in the implementation of the Soviet economic aid agreement with the UAR the rudiments of a new pattern of Bloc penetration in which the European Satellites will cooperate in most of the projects included in the economic credits extended by the USSR.

The Soviet-Iraqi economic aid agreement is similar to that of the Soviet-UAR pact in its comprehensive character, and the geophysical surveys and exploration may have a significant bearing on the future development of Iraq's natural resources.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 1 May 1959.

** For the scope of Bloc economic and military aid to Arab countries, see the map, following p. 2.

~~C O N F I D E N T I A L~~

1. Introduction.

The Arab countries of the Middle East continue to be the focal point of the Sino-Soviet Bloc's economic offensive in underdeveloped countries of the Free World. In spite of the present verbal conflict between the USSR and the UAR, the Bloc can be expected to continue to devote strenuous efforts in the near future to cultivating Arab nationalism. Unless President Nasser believed his political existence threatened by a Soviet-supported Iraq, it is unlikely that he would undertake any action entailing serious risk of losing Bloc economic and military assistance. On the other hand, it does not seem likely that the USSR would be willing to jeopardize relations with other neutralist countries by suspending aid to the UAR. Therefore, although propaganda attacks probably will continue, the development of Bloc political and economic relations with the Arab world probably will not be drastically impeded.

Whether or not the future will bring an expansion of Bloc economic activity in other countries of the Arab world will depend on political and economic developments within the individual countries comprising the area. The economic assistance extended by the USSR to Iraq portends long-term and widespread Soviet involvement in the economic development of that country. Sudan is in need of sizable amounts of development capital, and recent negotiations with the USSR may result in some economic assistance. The internal economic problems of Morocco and Tunisia, coupled with the political problems arising out of the Algerian conflict, offer additional opportunities for future Soviet economic penetration of the Arab world. Bloc activity in Libya, Lebanon, Jordan, and Saudi Arabia has not been significant.

2. Period of Initial Penetration (1954-56).

During the 2 years before the Suez crisis, Sino-Soviet Bloc economic activity in the Arab countries was limited to Bloc participation in trade fairs, visits by Bloc commercial representatives, and the conclusion of numerous trade agreements. The door to full-scale Soviet penetration, however, was opened by the signing of the \$250 million* arms credit agreement between Czechoslovakia and Egypt in September 1955. Within a period of several months, Czechoslovakia had extended credits to Syria and Yemen for the procurement of arms. (For a summary of Sino-Soviet Bloc economic and military credits since 1955, see Table 1.**)

* All dollar values in this memorandum are in terms of current US dollars.

