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SOVIET ECONOMIC PENETRATION IN THE MIDDLE EAST  
REPORT FROM THE COMMITTEE ON SOVIET ECONOMIC POLICY (1)

General Developments

The Middle East, which contains almost 70 per cent of the non-communist world's proven oil reserves (unevenly distributed over the area), also contains vast stretches of desert and other terrain that cannot be usefully exploited. There exist fertile areas, some of them not fully developed, upon which most of the 90 million(2) inhabitants of the area earn their living by raising agricultural crops, mainly cotton, cereals and citrus fruits. Although the standard of living is low, the resources available, given capital for their development, would permit an expansion of agriculture and industry. There are, however, many factors limiting development, including a social structure which makes it difficult to create savings and which inhibits enterprise, as well as a population with a generally low level of education.

2. There are vast differences in wealth among the countries of the Middle East. Some states derive large revenues from oil(3), others have built up modern economies (Lebanon and Israel), while the rest (2) are poor countries. It is within this last group that some young leaders are attempting to build up modern states, and the frustrations inherent in the old social structure create for these leaders a sense of urgency. Associated with this is a fierce nationalism expressed, inter alia, by a "neutralist" foreign policy and by attempts to obtain arms and to develop and diversify the economy. Irrigation and flood control schemes necessary to expand agriculture, the transportation networks needed to open up the country, and the arms for a modern state, all require large amounts of capital. Lacking oil revenues, these countries must rely upon the sale of their

- (1) The attached paper has been prepared by the International Staff on the basis of submissions from delegations. It has been reviewed by the Committee, which has requested that it be forwarded to the Council.
- (2) For breakdown by country, see Table 4, Annex II.
- (3) Iran, Iraq, Saudi Arabia, Kuwait, Bahrain and Qatar are the main oil producers; Syria, Jordan and Lebanon derive some revenue from oil transit rights.

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agricultural products or upon foreign aid or investment from abroad for the funds needed to carry forward their development plans. But nationalism in these countries has created an atmosphere where foreign investments from Western powers are either threatened or not welcomed. The Soviet Union, however, appears as a new and alternative source of capital to the Middle East, and has granted loans without apparent "political strings". At the same time, the USSR exerts the attraction of a backward nation which has transformed itself into a strong industrial power within a short period.

3. It is within this milieu, exacerbated by the Arab-Israeli tensions, that the communist bloc seizes every opportunity to extend its influence by offering arms and economic aid. The communists are applying to the Middle East their general technique of economic penetration. Long-term loans for economic development are offered at low rates of interest (usually 2½%) and repayment is arranged in local currency or products. The Soviets may offer to arrange barter deals, exchanging machinery or arms for burdensome agricultural surpluses. The arms furnished are often obsolescent, but their book value may be high and may constitute a heavy mortgage on the future exports of the Middle East country. Bilateral agreements are signed, tying to the Soviet bloc a significant part of the underdeveloped country's trade. Technicians are usually provided by the bloc to assist with economic development, and their presence has considerable propaganda value. At the moment there are between 500 and 1,000 Soviet bloc technicians in Middle Eastern countries. In addition, communist countries participate actively in trade fairs in the Middle East, and have also established many trade offices.

4. As late as 1954 the Soviet press was attacking Arab leaders, but in the following year this attitude shifted abruptly to suit the new Soviet line in the Middle East. In 1955 Czechoslovakia signed an arms deal with Egypt and conveniently agreed to purchase the Egyptian cotton surplus. The following year, Syria and Yemen received arms from the Soviet bloc, and almost all of the countries in the Middle East signed trade agreements with the communists. Afghanistan also received a large long-term loan. Soviet trade with the Middle East increased and, following the Suez crisis in November 1956, Egypt and Syria received additional supplies of arms from the Soviet bloc, and promised to deliver in return more cotton.

