



The President's Daily Brief

25 May 1971

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

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PRINCIPAL DEVELOPMENTS

Yahya hopes that an early return to civilian government will ease the situation in East Pakistan. (Page 1)

Mrs. Gandhi's tough talk on the East Pakistani refugee problem is intended to maintain pressure on Pakistan while keeping India's options open. (Page 3)

Satellite photography again shows Egyptian-marked aircraft at several airfields in the USSR. (Page 4)

At Annex, we discuss Soviet economic leverage on Egypt.

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PAKISTAN

President Yahya has told Ambassador Farland that next month he will announce a program for eventually turning the government over to civilians. Yahya expects the provincial and national assemblies elected last December to begin to function next fall. He says that only six to seven percent of the 479 East Pakistani seats--a handful vacated by fugitives and those guilty of "capital crimes"--will have to be filled through by-elections.

Yahya may be badly overestimating the number of East Pakistani politicians who would be willing to participate. For example, of the 447 Awami leaguers who were elected to the two assemblies, only six have announced support for the government since military action began in the East wing on 25 March.

Yahya admitted that the flow of refugees into India has been substantial, but said his plan for early establishment of civilian government would ease the problem. He charged that Indian interference is preventing a return to normal conditions in East Pakistan. He hotly denied there is any plan to drive Hindus out of East Pakistan and said that Farland's information to the contrary was based on Indian propaganda and the "provocative" comments of the Voice of America and the British Broadcasting Company.

Yahya's vehement denials are not well founded.



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little doubt about the government's approach to the problem of the East Bengali Hindu minority. This policy could, of course, be reversed, but even if Yahya ordered prompt measures to ameliorate conditions in East Pakistan, there would be little the government could do to bring an early end to the flight of the frightened Bengalis. Few of those already in India are likely to return as long as the army remains the ultimate authority in East Pakistan.

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According to Z.A. Bhutto, West Pakistan's leading politician, the civilian central government proposed by Yahya would operate under a constitution prepared by the military authorities. Bhutto says Yahya told him that the new system would be "generally responsive" to the East Pakistani demands for provincial autonomy.

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considerable disagreement within the military over early establishment of civilian government in either East or West Pakistan. Whatever Yahya's intentions, his more hawkish generals may force him to retain preponderant power for the military.

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INDIA-PAKISTAN

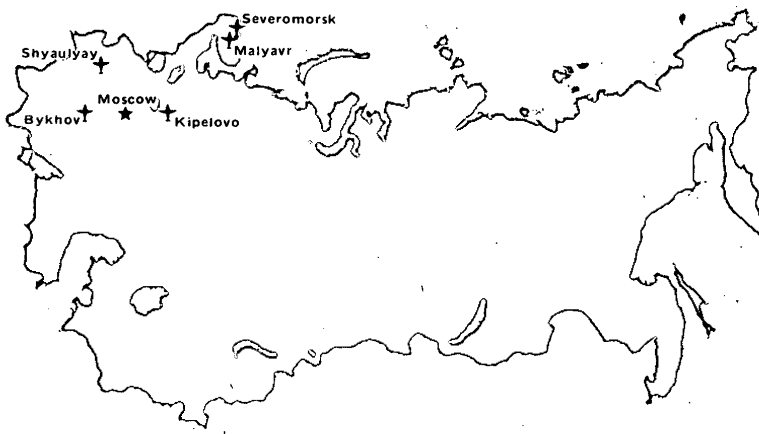
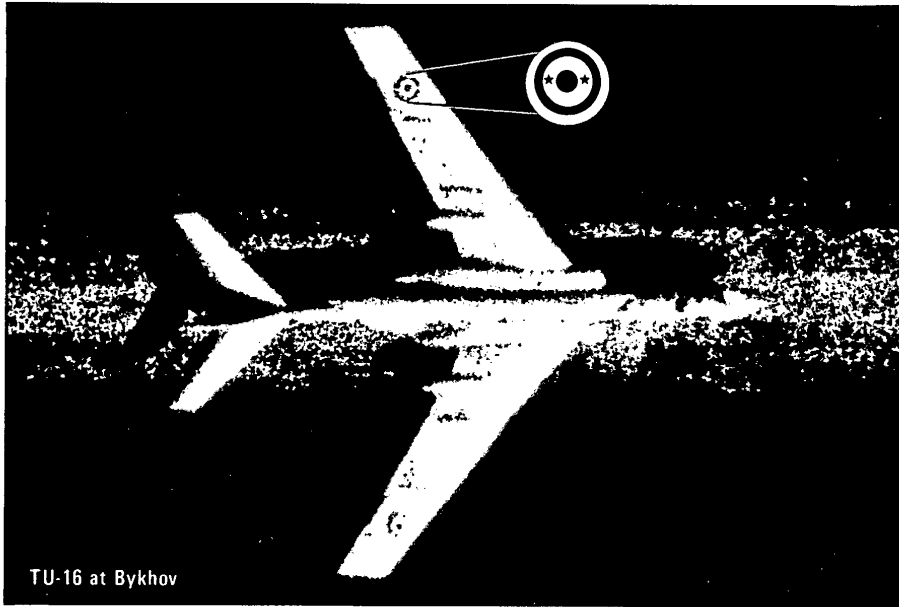
Prime Minister Gandhi's tough statement yesterday on the East Pakistani refugee problem was calculated to maintain pressure on Pakistan while keeping India's options open. In carefully measured language she told the opening session of parliament that Pakistan must provide "credible guarantees" for the return and future safety of the refugees. She added that unless the great powers take action to remedy the situation, New Delhi will be "compelled to take all measures as may be necessary" to protect Indian "social and economic life." Although Pakistani leaders will not miss the hint that military action is one possibility under consideration, Indian legislators can be expected in coming days to press for an even more bellicose endorsement of Bangla Desh.

