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PALAIS DE CHAILLOT
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# THE SITUATION IN THE MIDDLE EAST, CONDITIONS, DANGERS AND PROSPECTS

## ANALYSES, FACTS AND FIGURES

## Note by the Secretary General

Attached please find a series of studies concerning the situation in the Middle East which have been prepared by the International Secretariat and the Standing Group, respectively. They present an attempt to provide a certain amount of working material, as a basis of possible discussion and as a source of certain facts and figures, following up the Questionnaire on the Middle East (RDC/58/276), more particularly the paragraphs relating to an inventory of the situation.

2. The attempt to present such an inventory necessarily raised the question of the area to be covered. It has been the endeavour to be flexible on this point. The area covered in the different studies is not always identical, the material available playing its part in determining the answer to this question. A major concern has been not to prejudge the issue.

3. It has been a guiding principle of the studies submitted to abstain from comments on questions such as the priority of interests or specific methods to achieve certain aims implying policy decisions, such points going beyond the limits of an inventory. However in the political studies, notably the paper on possible assets of the West in the area, forming a necessary part of any inventory, certain indications as to policy decisions which wou have to precede the opening up of certain evolutions could not but be implicitly raised. It was also inevitable to cover certain elements from two angles, that of a general analysis of the situation and that, more specifically, of the potential assets of the West.

4. The economic study concentrates on an effort to provide basic data, certain broader issues of an economic character being inextricably linked to the political aspects.

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5. Finally, it should be stressed that the aim of the study prepared by the Standing Group was, in the terms used on the occasion of the transmission of that study to the International Secretariat, to give certain indications on military aspects of the situation in the Middle East "de façon sommaire et officieuse, sans avoir recours à des directives nationales." The study by the Standing Group has been prepared at the request of the International Secretariat.

6. /The texts submitted were ready by the 12th August. No account is therefore taken of any developments subsequent to that date; this refers notably to the debate in the present Special Session of the General Assembly of the United Nations./

(Signed) P.-H. SPAAK

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## I/A THE POLITICAL SITUATION IN THE MIDDLE EAST

### Aims and Interests of Contending Forces

The assets and debits of the contending forces in the Middle East can be measured only in terms of their interests and objectives. The principal Western objectives in order of descending importance are perhaps the following:

(a) to prevent the area from falling under Communist domination, which would have severe psychological as well as economic and strategic repercussions;

(b) to encourage the development of a system of Arab states which is politically stable without being the instrument of an aggressive nationalism;

(c) to ensure continued access on a reliable and economic basis to the oil of the Middle East;

(d) to retain agreements with individual states which strengthen Western military defences;

(e) to protect Western investments in the area where possible.

The USSR sought in negotiations with Hitler's Germany to reserve "the area south of Batum and Baku in the general direction of the Persian Gulf ..... as the centre of [Soviet] aspirations." Present Soviet objectives, which appear to extend beyond any mere sphere of interest, would seem to be:

(a) to secure the removal of Western military and economic positions in the Middle East through encouragement and manipulation of extreme Arab nationalism;

(b) to encourage confidence in and dependence on the Communist bloc on the part of Middle Eastern states, thereby facilitating future Communist penetration;

(c) to exert economic and strategic pressure on the West by placing key oil products and lines of communications in the hands of unfriendly states, which may also be susceptible to Soviet influence;

(d) to assert the Soviet position in the Middle East so as to be in a better position to bring influence in the future;

(e) to convey an impression of irresistible revolutionary momentum throughout the under-developed areas, with the Communists and Nationalists collaborating to brush Western "imperialism" aside.

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To the extent that it is possible to generalise in an area of great extremes, and to distinguish real aims behind emotional expressions of Arab nationalism, the following are perhaps the common-denominator objectives motivating Arab leaders:

(a) assertion of Arab influence and power in international affairs generally, not merely in the Middle East and Africa;

(b) a "day of reckoning" with Israel;

(c) the retention of personal leadership in the face of an always latent and potentially explosive opposition.

The Compatibility of Objectives

Inevitably achievement by Arab nationalism of its broader aims will affect adversely both Soviet and Western interests in the Middle East. In the short run, Western economic and strategic interests in the area will probably be the focus of friction, with the West likely to be faced with unhappy choices between evils. To press for retention of military rights may well mean to increase the vulnerability of a friendly government. To resist demands of local governments for an ever larger share of the oil profits may only increase pressure for nationalisation. Should Western oil companies be nationalised, a retaliatory sales boycott like that which helped topple Mossadeq in Iran, would certainly increase anti-Western bitterness and encourage penetration of Soviet petroleum technicians; inaction on the other hand would encourage nationalisation elsewhere. The fact that Western Europe continues for the time being to be dependent on oil from the Middle East obviously increases the leverage of Arab nationalism. The admittedly extreme case where the Middle East was neutral and the West was deprived of effective access to the oil would seriously strain relations with the Arabs and be a net gain to Moscow. It would require painful economic and strategic readjustments. It may, however, not appear impossible to master even such a situation, provided that the Middle East did not fall under Communist control.

Time is not necessarily on Moscow's side, if it cannot capitalise on friction between the West and the Arabs to firmly consolidate its gains. A united Arab world would also constitute a more serious obstacle than exists at the present time to Soviet expansion in the Middle East. It is these considerations which caused Moscow to attack Pan-Arabism and Pan-Islamism for so many years. Depending on developments, the efforts of Moscow not to become over-committed to the Arab cause, while appearing to be a "thick-and-thin friend", could become more pronounced. In the Suez, Turkish and Lebanon crises Moscow appeared to adopt its most belligerent pro-Arab position when the moment of greatest danger was actually past. Yet, there is the constant risk in any serious

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crisis involving the Middle East of committing oneself beyond a point of withdrawal.

The Arab-Israeli conflict confronts Moscow with its most serious dilemma in the Middle East. On the one hand exacerbation of the conflict increases the value to the Arabs of Soviet support. An Israeli-Arab war, on the other hand, might raise embarrassing questions of Arab aggression or the need for intervention by either the Communist bloc or the West to prevent the destruction of one of the Parties. Prevention of a new Arab-Israeli war may be one of the few issues in the Middle East where Soviet and Western interests coincide.

It is nevertheless doubtful that Moscow would seriously press for liquidation of this useful divisive issue, unless perhaps it saw that a solution was likely to be imposed to which the Arabs would not seriously object and for which it might take credit.

A danger not to be underestimated is the effect on Soviet policy of success in the Middle East achieved in an alliance with nationalist elements directed against the West. At least in the past, a strengthening of Moscow's relative world position has encouraged a more intransigent extremist policy designed to capitalise on Western weakness. Communist Chinese recognition and claims to Formosa would be the sort of issues best calculated to exploit and aggravate anti-Western feelings in under-developed areas.

While there is a natural tendency in the West to welcome the overthrow of any government which is unrepresentative and authoritarian by Western standards, it would be dangerous to assume that all change is necessarily for the good, or that Arab unity in any form is to the interest of the West, or even to the Arabs themselves. Revolution would derive its chief justification from a successful attempt by a new government to create the conditions out of which a stabler, more representative government may eventually emerge. Similarly, Arab unity would certainly be welcome if, for example, a real Arab Confederation were to be established which with its goal of unity achieved, became less fanatically anti-Western, and less inclined to rely on Soviet political and economic support provided it would at least become genuinely neutral. Unfortunately there is a danger that, in the emotional and unstable environment of the Middle East, revolution may become a permanent feature of a society in transition which needs stability to develop; and that enhanced power will not be used for reform but to prosecute more vigorous policies against the West and against Israel, thus serving in turn to increase the dependence of the area on the Soviet bloc.

## The Drive for Unity

In a sense the West is reaping today what it helped to sow in World War I, when the concept of racial unity (Pan-Arabism) was used to undermine an Ottoman Empire based on religious unity

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(Pan-Islamism). Instead of being in conflict, these two aspirations for unity now reinforce an expansionist Arab policy; promoting the expulsion of the infidel from the cradle of Islam, the "liberation" of Arabs wherever they may live, and the conversion of non-Arabs, notably in Africa. In making himself the spokesman for these movements, Nasser, and his supporters, can exert an appeal effectively transcending what are for the most part fairly artificial boundaries which have divided the Arab world since 1920.

The rivalries which split the Arab world in the past centred not on the need for Arab unity but on the question of who should be the leader of the Arab world, with Baghdad and Cairo the principal contenders. An ambitious proposal in 1942 by the late Nuri es Said of Iraq, to unite his country in a Federal Union with a merger of Syria, Palestine, the Lebanon and Jordan was supported by the Jordanian King but met opposition from Egypt, Syria and Saudi Arabia. Egypt, in turn, proposed what became in 1945 the Arab League, a loose coalition of states, comprising today Egypt, Iraq, Lebanon, Saudi Arabia, Syria, ~~Trans~~Jordan, the Yemen, Libya and the Sudan. In the original Charter, the Arab League members asserted their right to speak for Arabs throughout the world. The Palestine war of 1947-48 showed up the basic disunity among the Arab states, and led to the signature in 1950 of a Treaty of Joint Defence and Economic Co-operation providing for mutual assistance in the case of attack and establishment of permanent military and economic organs. The formation of the Baghdad Pact spurred the signature of 10 Year Defence Pacts in 1955 between Syria and Egypt, and Egypt and Saudi Arabia, and in 1956 between Egypt, Saudi Arabia and Yemen. These pacts provided for a permanent Joint Command. A Unified Military Command between Egypt, Syria and Jordan established on the eve of the Suez crisis was also ineffective in preventing the defeat of a member of the League.

While the Suez crisis had the effect of enhancing the prestige of Nasser among the Arabs, the push for unity, which culminated in 1958 in the establishment of the United Arab Republic, took on serious proportions already in early 1956. A joint Egyptian-Syrian-Saudi Arabian statement in March spoke of a "comprehensive plan to co-ordinate ... policy in the political, military, economic and cultural fields." The new Syrian Prime Minister in July announced the formation of a ministerial committee to negotiate with Egypt regarding the establishment of a Federal Union. There was actually a split in Syria over this issue, with the military-political interests in Damascus favouring union with Egypt and the more conservative commercial interests in Aleppo proposing union with Iraq.

The counter proposition to the UAR of an Arab Union composed of Iraq and Jordan suffered from the major drawback that it had the support of a Western Power and lacked popular élan. In practical terms, it made more sense than the union of Egypt and Syria. Other proposals, to unite Kuwait to Iraq or to federate

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the eighteen sheikdoms in the Aden Protectorate have encountered the more traditional stumbling block of rival interest.