5. For the next eight months or so the Soviet bloc confined its activities to strengthening trade ties with many Middle Eastern countries and, in general, consolidating the achievements of the previous two years. In July 1957, however, a large-scale economic loan was offered to Syria, and arms shipments to that country were resumed. The Sudan, which is having difficulty in selling its cotton crop this year, was approached in October by the Russians with an offer to buy the surplus and to provide long-term

aid for development. The Lebanese, who have accepted Western aid, have recently been subjected to economic pressure by Egypt and Syria. In November, the Russians and the Czechs announced large-scale loans to Egypt.

6. The USSR has had little success penetrating into the oil producing countries in the Middle East. It is true that Russia is showing great friendliness to one big oil producer, its neighbour Iran, and has signed a number of agreements with her. However, there have been traditional trading ties between these countries for many years, and these new agreements do not necessarily represent a danger of communist penetration. The economic interests of oil producing countries lie with the West (Russia herself is a net oil exporter), and their governments have no desire to lose their markets in Europe. Nevertheless, recent Russian propaganda has been aimed at belittling Western aid to the Middle East, and has argued that the amounts granted are small compared to the profits made by the Western oil companies in the area. Conservative governments in those countries, although favourable to the West, may be forced by nationalist opinion, egged on by Soviet propaganda, to ask for larger shares of the oil profits.

7. It appears as though Russia's principal aim is to strengthen Egypt and Syria. Both of these countries, led by zealous nationalists, are particularly susceptible to communist penetration. They are also strategically important because of their control over the oil transport facilities of the area. The Russians seem to feel that the sales of arms and the glittering promises of economic aid will help Egypt and Syria to gain prestige in the Arab bloc, challenge the position of the leaders of the oil producing countries, and keep the entire Middle East in a state of turmoil.

8. The cost to the Soviets of their economic offensive in the Middle East has so far been relatively small. Total yearly drawings on Soviet credits are estimated at less than 1/10th of 1% of Soviet national income. Commitments for economic assistance to Egypt and Syria amount to about \$340 million, but this will be drawn upon over the next seven years. The military aid granted to the Arab countries amounts to a book value of between \$300 million and \$500 million, and, while much of the equipment is obsolescent to the Soviet bloc, the estimated value of this aid represents goods that the Soviet bloc will receive in repayment. Trade with the Middle East has many economic advantages for the communists, and for the satellites in particular. Forced industrialisation of the European satellites in the post-war period has made available large amounts of capital goods which the Middle East needs, and has created a larger demand for primary products, which the Middle East has available. The recent emphasis on raising living standards in the Soviet bloc has intensified the demands for primary products. Furthermore by using trade, rather than aid, the Soviet bloc has been

free from the charge of interference in the internal affairs of national states.

9. It is not clear how the economic offensive will develop in future. On one hand, the economic interests of the oil producing countries lie with the West, while most other states have received much more assistance from the West than they could normally expect from the communist bloc. On the other hand, the USSR has succeeded in creating the impression that she is ready and able to grant large-scale loans for economic development; Syria is probably hoping to become the future showcase of the Middle East. The strong nationalist feeling in this area is conducive to countries accepting Soviet trade offers and loans, if only to show their independence from the West. All of these factors make it clear that the Middle East will present further opportunities for penetration, and the Russians have shown in the past their ability to take full advantage of such possibilities.