** Table 1 follows on p. 3.

Table 1

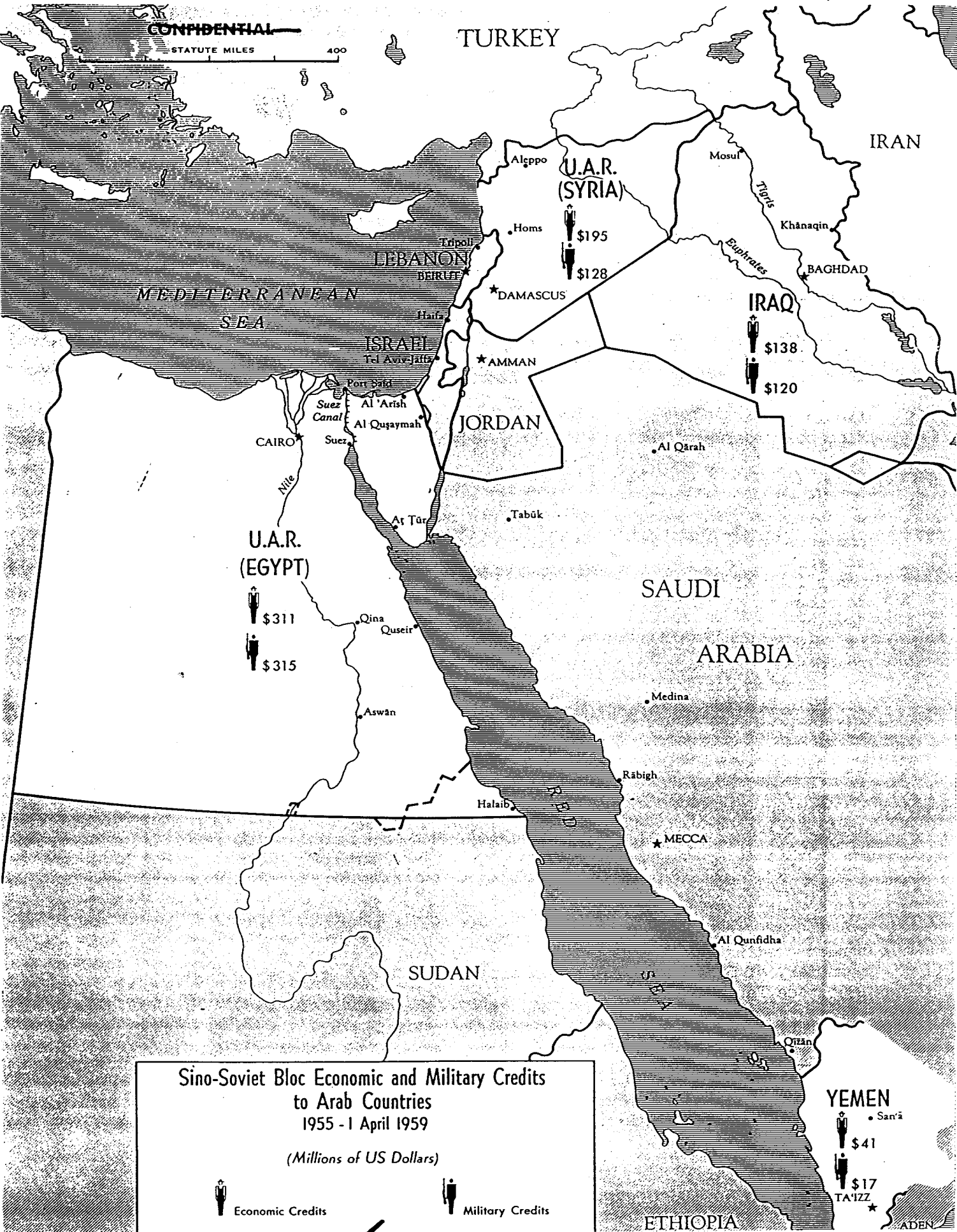
Sino-Soviet Bloc Economic and Military Credits
to Arab Countries
1955 - 1 April 1959

	Million US \$		
Country	Economic	Military	Total
United Arab Republic			
Egypt	311	315	626
Syria	195	128	323
Iraq	138	120	258
Yemen	41	17	58
Total	<u>685</u>	<u>580</u>	<u>1,265</u>
Total Bloc aid to under-developed countries	1,739	782	2,521

Bloc aid to Arab countries as a percent of total Bloc aid

	39	74	50
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Bloc extensions of credit for the procurement of military equipment have been the primary means of achieving a position of influence in the economic life of the recipient countries. The willingness of the Bloc to provide large quantities of arms serves as a gesture of support for the recipients' nationalistic aspirations and a basis for closer political and economic ties. In the case of Egypt, Syria, Yemen, and more recently Iraq, military assistance agreements have preceded agreements providing for economic aid. The credits extended under these military agreements are being utilized to equip the armed forces of these countries with Bloc arms. In the UAR, Bloc advisers are assisting in reorganizing the Egyptian and Syrian military establishments along Bloc lines and are engaged in teaching Soviet military doctrines to indigenous military personnel. Extensions of economic credits during this period were minimal (about \$13 million) and were related to specific, small-scale projects or to the sale of machinery for light industries, generally to private firms.



Sino-Soviet Bloc Economic and Military Credits to Arab Countries 1955 - 1 April 1959
 (Millions of US Dollars)

3. Period of Expansion and Entrenchment (Since 1957).

Since the Suez crisis in late 1956, the emphasis of the Bloc economic offensive has shifted to the development of long-range economic relations, although arms agreements continue to be an avenue of penetration. The Arab countries' heavy defense burdens, balance-of-payments difficulties, and strong desires for rapid economic development afford the Bloc further opportunities for expanding its sphere of influence.