The drive for unity has developed such impetus in recent years that it would be unwise to expect that the traditional divisive forces in the Arab world would again prevail. It would be particularly dangerous to appear interested in encouraging division. In view of past history, however, some reluctance in Iraq to accept Nasser's leadership and conceivably a tightening of links between Iraq and Syria, at the expense of Syria's ties to Egypt is not beyond the realm of possibility. The revolution in Iraq will tend at least to draw the two countries together. On any important issue, involving either the West or Israel, the Arabs would almost certainly stick together.

The Emotional Climate

The emotional climate in the Middle East is the dominant and most disturbing feature of the area. The events of Iraq, Egypt and Syria illustrated the danger of measuring the strength of the Western position in traditional terms of economic investment, cultural links, treaty bonds or the rational self-interests of the ruling classes. Such "assets" may well exist in areas where governments continue to maintain close ties to the West, but they are often more of a political handicap to a government than a contribution to stability.

It would be dangerous to assume that the reasoned self-interest of sophisticated leaders will triumph in the long run over emotion. In the present atmosphere, governments ignore the public mood at great risk; and too often the Arab leaders are themselves dominated by emotion. The leaders of the "revolutionary" regimes in Egypt, Syria and now Iraq, who speak of eliminating corruption and building a modern state, are motivated as much by the wish to assert Arab influence per se as by constructive aspiration. They share with their people deep-seated feelings of inferiority which help explain the persistence of rabid anti-Westernism and the psychological compensation apparently sought through "humiliating" and thereby demonstrating independence of the West. Arab leaders have traditionally blamed "imperialism" for their own weaknesses, and the temptation to seek cheap popularity by attacking the West is obviously great, particularly in a country like Egypt where per capita income continues to decline.

In view of the lack of social responsibility, the agitation of professional extremists and the appeal of anti-Westernism, there is a danger that a type of political "Gresham's law" will operate, with the more irresponsible, extremist elements driving the more reasonable leaders from office. A similar danger exists in relations among the Arab states, whether linked together by ties of sympathy or Confederation; rather than the moderate elements being able to exert a restraining influence, they may be manoeuvred by appeals for Arab solidarity into supporting extremist action, e.g. of Yemen against Aden.

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The Authoritarian Trend

The "revolutionary" regimes of Egypt, Syria and now Iraq are more stable politically than those of Saudi Arabia or Jordan simply because their programme appeals to the Pan-Arabic, anti-Western mood of the politically active element. The fact that they are no less authoritarian than their predecessors is not a serious political liability. In an area which respects force and which has shown in its attitude towards Hitler's Germany, the Moslem Brotherhood, etc. a certain attraction to totalitarian methods, Nasser has taken a leaf from the fascist book, manipulating a mass movement and controlled press to bolster his position. His claim that a transitory authoritarian period is necessary to lay the groundwork for parliamentary democracy is now being echoed in Baghdad. Such mass movements strongly influenced by a military scornful of "politicians" tend to develop their own philosophical justification which includes depreciation of "soft" inefficient democracy. The ability to "get things done" of totalitarian régimes has particular appeal to a young people like the Arabs, two-thirds of whom are under the age of thirty. Such régimes have, it is true, the required mass techniques and ruthlessness, uninhibited by liberalism, to impose a social revolution on a backward people, but they are not a natural prelude to Western-style democracy. If anything, they are closer in outlook to the Communists than to the West.

The Strength of the Soviet Position

The popularity of the Soviet Union among the Arabs is its strongest asset. The apparent remoteness of the USSR, the fact that until recently it has not been physically present in the area, has contributed to its popularity. The dangers of Communism have more meaning for peoples living along the Soviet border. The popular view of the USSR is above all of the country which provided the Arabs with arms to fight Israel and helped in warding off the attacks of "imperialism" against Egypt and Syria. Regarded as the "enemy of my enemy", the USSR is more than a mere countervailing force against Western influence, it is a friend. It is also a country which has successfully solved the problem of pulling a backward largely agrarian nation up "by its bootstraps", and whose experience is therefore worth close study.

There is no reason to doubt the sincerity of Arab political leaders, from Nasser to Kassem, who say that they have no intention of "exchanging one imperialism for another". They see no reason, however, for turning down offers of Soviet assistance, and resent any outside intimation that they should. They would equally resent and resist Soviet pressure on them to break off all relations with the West. In the immediate future, however, there is little likelihood that their policy will bring them into conflict

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with the Communist bloc, whereas they are quite likely to clash with the West and with Israel. The effect of each new crisis is to reinforce in the popular mind the picture of the West as an enemy and the Communist bloc as a friend. Even if the Communist Party is officially banned, "front" organizations tend to flourish in such an atmosphere and there is no difficulty in keeping the population stirred up over the issue of Western "imperialism".

The Soviet bloc has made increased efforts since 1955 to capitalise on the popular mood to strengthen its ties with the Middle East. In addition to cultural agreements (e.g. the recent Soviet Egyptian agreement to exchange students and teachers) and exchanges of delegations, the following are the principal links wit the area.

Treaty Ties. Moscow is under no treaty obligation which would require it to assist an Arab state under attack. Dating from before the war, however, the USSR has treaties of Friendship with Yemen (renewed in 1955), a treaty of Friendship and Neutralit with Iran (whose provision banning participation in alliances directed against the other party was invoked in the case of Iranian participation in the Baghdad Pact); and a treaty of non-aggressior with Afghanistan (prolonged for 10 years in 1955). (The USSR denounced in 1945 a treaty of Friendship with Turkey).

Diplomatic Relations The Soviet bloc has made very pointed efforts to establish diplomatic relations as soon as possible with newly established states in the under-developed areas, or to raise its Legations to Embassies. Jordan reportedly rejecte an overture as well as did Saudi Arabia in 1958. Iraq requested the withdrawal of the Soviet Diplomatic Mission in 1955, for improper conduct, a new Soviet Ambassador has, however, now arrivec in Baghdad and diplomatic missions acting on the basis of the hast recognition of the new Iraqi regime by all members of the bloc are going In January, 1958, the USSR became the only country to set up an esta Embassy in the Yemen. The following chart outlines the extent of diplomatic relations between Middle Eastern states and the bloc. It is noteworthy that up to the present no Middle Eastern country has recognised the so-called DDR (~~District~~ Soviet Occupied Zone of German There are no signs of any change of that policy in the near future

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| Representation in the Middle East | USSR | Communist China | Bulgaria | Hungary | Poland | Roumania | Albania | Czechoslovakia |
|---|---|---|---|---|---|---|---|---|
| Saudi Arabia | Diplomatic relations | - | - | - | - | - | - | - |
| Israel | Embassy | - | Legation | Legation | Legation | Legation | - | Legation |
| Iran | Embassy | | | Legation | Legation | Legation | | Legation |
| Yemen (1) | Ambassadors in Cairo acting as Ministers to each country | Diplomatic relations | - | - | - | - | - | - |
| Iraq | Embassy | (2) | (2) | Agreement in principle to establish diplomatic relations | Agreement in principle to establish diplomatic relations | Agreement in principle to establish diplomatic relations | (2) | Agreement in principle to establish diplomatic |
| Jordan | - | Embassy | - | - | - | - | - | - |
| Libya | Embassy | | | | | | | |
| Lebanon | Embassy | - | - | - | - | - | - | - |
| UAR | Embassy | Recognised Communist China Government | Legation | Embassy | Embassy (acting also for Ethiopia) | Legation | - | Legation |
| Sudan | Embassy (Embassies in respective capitals also administering diplomatic relations with Poland and Roumania) | | | | | | | |

(1) Diplomatic relations - no diplomatic representatives.
(2) Situation not clear.



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Commercial Ties

The chart below speaks for itself, illustrating the sharp increase in Sino-Soviet bloc trade in the Middle East since 1955 and the rise in the degree of dependence of the UAR on the bloc. In the case of both Egypt and Iran, trade with the bloc countries is not a new pattern. Iranian trade has not yet reached the 1938 level. Only India has concluded more trade agreements with bloc countries and only Afghanistan has more non-military technicians than Egypt. The USSR, the Soviet Occupied Zone of Germany and Communist China have established permanent trade office in Cairo. A more detailed discussion of this question is beyond the scope of this paper.

| Country | Trade and Payments Agreements (number of bloc countries with whom agreements concluded) | | Credits | Trade with the Bloc (% of total trade) | | | | Ammo. Shipments | Technical Advisers |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Imports | | Exports | | | |
| | 31.12.57 | 31.12.54 | | 1957 | 1955 | 1957 | 1955 | | |
| Egypt | 9 | 7 | USSR, Czech X | 22 | 6 | 43 | 26 | X | 360 non military 450 military |
| Syria | 9 | 1 | USSR, Czech, E.Germ., Bulg. X | 8 | (3) | 18 | (2) | X | 110 non military 200 military |
| Lebanon | 8 | 3 | - | 3 | 2 | 5 | 6 | - | |
| Yemen | 5 | 0 | USSR X, China | n.a. | n.a. | n.a. | n.a. | | 55 non-military 50 military |
| Sudan | 4 | 0 | - | 12 | 5 | 5 | 3 | - | 5 |
| Israel | 5 | 5 | - | n.a. | n.a. | 5 | 4 | - | |
| Iran | 4 | 4 | - | 12 | 5 | 25 | 21 | - | 5 |
| Jordan | | | | 5 | 3 | 6 (1956) | 7 | - | |
| Saudi Arabia | | | | - | - | - | - | - | |
| Iraq | | | | - | - | - | - | - | |

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Economic factors are certainly of enormous ~~height~~ weight, but there can be no illusions that an internal programme of economic reform or a Western policy of massive economic assistance can compete in appeal with anti-Western demagogy, or that it will be possible simply to buy protection for Western economic and strategic interests.

Country Characteristics

The contradictions of the area make prediction obviously unwise. The following brief comments about the pressures at work in individual countries of the area are intended only to highlight some of the opportunities and danger spots.

Popular mood and the intentions of the leadership are obviously not static; nor are they easy to measure with any accuracy. In varying degrees, Arabs everywhere share the desire for unity, the tendency to seek extremist solutions, suspicion or worse of the West and often admiration of the Soviet bloc.

One criterion of governmental stability is the identity of attitude between the leadership and the country at large. By this standard the most stable of the extremist Arab countries are certainly Egypt, Iraq and Syria, perhaps in that order.

Egypt

Nasser has achieved the objective sought earlier by King Farouk of making Egypt the leader of the Arab world. In a one-party state, Nasserism is a quite representative expression of the mass opinion. There are certainly groups, notably in business, which fared better under earlier regimes and might well prefer a more genuinely neutral policy. Young ambitious army officers could form the nucleus of opposition should Nasser's star begin to fade. But, for the moment, his position seems unassailable at least so long as he can avoid or cover up defeat.