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ANALYSIS BY COUNTRIES

SYRIA

1. Syria is not a poor country by Middle East standards. Her economy is stable, the budget is balanced, and her production of cotton, wheat, barley, tobacco and textiles provide sufficient exports to pay for her import needs. A seven-year development plan costing about \$190 million was instituted in 1955 and the financing of this was to come from transit dues received from the Iraq Petroleum Company and the Tapline, from internal saving and from foreign sources. However, the large increase in defence expenditures in 1956 and 1957 strained the economy, and it became clear that Syria could not meet all its objectives for development and defence without increasing its need for foreign assistance. Syria had already received about \$100 million in arms deliveries from communist countries in 1956, but was still conducting only about 5% of its trade with them. During 1957, however, almost one-half of Syria's cotton sales (the most important export) has gone to the Soviet bloc. In July, 1957, the Syrian Defence Minister and other officials visited Moscow and arranged for a twelve-year, 2½% interest loan which was finally settled in Damascus in October. The amount of this loan is as yet undetermined, but it may exceed \$150 million, and will probably include assistance for nineteen projects, including roads, railways, irrigation schemes, port facilities at Latakia, and manufacturing plants. All of these schemes appear to be sound and can be absorbed by Syria over the next few years if the Syrians provide considerable ancillary capital expenditure. The Russians have asked for repayment of the loan in Syrian goods, such as wheat and cotton, the main products of the country, or in freely transferable exchange. This should tie the Syrian economy increasingly to the bloc; the total value of Soviet arms already delivered and the above estimate of economic aid is equivalent to about two years of Syrian exports. It has recently been reported that the USSR is sending additional arms to Syria including fighter aircraft and bombers.

2. Syria holds a strategic position in the Middle East since the oil transport lines both from Iraq and Saudi Arabia to the Mediterranean outlets cross her territory. Any concerted Syrian-Egyptian economic action against the oil producing countries would be most likely to occur as an aspect of action against the West. Syria is also a big customer of Lebanon and might be able to threaten to some extent Lebanon's position as entrepôt centre for the Middle East.

EGYPT

3. The rapidly growing population of Egypt depends upon the limited agricultural land of the Nile basin. Large amounts

of capital would be needed to increase the arable land and to develop some industry, and Egypt even more so than Syria, has the problem that she is unable to arm and develop simultaneously without outside aid. Egypt depends upon cotton exports for almost all of her foreign earnings, with the exception of Suez Canal revenues, and from late 1955 onward, when she arranged for an arms deal from Czechoslovakia, she has become increasingly committed to the communist bloc for the disposal of her cotton crop. In November, 1957, loans from the USSR and Czechoslovakia of \$175 million and \$56 million respectively were announced. They will be used for economic development and will be repaid on the same terms as the Soviet loan to Syria. It now appears that about one-half of all of Egypt's cotton exports is to communist countries. The USSR is now the largest buyer of Egyptian cotton, followed by communist China and Czechoslovakia. Sales to France and the United Kingdom, traditional buyers, have fallen sharply. Other economic deals with the Soviet bloc have included the building of a nuclear physics laboratory in Egypt by the Russians, the purchase of a powerful radio transmitter from Czechoslovakia, orders for four ships from Poland, and a substantial order for an electrical network from East Germany. The USSR has continued to supply large quantities of wheat and petroleum to Egypt, and it has been reported that she has offered to assist the Egyptian General Petroleum Company in its oil explorations.

4. This shift in trade to the Sino-Soviet bloc has not been without cost to Egypt. The loss of hard currencies was at first met by curtailing imports, so that, while the balance of payments did not deteriorate, there was a fall in the available supply of goods. Rising prices followed this shortage, and during 1957 Egypt has taken several steps to correct the situation. First, some barter deals were arranged with Western countries, but Egypt received in return high-priced non-essential goods; she was forced in October 1957 to curb these deals. Egypt then began searching for means to recover some of its markets in the West. The price of cotton, artificially high as a result of bilateral agreements with the Soviet bloc was reduced to Western countries by means of premiums ranging from 7% to 20% for various kinds of foreign exchange. The Egyptians now appear anxious to rebuild their trading relationships with the United Kingdom and France, and have held financial talks with them recently in Rome and Geneva.