Syria concluded an economic aid agreement with the USSR in 1957 providing for a credit of up to \$168 million to be utilized for economic development in Syria. In 1958 the USSR agreed to provide a credit of \$175 million for Egypt's 5-year industrialization program, and, in the same year, \$25 million were extended to Yemen for economic development purposes. Also in 1958, Communist China extended its first credit to an Arab country when Yemen received a \$16 million credit for construction of a road network and a number of small-scale manufacturing enterprises. The USSR successfully achieved a propaganda coup by announcing in October 1958 a credit of \$100 million to cover the foreign-exchange costs of building the first stage of the Aswan Dam, a gesture which undoubtedly enhanced Nasser's prestige in the Middle East.

Three months after the Iraqi revolution in July 1958, the USSR concluded a \$120 million arms credit agreement with the new Iraqi government, thus establishing a beachhead in a country of major economic and strategic importance to the Free World. In March 1959, Iraq announced the conclusion of an economic agreement with the USSR whereby a Soviet credit of \$138 million will be available for Iraq's economic development program. Thus, in the few months since the Iraqi revolution, the Bloc, encouraged by the Iraqi government, has employed all the techniques of its economic offensive to establish a position of influence and prestige in this country. The USSR, however, is now in the uncomfortable position of attempting to maintain good relations with two adversaries in the Arab world -- a position normally occupied by the West. Bloc military and economic assistance to a potential rival to Nasser's leadership in the Arab world has created new tensions within Iraq and between Iraq and its neighbors which threaten the Middle East with another period of violence.

4. Trade with the Bloc.

Trade between the Arab countries and the Bloc is significant only for the UAR and, in all probability, Yemen (see Table 2*). In 1954, trade with the Bloc accounted for only 10 percent of Egypt's total

* Table 2 follows on p. 5.

Table 2

Sino-Soviet Bloc Trade
with Arab Countries a/
1954, 1957, and January-June 1958

Million US \$

Country	January-June 1958			Bloc Trade as a Percent of Total Trade
	1954	1957	Value	
United Arab Republic				
Egypt	83	363	203	35
Syria	5	40	34	15
Iraq	4	7	3	1
Jordan	2	5	N.A.	5 <u>b/</u>
Lebanon	6	14	5	3
Morocco	17	24	13	4
Sudan	12	14	9	6
Tunisia	2	5	2	2

a. Saudi Arabia, Libya, and Yemen do not announce any official trade statistics.

b. 1957.

trade and only 2 percent of Syria's total trade. During the first 6 months of 1958, however, about one-third of Egypt's trade and about 15 percent of Syria's trade were conducted with the Bloc. Of greater significance is the importance of the Bloc as a market for cotton from the UAR. During the cotton-marketing year ending 31 August 1958, approximately 65 percent of Egyptian and 50 percent of Syrian cotton exports were shipped to the Bloc.

The framework now exists for a rapid expansion of trade between Iraq and the Bloc. By February 1959, Iraq had signed trade agreements with all major Bloc countries. Before this time, Iraqi exports to the Bloc were negligible, and imports, primarily sugar and cotton piece-goods from Czechoslovakia, were less than 2 percent of Iraq's total imports.

Trade between the Bloc and other Arab countries has been insignificant (see Table 2*). Sudan's trade with the Bloc, however, can be expected to increase substantially. The Sudanese government, faced with increasing surpluses of cotton, has reversed its position on barter agreements and, in the last few months, has concluded agreements with most of the Bloc countries. Morocco and Tunisia also have signed pacts with several Bloc countries which call for sizable increases in trade. In 1958 the Libyan government removed its prohibitions against trading with the Bloc.