He has apparently realised, to judge from his statements, that he could become politically vulnerable to the charge of being a "tool of Communism". In fact, the Communist Party remains banned, is riddled with factions and most of its leaders are in jail. In Syria, Nasser was reported preparing to replace Soviet technicians by Egyptian. The Communist Party has succeeded, nevertheless, in penetrating some government and particularly propaganda services. While his policies are pushing him to a point of dangerous dependence on the Communist bloc, his people believe, as he does himself, that a programme of "positive neutrality" is best calculated to further Egyptian independence and power.

The danger of Nasserism lies not only in the messianic goals of Arab risorgimento, shared by all Arabs, but also in the fact that the spokesman for these goals should be a country whose

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internal economic and social stresses are so great, that it may be driven to bolster its internal position by foreign adventure against Israel or some Arab state co-operating with the West. Nasser could rightly be charged with failing to carry through an effective social revolution. His land reform, for example, has been more token than real.

Nasser's dilemma is how to obtain sufficient foreign credits when his policies alienate the banker nations. The more desperate he becomes, the more willing he may be to increase his dependence on the USSR. An alternative which he is no doubt now investigating is that of using the lever of Arab solidarity to push the oil producing Arab states to share their wealth. It is on just this sort of issue that he could come into conflict with Iraq, Saudi Arabia and Kuwait, and resort eventually to subversion to install more malleable regimes.

Syria

Whereas Egypt has been essentially a dictatorship by Junta since 1952, Syria has drifted from military dictatorship to parliamentary democracy of a sort and back again. Political life, which was much more active than in Egypt has centred on a conflict of factions rather than of parties. The five military dictatorship set up since 1949 (notably those led by Colonel Shishakli) made far-reaching efforts at social reform, and at least some attempt to retain the outward forms of parliamentary democracy. The country has found itself split between the supporters of civilian and of military rule, between the traditionalists and the modernists, between those elements centred in the commercial city of Aleppo favouring ties with Iraq, and intellectual and military circles preferring links with Egypt. Loose coalitions of opportunists, nationalists and socialist politicians have been held together by fear of outside intervention; this same fear has pushed them into close dependence on Egypt and the USSR.

One effect of the union with the UAR and reportedly one of the objectives sought by certain Syrian circles was to check the dangerous growth of Soviet and Communist influence which develop following extensive arms and economic agreements with the bloc in 1956-57. By moving troops to Syria during the crisis with Turkey in late 1957, and by placing Egyptians in key positions in the UAR, Egypt has established its predominance in the area.

There are reports of resentment within Syria on the part of business circles directed at the military who are held responsible for a union with Egypt which has brought the latter one-sided advantages. In fact, Egypt appears to be moving cautiously in implementing an economic union between the two countries. The fact that the conservative forces in Syria have been decimated and discredited makes even more unlikely any challenge to the pro-Nasser leadership. As noted earlier, the only evolution is likely to be

in the direction of closer ties with Iraq. The Levantine traditions and the greater economic wealth of Syria could encourage a certain independence in relations with Egypt.

Iraq

It is too early to define the orientation of the new government, nor even its future composition. The comments made earlier about the difficulty of maintaining a middle-road position even for a government which is so inclined, hold particularly true of one which has recently come to power by revolution. On the other hand, Iraq is under much less economic or demographic pressure than other Arab states to adopt extremist policies. If official statements reflect intention and not merely the normal reassurances handed out by new governments to all concerned, then Iraq intends for the time being to abide by the economic agreements concluded with Western oil interests. Pressure by Egypt for some sharing of oil in a mutual development scheme would mean, at the very least, pressure on the West for a larger share of the profits, but not necessarily nationalisation. It is difficult to see, on the other hand, how Iraq would feel able for long to remain a member of the Baghdad Pact.

The present government ranges in composition from the military leaders of the coup, Generals Kassim and Aref to a former participant in the pro-Nazi coup of 1941, a Kurd, reported to be pro-Soviet, and graduates of Western universities. Calls have begun to appear in the press for the establishment of a transitionary authoritarian regime, like that in Egypt, to prepare the way for Parliamentary democracy.

Iraq has hitherto had practically no relations with the Soviet bloc and a Communist Party which was repressed and virtually inactive. Now, however, a full Soviet Embassy has been set up. Diplomatic relations with a number of bloc countries are due to follow. The history of Soviet agitation among the Kurds, who constitute an important minority in Iraq, is one reason why the Iraqis may be cautious in approaching the Communists.

Jordan

This accident of history is probably the most vulnerable of all Middle Eastern states. For some time the King has ruled on the basis of his personal prestige, bolstered by the loyal Bedouin elements. The repeated purges of the Army, on which he is dependent for survival, cannot but help to hurt its morale. They are indicative, in turn, of a split in loyalty which would be fatal, given the fact that a majority of the population consists of pro-Nasser dissatisfied Palestinian Arabs. After the overthrow of a pro-Western cabinet in 1955 on the issue of membership in the Baghdad Pact, King Hussein collaborated with Egypt and particularly Syria until the time that an attempt was made to assassinate him in early 1957. Such an accommodation appears out of the question at present. He



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can probably rule only with Western military and economic assistance which cannot but further discredit him in Arab eyes. The collapse of Jordan would increase the danger of war in the area since Israel might be tempted to occupy a portion of its territory, precipitating intervention by other powers. From an economic standpoint, the only practical alternative is merger (or federation) with a larger state, or else a status implying special outside aid.

Lebanon

It is too early to judge the attitude of the government of General Chehab, or the effect which the recent crisis has had on the precarious balance of power in the state between Christian and Arab. At a minimum, the openly pro-Western position of the Lebanon will be modified to one of more complete neutrality, to satisfy particularly the Arab element. The danger, of course, is that an Arab population, which outnumbers the Christians, will press for merger or association with a united Arab State, thereby jeopardising the traditional role of Lebanon as a middleman in the area. This position could perhaps best be preserved by some international guarantee of Lebanon's autonomous state.

Kuwait

Despite the fact that the Sheik of this oil-rich territory has used the oil revenues wisely to build social services, public utilities, etc., he must undoubtedly feel the pressure growing somehow to protect his position against the onslaught of Arab unity. The desire of Iraq to absorb Kuwait hitherto rejected by the Sheik of Kuwait, might conceivably be regarded now as a lesser of evils.

Saudi Arabia

While an organized form of political life has not yet developed in this country, certain segments of the population, notably workers in the oil industry, may prove powerful political factors and are also a potential on which Nasser could presumably draw to a certain extent in achieving his aims. This fact, together with recent events in Iraq, is apparently of motivating significance for the trend in the governmental policy of Saudi Arabia which clearly indicates a closer lining up with Nasser.

Yemen

The significant strategic position of the Yemen, now in a loose federation with the United Arab Republic, presents under the given political alignments, a significant threat to certain Western positions. There are no indications that organized political life could in the near future present a major factor in determining the governmental attitude of that country, the ruling Prince having chosen an alliance with forces outside the country which in the light of logical analysis should be his direct enemies.

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THE SITUATION WITH RESPECT TO THE PALESTINIAN REFUGEES

No review of conditions and political climate in the Arab World can be complete without reference to the problem of Palestinian refugees. After Israel's successful repulsion of Arab-Egyptian armed attack in 1948, an armistice was concluded leaving certain territories under effective Israeli rule which had not been adjudicated to Israel by the United Nation decisions establishing that state. While the Israeli Government has built its policy essentially on a cohabitation of Israeli and Arab elements of population, large numbers of Arabs fled, notably from the areas newly occupied by Israel. These refugees, living largely in camps, have in their vast majority not shown any willingness to proceed to definite resettlement. A policy of deliberately impeding resettlement has practically been pursued by the states of the Arab League in order to ferment restlessness and provide an alibi for violent anti-zionism and the campaign "to destroy Israel". The Palestinian refugees often provide the human reservoir for Egyptian inspired actions of terrorism and revolt in other Arab countries not under Nasser's domination. They notably formed an important element of the so-called Feddayin raiding Israel from strong points in the Gaza Strip until a United Nations Police Force curbed military incursions in that area.

Living standards in the camps are often desperately low. Sanitary conditions and general health control have, however, been built up to such an extent as to contribute despite certain resettlements, to a rapid and permanent increase of the population holding the status of refugees. While the refugees in their vast majority are willing to work on the spot, they refuse to do so in a way which might in their opinion make them lose their claim to repatriation (resettlement). Furthermore, working opportunities in the areas where most of the refugees are concentrated are exceedingly limited.

The most recent official figures available from 1956 with respect to the repartition of Palestinian refugees are the following:

Total 922,000, (an unofficial count in the summer of 1958 gave the total as 1,037,000) of whom 450,000 are less than 15 years of age. Of this total, some 513,000 find themselves on Jordan territory, 217,000 in the Gaza Strip, some 100,000 in Syria and some 90,000 in Lebanon.

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The main agency to assist the refugees in their plight is the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA). UNRWA has attempted, with partial success and exceedingly limited means - its budget consists annually of some forty-five million dollars only - to build up more adequate conditions for these refugees. In view of the difficulties with respect to resettlement as set out above, and in view of the limited financial means, assistance had to be concentrated primarily on help in health services, special food rations, etc. Reiteratedly, UNRWA has asked for more definite directives as to the field of its proper activities and jurisdiction as well as to the standards of relief services to be provided. It has also sought more definite instructions as to its education programme and notably the possible extension of its mandate so as to permit it to encourage the general economic development of the host countries in ways that would indirectly benefit the refugees.

A brief outline such as the one given here indicates clearly the inherent limitations and shortcomings of the present organization and the way in which the present state of affairs, or its improvement, is intrinsically linked to broader policy issues. It presents certainly no solution, that in principle persons born after ~~1957~~ 1951 shall not be considered refugees later on.

## I/B A FEW CONSIDERATIONS ON THE WEST'S ASSETS IN THE ARAB WORLD

The chief economic asset in the Arab World is oil. A policy in this part of the world not taking account of it cannot be thought of. Economic problems forming at least an essential part of the issues in this region, any overall policy should be formulated with due regard to this factor, although psychological elements appear at present paramount.