#### THE SUDAN

5. The economy of the Sudan is quite primitive and largely agricultural. There is almost no manufacturing or mining, despite recent government attempts to establish some small-scale industry, and most fuel, clothing, machinery and some food must be imported. Trade is mainly with Western Europe, Egypt and India; only about 4% of Sudan's total trade is conducted with the Soviet bloc. Cotton is the main export; in recent years the

level of exports has more than covered imports, and the surplus funds have paid for development projects. This year, the Gezira Marketing Board, responsible for marketing most of the cotton, set the price too high. It is likely that this price was related to the Egyptian one, which was only nominal, most Egyptian sales being on a barter basis with the Soviet bloc. The Sudan also had a record crop of over 600,000 bales of cotton, and less than half has been sold. If the crop remains unsold, the financing of the development projects will be hampered, and the government, facing an election next year, will be in a different position. These difficulties led the Sudanese into a position of considering a Russian offer to buy the cotton surplus. In November, 1957, the Sudanese cotton price was lowered and the export tax on cotton was cut by 50%. It is still too early to assess the success of these measures, but, judging by the fact that in the two weeks following their adoption Sudan has sold about 69,000 bales, the outlook seems somewhat more hopeful.

#### LEBANON

6. The Lebanon is the banking and entrepôt centre for most of the Middle East. Her exports cover only about one sixth of her imports, but income from trading, banking and other services makes up the difference. Although vulnerable to changes in external conditions, the Lebanese economy is one of the wealthiest in the entire area. At the same time, good relations with Syria are necessary for carrying out these services. Any dispute with Syria which would seal off the border would deprive Lebanon of access to Iraq, Jordan and inner Arabia. The planned expansion, with Soviet aid, of the port facilities at Latakia, Syria, may threaten the position of Beirut. Lebanon maintains economic contacts with all members of the Sino-Soviet bloc, and conducts about 5% of her trade with them. However, the Lebanon has refused offers of Soviet loans, possibly to protect her reputation as a banker and trader.

7. Some economic pressure was put on the Lebanon by Egypt and Syria when they placed an embargo on the import of Lebanese apples in September, 1957. The sum involved was relatively small, but the significance of the action was that the Lebanese affected were pro-Western. Consultation within NATO led to increased purchases by Germany, France and the United States, so that the problem was solved. Nevertheless, the embargo may have intimidated Lebanon.

#### IRAN

8. About two-thirds of Iran's foreign exchange earnings are derived from oil exports; of the remainder of her exports, about one-sixth is with the Soviet bloc. Iran appears anxious to develop her other industries, to which end she is willing to co-operate with her neighbour Russia, with whom she has traditional trade ties. During the present year she has signed a

number of agreements with the USSR. These include a border-river agreement providing for joint surveying of a hydro-electric and irrigation project; a three-year commercial agreement calling for trade of \$35 million a year; and a transit agreement allowing duty-free movement of goods through either country. Since Russia has reduced her rail rates to Iran, the latter will save on shipments to Europe. The trade with Russia is for consumer goods, and the Soviet Union does not participate in Iran's programme of development. However, the Soviets are reported to have offered Iran a credit at 2% interest, partly for use in expanding port facilities on the Caspian Sea to handle a larger volume of USSR-Iranian trade.

OTHER MIDDLE EASTERN COUNTRIES

9. Soviet bloc activities in other Middle Eastern countries have been very limited. Jordan has received offers from Poland to develop iron ore resources, to build a railroad, and to buy 100,000 tons of phosphate. This, plus a previous purchase by Czechoslovakia of 80,000 tons, would account for one-fifth of Jordan's total exports this year. Jordan is quite poor and is unable to exist on her export proceeds, requiring a subsidy to pay for most of her essential imports. Egypt and Syria have reneged on their promise to share with Saudi Arabia the cost of a subsidy to replace that previously granted by the United Kingdom. Only a loan from the United Kingdom of £1.12 million in 1956(1) and \$40 million of United States aid in 1957 has kept Jordan solvent. Yemen has been granted a \$3 million credit by East Germany for the construction of 1,000 kilometres of telephone lines. The Soviet bloc countries have also built a jetty at Salif to permit the unloading of the arms previously promised. The \$100 million loan granted by the USSR to Afghanistan in late 1955 is being slowly implemented; oil storage facilities, small assembly plants and some irrigation schemes have been started. Arms have also been delivered. Probably one-half of Afghanistan's total trade is now carried on with the Soviet bloc. Bulgaria has obtained a meat-packing concession in Ethiopia. No significant Soviet bloc activities have been reported in Israel, Iraq, Saudi Arabia or Libya.