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[redacted] East Pakistani secessionists now in India are increasingly discouraged at the prospect of a prolonged guerrilla struggle against the Pakistani Army. Some of the secessionist leaders seem to be falling back on the hope that India, in its own interest, will intervene militarily to alleviate the refugee problem within the next several weeks before the advent of the summer monsoon.

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Egyptian-Marked Aircraft in USSR



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USSR-EGYPT

Recent satellite photography showed a number of IL-38 Egyptian-marked antisubmarine warfare aircraft and TU-16 bombers at four airfields in the USSR. Four IL-38 ASW aircraft with Egyptian markings were seen at Kipelovo airfield, and Egyptian-marked TU-16s were observed at Bykhov, Severomorsk, and Malyavr. The photography also shows at least one and possibly four similarly marked AN-12 transports at Shyaulyay airfield in the Lithuanian SSR. The number of TU-16s cannot be determined because of variations in image quality and canvas coverings on most aircraft. No air-to-surface missiles (ASMs) were seen with the Egyptian-marked aircraft.

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Soviet Economic Credits to the UAR Extended and Drawn
(Million US Dollars)

	Date Extended	Amount Extended (as of 19 May 1971)	Amount Drawn (as of 31 Dec 1970)
Total		1,205.3	669.1
Oil drilling equipment a/	1957	8.6	8.6
Industrial development credit b/	1958	175.0	175.0
Aswan Dam, 1st stage b/	1958	100.0	100.0
Aswan Dam, 2nd stage b/	1960	225.0	225.0
Industrial development credit b/	1964	324.4	86.5
Of which:			
Expansion of Helwan Steel Mill		161	
Aluminum plant c/		53	
Phosphorous complex c/		55	
Fishing industry		7	
Ferrosilicon plant c/		2	
Power stations		2	
Oil exploration		N.A.	
Land reclamation a/	1964	66.7	49.0
General credits a/	1964	110.0	25.0
Rural Electrification b/	1971	66.7	
Land reclamation a/	1971	40.0	
Cement plants b/	1971	33.3	
Water development and agri- cultural storage d/	1971	55.6	

- a. Repayment over a five-year period, at 2.5% interest.
b. Repayment over a 12-year period, at 2.5% interest.
c. Construction has not been initiated.
d. Repayment over an eight-year period, at 2.5% interest.

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SOVIET ECONOMIC LEVERAGE ON EGYPT

The extensive buildup of Soviet economic interests in Egypt over the past 15 years gives the Soviets a capacity to discomfort Egypt by means of economic pressure, but not a strong enough economic hold to allow Moscow to dictate to Cairo. About one-third of Egypt's foreign trade, which amounts to over \$1 billion annually, is conducted with the USSR, including the sale of low-grade Egyptian cotton not readily marketable elsewhere. Although this gives Moscow short-term leverage to harass Cairo, the USSR has been unwilling over the years to assume responsibility for Egypt's day-to-day economic needs as it did in the case of Cuba. Moscow's role as chief supplier of development aid is diluted by the fact that most current deliveries are for long-term projects and by the potential availability of more investment funds from oil-rich Arab states such as Libya. More than half of the foreign exchange component of Egypt's capital investment budget is in convertible currency, most of it spent in the West.