One of the basic elements to be kept in mind is that while until now the very exploitation and thus substantiation of this potential wealth depended on Western enterprise, initiative and technical "know how", today these can be provided, to a large extent at least, by a power which is the chief political opponent of the Western World: the Soviet Bloc. Reliance on a technical monopoly is therefore out of date. The essential asset thus consists in the fact that the mere extraction of such potential wealth is of secondary significance unless linked to a functioning system of trade, and that the Soviet Bloc would not be able to offer a market similar to that of the Free World. Although the Soviet Bloc might be able to extend trade relations by increasing the purchase of oil considerably, presumably limits to such expansion would be reached at a much earlier date than in the export of oil from Arab countries to the West. Furthermore a one-sided orientation of trade

towards the Soviet Bloc would present for the Arab countries a definite menace to any chance of remaining masters of their own fate, to which they precisely aspire at present. Such unilateral concentration of exports in the direction of the Soviet Bloc would become doubly dangerous if, and to the extent to which experts and technicians from the Soviet area would have penetrated into the key industry of the Arab region. Last, but not least, economic links of an unbalanced character may prove particularly menacing in the case of the relative proximity of the power centre of such an overwhelming partner.

Certainly the present mood of influential sections in the Arab world combined with the unbalanced aspirations of the broad masses contain the definite risk of Arab countries misjudging the degree to which economic entanglement with the Soviet Bloc may be pushed without jeopardising political independence. Since the idea of eliminating what is felt or declared to be an attitude of patronage, tutelage, or even "colonialism" on the part of the Western Powers is paramount, the potentially positive situation of the West with a view to oil trading can be turned into a fully flung asset only to the extent to which the present hold on this essential weal of certain Arab regions would be replaced by a relationship which takes account of these feelings. A review of the institutional relationships in oil industries in the Arab World on the part of the West appears, therefore, to be a decisive lever to bring into the open potential assets available to the West.

Hand in hand with this the development of non-Middle Eastern resources of oil and energy for the West could effectively contribute to bringing pressure to bear on certain countries of the area under review without stumbling into the pitfall of blackmail or provoking potentially dangerous psychological repercussions.

The economic safeguard of prosperous development in these areas presenting a paramount problem, and the development of prosperity in such areas being in turn of capital political significance, powers or groups of powers which would effectively contribute towards achieving this essential Arab aspiration could presumably, whatever the first tactical reactions of certain Arab spokesmen might be, decisively improve their position. Economic resources and technical "know how" of the West present an almost unparalleled reservoir, which however is prevented from gaining its effectiveness in view of the mentality and psychological reservations existing in the Arab World with respect to the West. Yet since economic aid, a contribution towards fulfilling such aspirations, presents by itself a potential political factor of the first magnitude, hopes could be turned into a reality provided such factors as have been an impediment until now are resolutely discarded. Although it must be accepted that Arab mentality will easily indulge in conceptions



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to which reality, however vigorous and inspired the effort, will and can never correspond, a definite field of action to re-enhance the position of the West remains open. The prerequisites on which success in any attempt to develop this potential asset necessarily depend are two-fold. First and foremost, any impression on the part of the receiving side that definite power-political aims are pursued by such economic aid must be deprived of its very basis. Secondly, and this point links up with the first, in view of the need to make certain that in the eyes of the receiver his political independence and self-respect are not jeopardised, mere gifts may be unwise, keeping, however disinterested the offering side may be in its motives, to the teste of the beneficiary a flavour of paternalism and condescendent charity if not even of Machiavellianism. The assets of the West consist therefore in the possibility to build up economic assistance which would be free from political strings, which would be essentially aimed at helping the countries concerned to develop the means to help themselves, granted in such a way that human and national self-respect is safeguarded, the fear of succumbing to invisible strings eliminated. Long-term credits under economic conditions which it is true cannot be borne in any way exclusively by private enterprise could possibly be built on a system of repayment, founded on the guarantee of existing wealth in the receiving countries.

While planning possible economic aid to stabilise political conditions, the West will have to be careful not to undermine one of its major assets, namely the essentially favourable attitude of a number of non-Arab states in the Middle East, by being generous only towards those who are a source of potential political difficulties for the West. It should be kept in mind that one of the assets of the West consists in the possibility of directing economic assistance in such a way as to give an argument for their policies to those who have chosen an essentially positive attitude towards the Free World. This policy should and can be distinguished from "policy with strings".

To this potential asset another one can be added: The need of the countries concerned for education, training and similar facilities. Unless the gravest errors are committed by the West nothing can prevent the countries under review from aspiring to and effectively using Western means of education and training. While clouded by certain political developments of the recent past, the potential, and even actual strength, of Western civilisation in these areas is still paramount. The power and significance of Western civilisation presents even today an asset of great portent.

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Any consideration of educational problems is inherently linked up with the basic problem of political standards. While Western concepts of democracy are not easily introduced into an Islamic trained mentality, some basic concepts of freedom are sufficiently universal to be of value anywhere. Certain interpretations of Western political traditions which are transformed today into the banners of revolt contain still elements on which Western policy can usefully draw (even if recent events may invite the West to ponder the double-edged aspect of the spirit of purely secular revolution). Action to show the well-being of the humble in modern Western democracies, to prove the tremendous record of liberation and training for self-rule and freedom accumulated by the West all over the world, notably in Asia and Africa, should be combined with a policy making it clear that Arab self-respect an manifestations of national unity are welcomed and not fought by the West. In such a context the danger, well understood by more than a few Arab leaders, of Soviet power emerging to such an extent as to dominate Arab destinies can prove a useful lever for Western action

A clear definition of what Western self-respect will impo against illegitimate and abusive aspirations may also well play a useful role and bring out the potential strength of the West in tha area. It forms a necessary part of any policy willing to use existing assets, to show by homogenous and united action the limits of what will be accepted. To bring out potential goodwill towards and respect for the West in that area, the will unequivocally to suppor what is felt to be truly worth supporting is indispensable. (A guarantee for the Lebanon, and possibly certain other areas on the perimeter of Arabia, a clearly defined resolve to protect a declaration not to admit certain forms of subversion and penetration, may well have a sobering effect in a climate of uncertainty and confusi Such trends however depend in their effectiveness upon a reappraisal as outlined above and designed to mobilise factors potentially favourable to the West.

Arab nationalism finally is a force of which the Soviet Union has in the long run to fear much, more than the West. The West in its essentially liberal attitudes being anyhow unable, and unwilling, to enforce a status quo against "the will of the people" should not hesitate to take a positive attitude with regard to a movement which in the last resort is closer to its spirit than to the spirit of Soviet dictatorship. Millions of Moslems, although essentially of Turkish extraction, live under Soviet rule unable to raise their voices unless as controlled agents of the Soviet state. While this potential menace to the Soviets could be used to restrain the enthusiasm of the Kremlin leaders for pitching emotions in the Middle Eastern areas under review it would appear wise not to compromise with the Soviet Union in a spirit of imperial "power blocs" of the "classical" style if this vast asset is to be kept in reserve since cohesion and moral logic remain the pre-requisite of any policy aiming at a successful use of existing chances.

A successful solution of political problems arising in the context of community relationships in areas without separate national jurisdiction, inhabited to a large extent by populations close to the Arab mind, would present a first-rate asset. In fact, the constructive solution of such problems could be of a significance equal to that of Nasser-led Arab nationalism, and its potential match.

To sum up: any analysis of the possible assets of the Western World in this area brings out that these are above all of a potential character, and that certain policy decisions would have to procede any well-founded hope for a prosperous future of Western positions in that part of the world.



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## II. ECONOMIC BRIEF ON THE MIDDLE EAST

I. Summary

II. Selected Data for the Middle East

III. Importance of Middle East from point of view of oil and communications

Annex I. Country Briefs:

Aden Colony
Aden Protectorate
Bahrein
Egypt
Iran
Iraq
Israel
Jordan
Kuwait
Lebanon
Muscat and Oman
Qatar
Saudi Arabia
Sudan
Syria
Trucial Coast
Yemen

Annex II. Sources

SUMMARY

THE MIDDLE EAST(1)

Area : 8,549,000 km$^2$ (slightly larger than continental United States).

Population : 78,000,000

Terrain : Consists mainly of desert, with some forest, and smaller areas of arable land.

Standard of Living :

Low, with the exception of Israel, Lebanon and possibly Kuwait, which have standards nearer to those of the less developed countries in Europe.

Economy : Oil is the mainstay of the region's wealth. The oil producing regions are :

(1957 production in million of metric tons)

| | |
|---|---|
| Kuwait | 57.3 |
| Saudi Arabia | 48.4 |
| Iran | 34.9 |
| Iraq | 21.7 |
| Qatar | 6.6 |
| Neutral Zone | 3.3 |
| Egypt | 2.4 |
| Bahrein | 1.5 |
| | 176.1 |

Between ten and ninety per cent. of the Gross National Product of these countries (except Egypt) is derived from oil.

Oil revenues provide about $1 milliard annually to the producing countries. Iraq has been particularly active in using its funds for development. About one-third of Kuwait's revenues ($100 million a year) is invested abroad. Most of Saudi Arabia's revenues are used for defence and the maintenance of the royal households.

Syria, Lebanon and Egypt derive some oil revenues from transit and shipping dues.

Apart from oil, the region is poor, depending on a primitive agriculture. The area is generally self-sufficient in cereals and meat. Cotton, citrus fruits and dates are the important items for export, while imports consist mainly of manufactured consumer goods, machinery, fertilizers, tea, coffee and sugar.

(1) Consisting of: Aden Colony, Aden Protectorate, Bahrein, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Muscat and Oman, Qatar, Saudi Arabia, Sudan, Trucial Coast, United Arab States (United Arab Republic [Egypt and Syria] and Yemen).



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Between one-sixth and one-seventh of foreign trade is conducted among the Middle East countries themselves. Western Europe accounts for just less than one-half of the Middle East's trade in both exports and imports, while the USA takes eight per cent. of exports and provides one-sixth of imports. The Sino-Soviet bloc share of Middle East trade is small, but has been growing rapidly, especially in Egypt and Syria.

The low standard of living does not permit the accumulation of savings (apart from oil revenues) needed for economic development. The social structure of the area is ill-adapted to enterprise; the population has a generally low level of education; much of the land belongs to a small minority, and a large share of any new savings is invested in real estate.

Despite these limitations, many of the Middle Eastern countries are trying hard to promote industrial development.

Egypt, with almost one-third of the population in the area exercises a strong attraction because of its traditional centres of learning and culture. Her population is increasing rapidly, and her economic future appears bleak. Emigration may be necessary unless Egypt is able to obtain large-scale capital investment from outside, perhaps derived from some form of sharing the oil revenues of the area. Egypt is presently receiving some aid from the communist bloc as well as from Western sources.