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(1) So far, loans from the United Kingdom to Jordan for development have totalled £7½ million.



TABLE I

Development of Trade between some Middle East  
 Countries and the Sino-Soviet Bloc

Reporting countries	Imports from and exports to Sino-Soviet bloc countries							
	Millions of US-dollars				Percentage share in reporting country's total trade			
	1954	1955	1956	1957	1954	1955	1956	1957
Israel	11.3	8.8	8.5		3.0	2.1	1.8	
Iraq (b)	3.7	10.3	13.8		1.8(b)	4.0(b)	4.5(b)	
Iran (b)	27.6	37.2	36.8		12.4(b)	13.4(b)	13.2(b)	
Lebanon	5.2	8.6	9.9		2.0	3.0	3.3	
Syria	5.9	7.3	19.1		1.5	2.2	5.5	
Egypt	83.5	141.8	216.5	534(a)	9.8	15.3	23.0	43
Sudan	12.2	8.3	13.2		4.3	2.9	4.1	
	149.4	222.3	317.8					

- (a) Estimates based on trade during first quarter.  
 (b) These figures include imports only.

Source: AC/89-WP/11.

TABLE 2

Importance of each communist country in the Middle East's trade with the Sino-Soviet bloc

Countries of origin and destination	Trade of the Middle East				
	Total Trade (Exports plus imports with The Sino-Soviet Bloc)	Imports from		Exports to	
		1956	1955	1956	1955
Sino-Soviet Bloc Total percentage	100.0	100.0	100.0	100.0	100.0
USSR	17.5	38.2	25.4	16.8	11.6
China	15.8	1.8	10.7	30.4	19.7
Bulgaria	3.1	2.3	1.7	0.9	4.1
East Germany	5.8	3.4	8.1	3.1	3.9
Hungary	6.0	5.1	8.3	12.4	4.1
Poland	7.7	3.5	5.2	6.5	9.6
Rumania	10.2	17.3	15.2	9.5	6.3
Czechoslovakia	33.9	28.5	25.4	20.4	40.7

Source: AC/89-WP/11

TABLE 3

Importance of the USSR, the European Satellites and  
China in some Middle East countries' trade with the  
Sino-Soviet bloc

Total Country Trade (exports plus imports) with the  
bloc in 1956 = 100

Reporting Middle East Countries	Countries of Origin and Destination			
	Sino-Soviet Bloc Total % = 100	of which %		
		USSR	Satellites	China
Israel	100	25	75	
Iraq (a)	100		42	58
Iran (a)	100	51	20	29
Lebanon	100	28	72	
Syria	100	8	82	10
Egypt	100	18	66	16
Sudan	100	3	76	21

(a) Imports only

Source: AC/89-WP/11

TABLE 4

Population of Middle East Countries in 1954

<u>Area</u>	<u>Population</u> (in millions)
Aden	0.2
Aden Protectorate	0.6
Afghanistan	12.0
Bahrein	0.1
Egypt	22.7
Iran	20.7
Iraq	4.9
Israel	1.7
Jordan	1.4
Kuwait	0.2
Lebanon	1.4
Libya	1.1
Muscat and Oman	0.6
Quatar	0.03
Saudi Arabia	7.0
Sudan	8.9
Syria	3.7
Trucial Coast	0.1
Yemen	4.5
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Total	91.8

Source: Statistical Handbook of the United Nations, 1955.