5. Bloc Influence in Arab Economic Development.

The Bloc, particularly the USSR, is in a position to influence significantly the economic development of several of the Arab countries. For example, the USSR is now a major source of external capital for economic development in the UAR, Iraq, and Yemen. Its readiness to aid in implementing programs for economic development and its willingness to provide large capital credits and the concomitant technical assistance have encouraged the recipient countries to undertake programs which Western organizations such as ICA, IBRD, and private corporations have considered inadvisable. Soviet advisers have, at times, recommended changes in the rates of project implementation and generally encouraged over-all rates of development which the domestic resources of the recipient countries do not appear able to support.

a. United Arab Republic.

Large numbers of Bloc technicians are currently engaged in widespread industrial and geophysical surveys in the Egyptian and Syrian sectors of the UAR (see Table 3**). As the implementation of projects progresses, the volume of imports from the Bloc will continue to increase, as will the number of Bloc technicians required to install the equipment and provide training in its operation and maintenance.

During 1958, there emerged in the implementation of the Soviet-Egyptian and Soviet-Syrian economic aid agreements the rudiments of a new pattern for Bloc penetration. There is sufficient evidence now to indicate that the European Satellites will cooperate in many of the projects included in the credits extended by the USSR to Egypt and Syria. Bulgaria has undertaken the construction of the Ar-Rastan and Muhardah Dams in Syria, and Czechoslovakia and Hungary will provide equipment for a number of projects listed in the Soviet-Egyptian agreements. The European Satellites also will participate in the construction of the first stage of the Aswan Dam. This new Soviet-Satellite

* P. 5, above.

** Table 3 follows on p. 7.

Table 3

Sino-Soviet Bloc Technicians
in Arab Countries a/
1 July 1958 - 1 April 1959

<u>Country</u>	<u>Economic</u>	<u>Military</u>	<u>Total</u>
United Arab Republic			
Egypt	550	650	1,200
Syria	250	275	525
Yemen	400	75	475
Iraq		50	50
Total	<u>1,200</u>	<u>1,050</u>	<u>2,250</u>

a. Minimum estimates of persons working on a contract basis for a period of 1 month or more. Persons solely engaged in trade promotion or in military activities are excluded. Numbers are rounded to the nearest five.

cooperation affords the USSR the following advantages: it gathers under the control of the USSR the full bargaining power of the Soviet Bloc, and it provides opportunities for the Satellites to secure contracts perhaps unobtainable through unilateral efforts. It also provides the USSR with a device for exercising more effective control over Satellite activities in underdeveloped countries. Thus, under the stimuli of Soviet credits, Satellite as well as Soviet trade will expand.

b. Iraq.

The \$138 million Soviet economic aid agreement with Iraq provides the Bloc with an opportunity to influence the economic development of Iraq. Soviet financial and technical assistance will be employed in the construction of a variety of industrial installations including a steel factory, textile factories, and other light industries. The USSR will undertake a complete geophysical survey of Iraq which may have a significant bearing on the future development of Iraq's natural resources.

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Although comprehensive details of Iraq's new development program have not been disclosed, it is likely that the Iraqi government will place greater emphasis than did its predecessor on projects which will have an immediate propaganda impact on the populace. Although previous investments in agriculture have contributed significantly to the economic development of Iraq, they have had almost no effect on the general living standards of the population as a whole.

It is clear that progress in the field of economic development, or the lack thereof, will have an appreciable effect on political matters in Iraq. The old regime played down the gap between popular expectation and realization and engaged in projects whose long-range benefits outweighed immediate economic gains which the masses could appreciate. The new regime claims a popular mandate to eliminate this discrepancy and is committed to do so. Failure of the present government to produce tangible results which satisfy the aspirations of the populace will lead to disenchantment and may have serious political and economic consequences.

In assisting Iraq's development program, the USSR will be confronted with the limitations common to most underdeveloped countries -- a shortage of skilled labor, an ineffective administrative system, and inexperienced economic planners. These deficiencies, on the other hand, will create a greater dependence on Bloc advisers and technicians.

c. Yemen.

For all practical purposes, Yemen is completely dependent on the Bloc for assistance in developing its economy. The USSR is constructing port and air facilities, Czechoslovakia and East Germany are undertaking a number of small industrial projects, and Communist China is engaged in the construction of a road network and in the establishment of a number of small manufacturing enterprises.

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