Syria has a better balanced economy than has Egypt, and is carrying forward a scheme of economic development to be financed by the Soviet bloc. Membership in the U.A.R. has as yet meant no economic integration with Egypt. Syria would suffer economically from any moves in this direction.

Yemen is the most economically backward member of the United Arab States. Communist bloc loans are being used to improve the basic communications of the country.

Among other non oil producing countries, Jordan is the least viable economically, and avoids bankruptcy through Western subsidies. The Sudan's economic development is based almost wholly on cotton production and exports, and there is virtually no industry. Israel and Lebanon's relative prosperity in the area is based upon the capacities of their highly skilled people; in Lebanon, these skills are used in banking, trade and entrepôt activities in addition to agriculture; in Israel, light manufacturing industry is combined with an efficient agriculture. Large scale capital inflows have been vital in th development of Israel.

Of all oil producing countries, Saudi Arabia uses its revenues to the least advantage. There is almost no participation in the oil revenues by the mas of the people. Iraq, by contrast, has used seventy per cent. of its revenues for a large-scale development programme. Iran has some development plans under way, but the standard of living of the masses is very low. She has traditionally conducted a significant share of her trade with Russia.

Oil

The Middle East produces nearly a quarter total world output of oil and contains sixty-three percent of the free world's proved reserves of oil. Oil in this area is produced cheaper than elsewhere. At present, the Middle East accounts for fifty percent of total world exports; by 1975 it has been estimated that this proportion will probably rise to seventy-five per cent.



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One-half of Middle East exports go to Western Europe, and this constitutes seventy per cent. of Western Europe's oil supply. The Soviet bloc itself is a net oil exporter and does not purchase Middle East oil.

Communications

More than two-thirds of oil exported from the Middle East passes either through the Suez Canal or via the pipelines to the Mediterranean (in 1957 - 70 million tons of oil via Suez; 40 million tons of oil via pipelines).

Thirteen per cent. of world shipping goes through the Suez Canal, and the traffic has been increasing steadily. If the Canal were closed, it would cost thirty to forty per cent. more to ship from the Persian Gulf to Western Europe via the Cape, and twenty per cent. more to ship from Western Europe to the Far East. Northbound traffic through the Canal consists mainly of oil (which accounts for seventy-six per cent. of the bulk moved), while southbound traffic is mainly manufactured goods from Western Europe to the Near and Far East.



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II

SELECTED DATA FOR THE MIDDLE EAST

| Countries | Population (1956) (in 1,000) | Area ($Km^2$) | Oil Production 1957 (million metric tons) | Revenue from Oil (million US $) | |
|---|---|---|---|---|---|
| Aden Colony | 200 | 207 | - | - | - |
| Aden Protectorate | 600 | 290,680 | - | - | - |
| Bahrein | 122 | 598 | 1.5 | 9 | (1955) |
| Egypt | 23,400 | 1,000,000 | 2.4 | (40) | (Suez transit dues) |
| Iran | 18,943 | 1,630,000 | 34.9 | 151 | (1957) |
| Iraq | 4,900 | 444,442 | 21.7 | 131 | (1957) |
| Israel | 1,900 | 20,700 | - | - | - |
| Jordan | 1,500 | 96,610 | - | - | - |
| Kuwait | 205 | 15,540 | 57.3 | 308 | (1958) |
| Lebanon | 1,500 | 10,400 | - | n.a. | transit |
| Muscat, Oman | 550 | 212,380 | - | - | - |
| Qatar | 40 | 22,014 | 6.6 | 37 | (1955) |
| Saudi Arabia | 6,036 | 1,600,000 | 48.4 | 280 | (1957) |
| Sudan | 10,226 | 2,505,823 | - | - | - |
| Syria | 3,900 | 184,479 | - | (21) | (1957) (transit dues) |
| Trucial Coast | 80 | 83,600 | - | - | - |
| Yemen | 4,500 | 195,000 | - | - | - |
| Neutral Zone | - | 30,000(e) | 3.3 | - | - |
| TOTAL | 78,604 | 8,549,000 | 176.1 | 977 | |

(e) Estimate.

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III

## IMPORTANCE OF MIDDLE EAST FROM POINT OF VIEW OF OIL AND COMMUNICATIONS

1. Western Europe is vitally dependent upon the Middle East for its supplies of crude petroleum. With domestic production only able to satisfy some ten per cent. of requirements, the greater part of the oil consumed must be imported. It is the Middle East which furnishes nearly seventy per cent. of these requirements. Dependence on the Middle East shows every sign of increasing. Petroleum requirements of the free world as a whole are rising by some three per cent. a year. Should the Middle East continue to provide about half the additional need, in less than two decades this area will be furnishing some three-quarters of world crude petroleum exports as compared with about half as at present.

2. Crude petroleum output of the Middle East in recent years has been rising at some three times the world rate, except when the Suez Canal was closed and the I.P.C. pipeline shut down. Middle Eastern production now represents some twenty-two per cent. of world output. Production of crude petroleum is centred in Kuwait, Saudi Arabia, Iran and Iraq, which produce over nine-tenths of the output of the Middle East. The Middle East enjoys a predominant position in so far as proved oil reserves of the free world are concerned - some 24 billion tons or sixty-three per cent. of the total. Kuwait alone has about twenty-three per cent. of these reserves, as compared with thirteen per cent. for the United States and 0.6 per cent. for Western Europe. Output and distribution of the reserves may be seen from the following table:

(Million metric tons)

| Area | 1956 | 1957 | 1958(1) | Reserves (%) |
|---|---|---|---|---|
| Middle East | | | | |
| Kuwait | 55.0 | 57.3 | 66.7 | 22.6 |
| Saudi Arabia | 48.2 | 48.4 | 49.5 | 16.6 |
| Iran | 26.2 | 34.9 | 42.6 | 11.7 |
| Iraq | 31.1 | 21.7 | 30.1 | 9.3 |
| Qatar | 5.9 | 6.6 | 7.9 | 2.8 |
| Neutral Zone | 1.7 | 3.3 | 3.5(2) | |
| Egypt | 1.7 | 2.4 | 3.1 | |
| Bahrein | 1.5 | 1.5 | 1.8 | |
| Middle East | 171.3 | 176.1 | 201.7 | 63.0 |
| United States | 353.7 | 353.9 | 327.1 | 13.0 |
| Venezuela | 131.5 | 148.4 | 132.6 | 6.0 |
| Other | 99.5 | 103.6 | n.a. | 18.0 |
| WORLD | 756.0 | 782.[illegible] | n.a. | 100.0 |

(1) Estimates based on production figures for first few months of 1958.

(2) Estimate based on production in 1956 and 1957.

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Production in the Middle East in 1958 is running at an annual rate of some fifteen per cent. higher than last year. Increases in output in recent months have been particularly marked in Kuwait, Iran and Iraq. Nearly ninety per cent. of production was exported last year, with over one-half of these exports going to Western Europe. Nearly all the exports were in the form of crude petroleum; however, the refinery capacity has been rising in recent years. A total refinery capacity of some 53 million tons (about thirty per cent. of output) now exists. Main facilities are located at Abadan, Kuwait, Ras Tanura, Bahrein and Aden.

3. The economies of Middle Eastern countries have become dependent to a high degree on the disbursements of the oil companies and on direct oil payments. Even such non-oil bearing States as Syria have received substantial amounts from transit dues. Many of the original concessions were in the form of royalties payable on each ton produced; more recently, however, 50-50 profit-sharing arrangements have been introduced. The oil revenues of the different countries of the Middle East are set out below:

(Million $)

| | 1950 | 1952 | 1954 | 1955 | 1956 | 1957 |
|---|---|---|---|---|---|---|
| Kuwait | 11.7 | 165.4 | 217.5 | 280.0 | 280.0 | 308.0 |
| Saudi Arabia | 112.0 | 170.0 | 180.0 | 280.0 | 280.0 | - |
| Iraq | 14.0 | 92.6 | 155.5 | 223.4 | 193.2 | 137.2 |
| Iran | 44.9 | - | - | 84.0 | 151.2 | 212.8 |
| Qatar | 1.0 | 7.0 | 20.7 | 36.7 | - | - |
| Bahrein | 2.0 | 4.2 | 11.1 | 8.5 | - | - |

The principal beneficiaries are Kuwait and Saudi Arabia, with Iraq and Iran receiving somewhat less. Oil revenues represent over ninety per cent. of the national income in Kuwait and Qatar, between twenty-five and sixty per cent. in Bahrein and Saudi Arabia, between twenty-five and thirty-three percent. in Iraq, and about ten percent in Iran and Syria.

4. The pattern of international commercial interest in the Middle East has changed somewhat since the war. While British interests were paramount previous to 1939, it is estimated that in 1953 US firms accounted for fifty-three per cent. of total oil production in the Middle East, while British and British-Dutch firms accounted for some thirty per cent. Middle East production as a percentage of the total output of different companies may be seen below:

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| | Kuwait | Saudi Arabia | Iran | Iraq | Other Middle East | Total Middle East |
|---|---|---|---|---|---|---|
| Standard Oil (New Jersey) | - | 12.5 | 2 | 2 | 1.5 | 17.5 |
| Royal Dutch Shell | 16 | - | 4 | 4.5 | 2.0 | 26.5 |
| Gulf Oil | 48.5 | - | 3 | - | - | 51.5 |
| The Texas Company | - | 28.5 | 4.5 | - | 0.5 | 33.5 |
| British Petroleum | 57.5 | - | 28.5 | 10 | 2.0 | 98 |
| Standard Oil of California | - | 33.5 | - | - | 6.0 | 40.5 |
| Socony Mobil Oil | - | 14.5 | 7.5 | 7.5 | 2.0 | 31.5 |
| Compagnie Française des Petroles | - | - | 57.5 | 23 | 18.0 | 98.5 |
| Phillips Petroleum | - | - | - | 1.5 | 19.5 | 20.5 |
| Getty-Tidewater Group | - | - | - | 3.5 | 23.0 | 26.5 |

5. The cost of producing a barrel of oil is much less in the Middle East than in other areas.(1) In the United States, on the other hand, costs are increasing. It has been calculated that drilling costs in the United States per barrel may double within the next decade. Despite large subsidiary capital investments required in the Middle East, the high rate of amortization necessary to cover the political risk, and the pre-emption of fifty per cent. of profits by the producing companies, it appears that the rate of return on investment is much greater than in other areas. Any shift in the source of supply away from the Middle East would tend to increase costs.