There are about 600 Soviet economic advisers and technicians in Egypt. Cairo, however, has easy access to technicians from the West as well as from the USSR, and Egyptian industrial managers and technicians--perhaps in contrast to Egyptian military personnel--are very much the masters of the technology they employ, whether furnished by East or West. Thus Egypt could, if it desired, expand commercial and industrial relations with the West even as it did with the USSR 15 years ago.

Even with these limitations, the USSR is still deeply involved in Egypt's economy. It has extended \$1.2 billion of economic assistance to Egypt since 1957, about half of which has been used. (See chart) This aid has constituted about ten percent of total Egyptian state investment and roughly 40 percent of Egypt's imports for state-run projects. Soviet assistance has included \$175 million to cover the foreign exchange costs of building some 50 industrial installations, all of which have been completed, and some \$325 million for the Aswan High Dam, Moscow's largest and most prestigious aid venture in a neutral country.

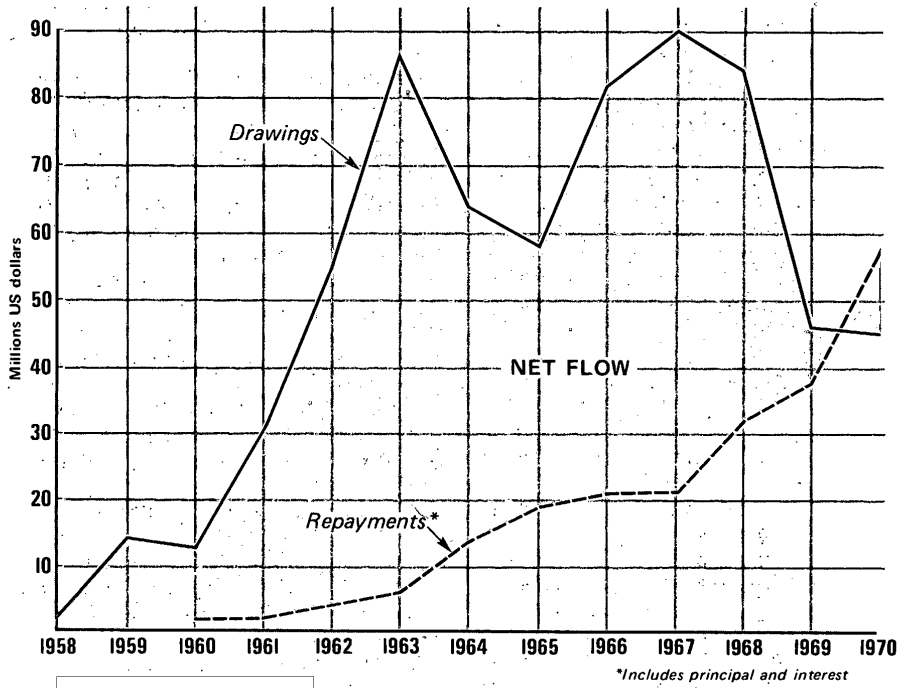
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Net Flow of Soviet Economic Aid to the UAR 1958-70



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The vastly reduced inflow of Western official and private capital in recent years has caused Cairo to become increasingly dependent on Moscow for the foreign exchange segment of its development program. The only significant Western capital input recently has been that invested by private oil companies in the development of Egypt's petroleum resources. This includes pledges last year of capital to finance a proposed pipeline linking the Red Sea and the Mediterranean.

Soviet credits of \$500 million extended in 1964 remain largely unspent, although funds have been allocated for the construction of three plants using power from Aswan, for land reclamation, and for expansion of the Helwan steel mill. At present, the steel mill is the USSR's major aid activity in Egypt. An additional \$200 million credit provided during the first quarter of 1971--also not yet drawn--will be used for such things as rural electrification, cement factories, and agricultural storage facilities. Except for the electrification program, however, only small amounts of these recent credits will be used during the remainder of the current development plan, which runs through mid-1975.

Egypt's economic retrenchment that began in 1967 resulted in a scaling down of the rate of use of Soviet aid, and Soviet economic aid deliveries declined sharply in 1969 and 1970. Since repayments were rising simultaneously, net aid has been reduced substantially, and in 1970 there was in fact a net outflow of Egyptian capital to the USSR. This situation may continue. Annual aid deliveries over the next several years are not expected to rise significantly over the present level of about \$50 million. The diversion of Egyptian resources to military uses, together with long lead-times normally required for large scale capital projects, is likely to delay implementation of many major projects.

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