6. The Suez canal and the pipelines of the Middle East are of paramount importance in the communications system of Western Europe. The tonnage passing through the Suez Canal has been steadily increasing since the war, except for the period between October 1956 and April 1957, when the Canal was closed. Between 1946 and 1955, the total tonnage passing through the Suez Canal has risen fivefold. As will be seen from the following table, the average length of haul between the Middle East and Europe and between the Middle East and North America is considerably shorter by the Canal:

| | (nautical miles) | |
|---|---|---|
| | Actual | If Suez cargoes had been carried via Cape of Good Hope |
| Middle East to Europe | 5,850 | 11,160 |
| Middle East to N. America | 8,070 | 11,760 |

(1) Price of W. Texas sour 36° API fob US Gulf was $3.24 and the price of Arabian 36° API fob Persian Gulf was $2.12 in 1957.

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The cost of routing shipping through the Suez Canal from the Persian Gulf to Western Europe is some thirty-five to forty per cent. cheaper than routing it round the Cape of Good Hope, and it is some twenty to thirty per cent. cheaper for shipping to the Far East. Nearly thirty per cent. of all the oil produced in the Middle East passes by pipeline through the Lebanon and Syria to loading terminals on the Mediterranean. Numerous other pipelines of varying length link the oilfields of the Middle East with the Persian Gulf. The Iranian Government has been holding talks with the Turkish Government concerning a possible pipeline from the Kum field, which is still under development, to the Mediterranean, passing to the north of Syria.

7. The dependence of Western Europe on oil from the Middle East is, however, mitigated by a number of factors. These are:

(i) Alternate sources of supply are now being developed by the major oil companies in Africa and Europe. Oilfields in the Sahara are expected to be producing some ten million tons by 1960 and some twenty million tons by 1965. Exploration is being stepped up in Nigeria. Western Europe is expected to be producing some fifteen million tons by 1960 and some twenty million tons by 1965.

(ii) Output in all the main producing areas is now running well below capacity. In the United States, Venezuela and Canada, production is below levels reached in 1957.

(iii) Should it prove necessary to re-route oil supplies from the Middle East to the Western Hemisphere, a considerable tanker capacity is available. Some 5.5 million tons of tanker tonnage is now laid up, representing about eleven per cent. of the world tanker fleet. At the same time, new tankers are being built at the rate of seven million tons a year, which would bring the total tanker reserve to about twenty per cent. of total fleet. Tankers in service are also frequently operating at less than capacity.

(iv) Oil stocks in Western Europe are now apparently higher than at the time of the Suez crisis. Large coal stocks also exist.

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## ADEN COLONY

**Area:** 207 $km^2$ (desert, not self-sufficient).

**Population:** 200,000

**Main Towns:** Aden - 96,000
Sheikh Othman 50,000

**Standard of living:** High.

**Economy:** Port of Aden as basis of economic activities. Only good harbour on the shipping route to India, (tonnage handled comparable with Liverpool or Antwerp).

Transshipping of cotton goods and good entrepôt centre between Arabia and East Africa.

Strategic importance for fuel bunkering strengthened by Little Aden oil refinery since 1954 (capacity 5 million tons of crude oil a year).

Small private factories (soap, light industry, cloth).

**Budget:**

Revenues from duties on liquor, tobacco, opium, salt. Expenditures for development purposes (education, medical and public health, communications).

**Currency and Banking:**

Unit of currency is the East African Shilling (1 East African Shilling = 14 cts.) issued by the East African Currency Board. Member of Sterling Area. The National Bank of India, the British Bank of the Middle East with numerous other banking facilities.

**Foreign Trade:**

Imports: from UK £13.0 million, 1955 £73.6 million

| Direction (1954): | | |
|---|---|---|
| | from India | 8.8 |
| | from total Sterling Area | 40.5 |
| | " Dollar Area | 3.1 |

Exports: to Sterling Area 7.7 1955: £62.7 million.
(and re-exports)
to U.K. 2.7
to Dollar Area 0.5

**Composition:**

Imported - petroleum and products, cotton piece goods.
Exported - petroleum, ships' bunker fuel oil, coffee.

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## ADEN PROTECTORATE

**Area:** 290,080 km$^2$ (23 independent Arab States, Western and Eastern Area) mostly barren desert land. 1% total area cultivable.

**Population:** 600,000

**Main Towns:** Mukalla
Abyan

**Standard of living:** Low. like Yemen very backward.

**Economy:** Agriculture which supports 90% of the population. Cereals, cotton, oil seeds, dates make up most of the crops.

Abyan with cotton-growing scheme (development project).

Fishing trade for inland and export sales (Mukalla - the main port).

**Currency and Banking:**

Handled by the Aden Colony facilities.

**Budget:**

Revenues and expenditures accounted in individual State administrations (sultanates, sheikdoms, mirates).

Colonial Development and Welfare Fund with minor contributions.

British government expenditure: (1955-56) £762,374.

**Foreign Trade:**

Figures for Aden Colony are applicable.

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## BAHREIN

Area: 598km$^2$ (sufficient water reserves, one-twentieth of land is cultivated)

Population: 120,000

Main Towns: Manama - 40,000
Muharraq & Hedd 25,000

Standard of living: High.

Economy: Oil production by Bahrein Petroleum Co. (BAPCO). In 1957, 1.5 million tons produced. Large oil refinery on Bahrein, after Abadan the largest in the Middle East, processes pipeline oil from Saudi Arabia. Proportion of imported to home-produced crude oil is 5 : 1.

Manama as entrepôt centre and as communication centre in the Persian Gulf versus the Far East (free zone; no transit charges) U.K. Naval and Air bases. Growing importance of Muharraq Airport. Decreasing significance of pearl fishing industry. Minor industries.

Currency and Banking:

Unit of currency is the Indian rupee. Member of Sterling area.

Budget:

Revenue is derived from oil royalties and from Customs duties. 1952: earnings from oil amounted to $6.3 million ($\frac{3}{4}$ of national income), 50% of BAPCO profits provide $\frac{2}{3}$ of total revenues.

Free medical services and free education.

Expenditure for development: port of Manama, irrigation, public utilities, hospitals and schools.

Foreign Trade:

50% of imports are re-exported chiefly to Saudi Arabia, Persia and Qatar. (1957: £17 million imports and £7 million exports).

Chief imports: household goods, foodstuffs, rice, machines, clothing, motor cars (mostly from UK (25%), India, USA and Sterling area).

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## EGYPT

| | | | % | |
|---|---|---|---|---|
| Area: | 1,000,000 km$^2$ | - | 2.4 | Arable |
| | | | - | Meadow |
| | | | - | Forest |
| | | | 97.6 | Desert |

Population: 23,400,000 Yearly increase = 470,000

| Main Towns: | | |
|---|---|---|
| | Cairo | 2,000,000 |
| | Alexandria | 919,000 |

### Standard of Living

Egypt's standard of living is low and has been declining steadily for the last three decades, as her yearly population rise of almost half a million more than offsets any increase in production.

### Economy

With the exception of a narrow fertile belt along the Nile, the rest of the country is virtually desert. Agriculture, especially cotton, is the mainstay of the economy, accounting for most of the exports, and providing two-thirds of the employment.

There are few natural resources in the country, other than the Nile Valley bed. There is some iron ore, but no coal is available. Egypt has been producing about two million tons of oil each year for the past decade, and this covers about sixty per cent. of her oil requirements.

Agricultural production cannot expand further without large-scale irrigation, and this would increase the arable area by only one-fifth.

Industrial expansion has been planned for under the five-year plan, and 125 projects are planned. If completed, an additional 500,000 jobs would be available, but about 1,000,000 people will have entered the labour market. There is little capital available in Egypt for financing this plan.

The communist bloc loans will finance about one-half of the foreign exchange cost of $450 million needed for the five-year plan (1957-1961). The Federal Republic of Germany has guaranteed $90 million of loans to be made by German exporters to Egypt.

### Budget

Budgetary expenditures have been rising rapidly, in line with higher defence, investment and welfare costs. Government financing has been inflationary, being based on borrowings from the Central Bank.

(Millions of £E)

| | 1954/55 | 1955/56 | 1956/57 |
|---|---|---|---|
| Receipts | 191 | 211 | 252 |
| Expenditure | 254 | 286 | 296 |
| of which: | | | |
| Ordinary | 175 | 188 | 222 |
| Capital | 79 | 98 | 74 |

Currency and Banking:

The central bank is the National Bank of Egypt. The Egyptian pound has a par value of $2.87 US, but the free market rate is about thirty per cent. lower. There is a special export pound, determined in the free market, for use in cotton sales. There is a possibility of a currency union with Syria.

Foreign Exchange

Holdings of gold and foreign exchange are $461 million, and have fallen steadily for five years. Of this total, about $275 million are in the form of blocked sterling, and most of the remainder is gold cover for the currency. There is almost no other foreign exchange available for the payment of current imports.

Foreign Trade

The balance of trade is as follows:

(Millions of US $)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Exports | 397 | 409 | 492 |
| Imports | 525 | 534 | 524 |
| Balance | - 128 | - 125 | - 32 |

Arms purchases from the Soviet bloc in 1955 and 1956 have added to the balance of trade deficit. There is a surplus on trading account with the Soviet bloc and most of this is probably offset by payments for arms. The overall deficit has been financed by Suez Canal dues (previously amounting to about $40 million a year, which may increase in the future), sterling balances (still amounting to £100 million and released at a rate of £20 million a year), and a running down of reserves.

Distribution of Trade

There has been a rapid increase in the communist bloc share of Egypt's foreign trade at the expense of Western Europe.



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EXPORTS (percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Western Europe | 40 | 33 | 26 |
| Soviet bloc | 26 | 32 | 43 |
| Others | 34 | 35 | 31 |
| | 100 | 100 | 100 |

IMPORTS (percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Western Europe | 58 | 51 | 41 |
| Soviet bloc | 6 | 13 | 22 |
| Others | 36 | 36 | 37 |
| | 100 | 100 | 100 |

Commodity Pattern of Trade

Cotton is Egypt's main source of export income, accounting for three-quarters of all exports. In 1957, more than fifty per cent. of total cotton sales went to the Sino-Soviet bloc. Rice is another important export. Import items are varied and include fuels, beverages, wheat and manufactured products.

Communist Bloc Aid

(Millions of US $)

| Amount | Nature of Loan | Granted by | Date |
|---|---|---|---|
| 250 | Arms | Czechoslovakia | 1955 |
| 175 | Economic | USSR | December 1957 |
| 56 | Economic | Czechoslovakia | 1957 |
| 20 | Economic | East Germany | 1958 |
| $501 million | | | |

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## IRAN

| | | | % | |
|---|---|---|---|---|
| Area: | 1,630,000 km$^2$ | - | 10 - 15 | Cultivated |
| | | | 15 | Grazing |
| | | | 10 - 15 | Forest |
| | | | 55 - 65 | Desert or waste |

Population: 18,945,000 (1956)

Main Towns: Teheran 1,200,000
Abadan 256,000

Standard of living: Among the lowest in the Middle East.

Economy

Oil output, which at present accounts for roughly one-tenth of the national product, is of major importance to the development of the economy. Production in 1957 totalled 34.9 million tons - approximately twenty per cent. of total Middle East production. Operations are based on an agreement between the Iranian Government and a Consortium of eight oil companies owned by British, American, Dutch and French interests.

Agriculture provides the livelihood for the bulk of the population and accounts for the greater part of the country's exports other than oil. Main crops are wheat, fruits and nuts, rice and sugar beet. Tobacco, cotton, tea and wool are also important. Methods of cultivation are primitive, and some two-thirds of the land is held by a small minority and worked on a crop-sharing basis. It is estimated that irrigation could bring into productive use roughly half of the present waste or desert areas.

Mineral resources are believed to be considerable, but as yet are not fully explored. Lead, zinc, chromate and manganese are produced in small quantities. Coal output meets the needs of cities and industries.

Industry, small-scale, is concentrated on textiles, building materials and the processing of raw materials and agricultural produce.

The country's second development plan (1954-1961) places the main emphasis on agriculture, irrigation, communications and transportation. Industry, mining and social services take a lower priority. Sixty per cent. of oil revenues, together with IBRD loans, have financed the plan to date.

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Budget

(years ending 30th March, in million rials)

| | 1954-55 | 1955-56 | 1956-57 (estimate) | 1957-58 (estimate) |
|---|---|---|---|---|
| Revenue | 10,848 | 12,065 | 15,784 | 21,715 |
| Expenditure | 13,058 | 13,591 | 19,865 | 21,718 |

Currency and Banking:

Rial = $1.30

The Central Bank has the sole right to issue notes, and eight other banks provide specialised services (e.g. investment for agriculture and industry, export development). In addition, there are five privately-owned banks of which only one - the Russo-Iran Bank (for financing Soviet-Persian trade) - is foreign.

Foreign Trade

(years ending 30th March, in million US $)

| | 1954-55 | 1955-56 | 1956-57 |
|---|---|---|---|
| Transactions of Oil Sector | + 39 | + 117 | + 164 |
| Exports (fob) | + 120 | + 105 | + 105 |
| Imports (cif) | - 232 | - 291 | - 278 |
| Services (net) | - 7 | - 17 | - 34 |

The trade deficit is now largely met by oil revenues, and, with a net inflow on capital account (aid, IBRD loans), there is an overall balance on external payments/receipts.

Distribution of Trade

March 1955 - March 1956

Percentage distribution

| | Exports | Imports |
|---|---|---|
| United States | 12 | 20 |
| Western Europe | 43 | 34 |
| Soviet bloc | 17 | 9 |
| Others | 28 | 37 |
| | 100 | 100 |

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Commodity Pattern of Trade

Exports, apart from oil, in 1955-56 consisted of cotton 21%, carpets 16%, dried fruits 15%; wool, hides and other raw materials, and agricultural products.

Imports in 1955-56 were almost three times as large. Tea and sugar accounted for 18% of the total, with steel and steel products, machinery, vehicles, tyres, chemicals and textiles accounting for the bulk of the remainder.

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## IRAQ

| | | | % | |
|---|---|---|---|---|
| Area: | 444,442 km$^2$ | - | 5.4 | Arable |
| | | | 9.2 | Meadow and grass land |
| | | | 4.1 | Forest |
| | | | 81.3 | Desert, waste |

Population: 4.9 million

| Main Towns: | | |
|---|---|---|
| | Baghdad | 364,000 |
| | Mosul | 302,000 |
| | Basra | 94,000 |
| | Kirkuk | 69,000 |

Standard of living: Fairly high compared with other countries in the Middle East.

Economy

Oil revenues account for between one-quarter and one-third of the national income. Oil production about thirty million tons a year; did not quite reach the level prevailing prior to the damage to the pump station in Syria in November 1956. A big oil refinery plant completed in 1957. New agreement (July 1958) between the Iraq Petroleum Company and the Iraq Government, which provides for the same 50-50 profit-sharing as before, but turned back some oil concessions to Iraq.

Eighty per cent. of population derives its living from agriculture; the rest are occupied in handicrafts, small enterprises and trade. Only 12,000 men in the oil industry. Main agricultural crops: wheat, barley, rice, cotton, millet and dates. Surplus of barley, dates, cotton. Industrial production small, but expanding; newly completed textile mill, cement plant, asphalt plant.

Seventy per cent. of oil revenues goes into development projects, of which more than fifty per cent. to agriculture (irrigation, flood-control, disease remedies), twenty-five per cent. to road-building, thirteen per cent. to industrial plant, and five per cent. to housing. Capital formation is amongst the highest in Middle East.

Budget

The revenues in the ordinary budget come from duties, indirect taxes and thirty per cent. of the oil revenues. In the budget for 1958/59 expenditures are estimated at Iraqi Dinar 76.9 million and revenues at Iraqi Dinar 73.6 million. Expenditures on health, social and educational services have increased rapidly. The Iraq-Jordan Union (now dissolved) approved in June this year common budget-expenditures amounting to about $90 million, of which $66 million were allocated for defence. Eighty per cent. of the expenditures would have been met by Iraq.

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Currency and Banking:

Currency: Iraqi Dinar (I.D.) = £1 sterling = US $2.80. Member of the sterling area.

National bank: Central Bank of Iraq.

Foreign Exchange

Holdings of foreign exchange are estimated at I.D.261 million at the end of 1957, equivalent to more than two years of merchandise imports. Most of the reserves are in pound sterling.

Foreign Trade

Merchandise exports and imports were the following in recent years:

(Million Iraqi Dinar)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Exports | 185.3 | 170.6 | 128.4 |
| of which: | | | |
| oil | 168.1 | 156.7 | 113.2 |
| barley | 6.2 | 5.0 | 3.0 |
| dates | 2.8 | 2.5 | 3.4 |
| Imports | 97.2 | 114.6 | 122.4 |
| of which: | | | |
| by foreign oil companies | 6.3 | 7.4 | 10.4 |
| Trade balance | + 88.1 | + 56.0 | + 6.0 |

Imports consist mainly of manufactured goods and industrial raw materials, such as textiles, clothing, iron, steel, machinery, motor vehicles, electrical apparatus, chemicals, etc., but also of such agricultural goods as tea, coffee and sugar. The main suppliers are the United Kingdom, the United States, Italy, Japan, Ceylon, Belgium and India, which together accounted for about eighty per cent. of her total merchandise imports (1952) (the United Kingdom and the United States alone about fifty per cent.)

Apart from crude oil, Iraq's exports are almost entirely agricultural: grains (especially barley), dates, raw wool and cotton, hides, skins, etc. The exports of agricultural goods go mainly to the United Kingdom who is also the main buyer of oil.

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Area: 20,700 $km^2$

Population: 1.9 million (annual increase of 80,000)

Main Towns:

| | | |
|---|---|---|
| Tel Aviv | - | 400,000 |
| Haifa | - | 200,000 |
| Jerusalem | - | 155,000 |

Standard of living: Highest in the Middle East area (Western standards of personal consumption)

Economy:

Agricultural country (agriculture covers 60% of country's requirements) with poor mineral and energy resources. Labour force: 14.7% in agriculture, 22.6% in industry, 7.1% in transportation, 17.4% in trade and finance. Absorption of immigrants as economic and social problem. High wage, transportation and power costs as against a low degree of productivity.

Histraduth, the most significant trade union, as organising force in the economy (owner of industrial and commercial enterprises and of financial institutions).

Industrialisation process: small and light industries (food processing, earthenware, metal pipes, spare parts, cement).

Currency and Banking:

Unit of currency is the Israeli £ (1 US $ = 1.80 I.£) (1 I.£ = .55 cents) Bank of Israel, state-owned central bank. Problem of inflation in the economy: prices have multiplied five times since 1950 (system of cost of living allowances). Lagging productivity. Not member of Sterling Area. Difficult system of exchange rates. Foreign exchange holdings: November 1957, 84.7 million dollars gold and foreign exchange.

Budget:

One-third total budget expenditures for development, one-tenth for defence. Budget balanced by counterpart funds (one-third of revenue 1954-55 with falling trend).

Defence expenditures and debt and subsidy payments rising.

Balance of Trade:

(million of US $)

| | 1955 | 1956 |
|---|---|---|
| Exports | 90.2 | 107.3 |
| Imports | 325.0 | 364.0 |
| Deficit | 234.8 | 256.7 |

Pattern of Trade:

Exports: citrus fruit (35%), cut diamonds (25%), textiles, potash, cement.
Fourth exporter of oranges in World trade (after Spain, USA, Algeria).
18.9% of exports to USA, 18.7% to U.K.

Imports: 50% raw materials and foodstuffs
10% fuel and oil
25% machinery and capital goods for expansion of industry, agriculture, construction and public utilities.

Shift from consumer goods to finished capital goods.
Arms purchases from Canada and France.
Imports financed by exports (20%).
tourism and allied receipts (10%), German reparation payments (from 1952 till 1964 annually $70 million), gifts, US grants and loans (Ex-Im Bank) and by purchases of development bonds from abroad.
No trade relations with surrounding Arab states.

Sino-Soviet Bloc Trade

(Exports and imports in % of total trade)

| 1954 | 1955 | 1956 |
|---|---|---|
| 3.0 | 2.1 | 1.8 |



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## JORDAN

| | | | % | |
|---|---|---|---|---|
| Area: | 96,610 km$^2$ | - | 5.3 | Arable |
| | | | 6.6 | Meadow, grassland |
| | | | 0.4 | Forest |
| | | | 87.7 | Desert, waste |

Population: 1.5 million (In 1948, 0.4 million. Increase due largely to influx of almost one million from former Palestine.)
Annual increase in population: 40,000

Main Towns: Amman 202,000
Jericho
Jerusalem

### Standard of Living

Very low; estimated at among the lowest in the Middle East (less than half of that in Iraq).

### Economy

Mainly an agricultural country; on the whole, self-supporting in agricultural goods; surplus of vegetables, and sometimes grain and cattle products. Dead Sea contains vast quantities of mineral salts (potash, bromine), and there are also large deposits of phosphate and manganese ore. Industrial development hampered by lack of energy sources (coal, oil). Development plans are directed mainly towards irrigation and hydro-electric power projects (Jordan River and Yarmun River), the implementation of which is mainly dependent on foreign aid. Scheme for development of Jordan River would require collaboration with Israel.

### Budget

About three-quarters of the budget revenue up to 1957 were provided by the British Government. Since then, the United States has largely replaced the United Kingdom as a budget contributor. The budget revenues in 1956/57 were estimated at about J.D. 23 million, of which:

| | | | |
|---|---|---|---|
| domestic receipts | J.D. | 8 | million |
| foreign grants-in-aid | | 11.2 | " |
| foreign loans and reserves | | 2.2 | " |

Military expenditures accounted for about half of total expenditures.

### Currency and Banking:

Currency: Jordan dinar = £1 sterling.
Member of the sterling area.

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Foreign Trade

(Million US $)

| | 1948 | 1954 | 1955 | 1956 |
|---|---|---|---|---|
| Exports | 11.9 | 7.9 | 8.[illegible] | 13.9 |
| Imports | 46.5 | 55.6 | 75.8 | 77.9 |
| Balance | - 34.6 | - 47.7 | - 66.2 | - 64.0 |

Exports consist entirely of agricultural products and raw materials, while imports mainly consist of manufactured goods (clothing, bensine, motor cars), plus sugar and coffee. Main suppliers are the United Kingdom (20%), other OEEC countries (25%), Middle East countries (33%) and the United States. In recent years, Poland has been the main purchaser of phosphate.

The trade deficit has been covered by foreign aid; up to March 1957, the British Government subsidised Jordan with about £12 million annually. The promises by Syria, Saudi Arabia and Egypt to support the country after the British troops had been pulled out of Jordan have not been fulfilled; both Egypt and Syria have refused to pay their part of the annual subsidy of £12 million. Official sources in Jordan have estimated the country's need of financial aid from the United States during 1958 and 1959 at $5[illegible] million - half for defence and half for economic development.

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KUWAIT

Area: 15,540 $km^2$ (barren country)

Population: Over 200,000 (2,800 Europeans and Americans in 1956)

Main Towns: Kuwait (120,000).

Standard of living: Very high. (20,000 vehicles for 120 miles of road) (nine-tenths of national income derived from oil).

Economy: Oil production as most important economic activity. 24.0% of World total oil reserves; 6 - 7% of World total production (205,000 tons a day).

Kuwait Oil Company, a joint British-American Company. Very few industrial plants. Port of Kuwait as an entrepot for goods from East to West. Strategic increasing importance for bunker fuel supply in the Persian Gulf.

Currency and Banking:

Unit of currency is the Indian rupee (1 I.rupee 21 c Member of Sterling area. British Bank in the Middle East and Kuwait National Bank.

Budget:

As yet no treasury system; revenue ($308 million yearly) from oil used for large-scale development projects (education, health, public utilities). Most teachers are Egyptians.

Of oil royalties, $\frac{1}{3}$ is invested yearly ($100 million in London) and $\frac{1}{3}$ is consumed by the Royal family, $\frac{1}{3}$ for capital development in the economy.

Free education and medical services for the people.

10% of population in the Civil Service with high salaries.

Foreign Trade:

| | | |
|---|---|---|
| Imports | - | £30 million (1954) |
| Exports | - | £ 4 million (excluding oil) |

Re-exports to Persia, Iraq and Saudi Arabia.
Oil exports amount to 800 million dollars a year. England imports 50% of its oil from Kuwait.

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## LEBANON

| | | | % | |
|---|---|---|---|---|
| **Area:** | 10,400 km$^2$ | - | 27.0 | Arable |
| | | | 0.7 | Meadow |
| | | | 7.1 | Forest |
| | | | 65.2 | Desert |

**Population:** 1,500,000 (one-half Christian; one-half Moslem)

**Main Towns:** Beirut - 450,000
Tripoli - 100,000

**Standard of living:** Very high by Middle East standards.

**Economy**

Varied, with agriculture, small-scale manufacturing, banking and trade. There is no official development plan, although the Government encourages local industry.

**Currency and Banking:**

Lebanese pound - official rate US $.46; free rate US $.31. Central bank is Bank of Syria and Lebanon, which handled the banking for both these countries until August 1956.

**Foreign Exchange Reserves** - $100 million.

**Budget**

(Millions of Lebanese pounds)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Receipts | 179 | 198 | 170 |
| Expenditures | 132 | 145 | 169 |
| of which: | | | |
| Ordinary | 95 | 110 | 130 |
| Capital | 37 | 35 | 39 |

**Balance of Trade**

(Millions of US $)

| | 1955 | 1956 | 1957 (9 months only) |
|---|---|---|---|
| Exports | 37 | 45 | 30 |
| Imports | 241 | 256 | 200 |

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Balance of Payments

Exports of goods cover only a small fraction of imports, but the balance is made up by entrepôt transactions, banking, insurance, and capital inflow, especially from Lebanese living abroad.

Geographical Distribution of Trade

EXPORTS (percentage distribution)

| | 1955 | 1956 | 1957 (9 months) |
|---|---|---|---|
| Middle East | 54 | 38 | 49 |
| Western Europe | 24 | 29 | 22 |
| Soviet bloc | 6 | 5 | 5 |
| Others | 16 | 28 | 24 |
| | 100 | 100 | 100 |

IMPORTS (percentage distribution)

| | 1955 | 1956 | 1957 (9 months) |
|---|---|---|---|
| Middle East | 27 | 31 | 27 |
| Western Europe | 47 | 45 | 50 |
| Soviet bloc | 2 | 3 | 3 |
| Others | 24 | 21 | 20 |
| | 100 | 100 | 100 |

Commodity Composition of Trade

Exports: Textiles are most important.

Imports: Machinery, means of transport, textile fabrics, foodstuffs, petroleum.

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## MUSCAT AND OMAN

| | |
|---|---|
| Area: | 215,000 $km^2$ - mainly desert. |
| Population: | 550,000 |
| Main Towns: | Muscat - 5,500<br>Matrah - 8,500 |
| Standard of living: | Low |
| Economy: | Primitive agriculture: dates, camel raising. |
| Currency: | Maria Theresa dollar<br>Also Indian rupee<br>Member of sterling area. |
| Trade: | 1955: Imports $7.5 million<br>Exports $3.6 million<br><br>Main imports: rice, wheat, coffee, textiles.<br>Main exports: dates, fish.<br><br>Main source of imports: United Kingdom. |
| Revenue: | Derived from customs duties. |

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QATAR

Area: 21,000 km$^2$ - mostly desert.

Population: 25,000

Main Town: Doha

Standard of living: High for Middle East.

Economy: Dependent on oil. Oil revenues used for development, including schools, hospitals and water supply. Some small amount of pearl fishing and nomadic herding. Poor communications.

Oil production: Concessions to Royal Dutch Shell and I.P.C. Almost entirely exported.

Production
(000's metric tons)

| | |
|---|---|
| 1953 | 1,636 |
| 1954 | 4,779 |
| 1955 | 5,448 |
| 1956 | 5,877 |
| 1957 | 6,600 |

Oil royalties are about $35 million a year.

Currency: The rupee = $.21 US.
Member of Sterling Area.

Foreign Trade: Mainly with United Kingdom.

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## SAUDI ARABIA

Area: 1,600,000 km$^2$ - almost entirely desert and waste land.

Population: 6 million.

Main towns: Mecca 150,000
Jedda 120,000

Standard of living: Very low.

### Economy

Oil is mainstay of the economy. Production of oil about fifty million tons in 1957, or about thirty per cent. of total production in the Middle East. Revenues from oil account for between one-quarter and one-half of national income.

Relatively few people employed in the oil industry; most people derive their living from primitive agriculture (main crops: dates, wheat, barley, fruit, hides and wool). Recently discovered small deposits of gold, silver and rich iron ore, but they are not being worked. Between one-quarter and half a million pilgrims visit the country every year. Modern airport at Dhahran links the country with the main airways of the world.

A modernisation programme is under way, involving health, agriculture, ports, roads, railroads, airports and electrification of cities, paid for out of fees for oil concessions. Medical care and medicine are free. No plans for any important industrial development and the overall rate of capital formation is relatively low.

### Budget

Most of the revenue is derived from oil royalties. The budget for 1958 was originally estimated to give a surplus of about £12 million, as compared with a deficit of about £40 million in 1957. Expenditures in 1958 were originally estimated at £125 million - a sharp reduction from the 1957 expenditures at £180 million. Defence expenditures accounted for about twenty per cent. of total expenditures. Because of inefficient administration, foreign observers do not think it likely that the expenditures can be held within the narrow limits originally budgeted. For this reason, foreign bankers are also very reluctant to give loans to Saudi Arabia.

### Currency and Banking:

Currency: Saudi Arabian riyals. Fluctuating exchange rate, now at about 15 S.R. to £1 sterling. Currency backed by coin reserves held by the Saudi Arabian Monetary Agency.

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Foreign Trade

The value of merchandise trade in recent years:

(Million US $)

| | 1950(1) | 1954(1) | 1956(1) | 1957 Half-year |
|---|---|---|---|---|
| Exports (fob) | 460 | 800 | 840 | 391 |
| of which: oil | 420 | 750 | 780 | 360 |
| Imports (cif) | 115 | 180 | 270 | 109 |
| Trade balance | 345 | 620 | 570 | 282 |

The exports go mainly to the United States (12%), the sterling area (15%) and non-sterling OEEC countries (33%). The main suppliers are the United States (about one-third), the United Kingdom and other European countries.

Most of the trade surplus is offset by transfer of profits to foreign oil companies. In addition, Saudi Arabia has had large expenditures on services in connection with, inter alia, the building of a palace for the King. The country has also given some aid to Egypt ($ 15 million in 1957) and Jordan ($7.5 million). Foreign exchange reserves have virtually been depleted, and the foreign long-term debt rose to £70 million at the end of 1957. Import controls are now very strict; the imports of motor cars are expected to have dropped by seventy-five per cent. from the first half of 1957 to the first half of 1958.

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## SUDAN

| | | | % | |
|---|---|---|---|---|
| Area: | 2,500,000 km$^2$ | - | 0.3 | Arable |
| | | | 9.6 | Meadow |
| | | | 37.6 | Forest |
| | | | 52.5 | Desert |

Population: 10,226,000 Yearly increase: 350,000

Main Towns: Khartoum 82,700
Omdurman 130,000

Standard of living: Low

Economy:

Primitive, based on agriculture. Self-sustaining in food, millet, sorghum and barley (durra). Cotton is mainstay and mostly produced under Gezira Marketing Board, a combination government-private organization. Use of Nile River waters based on 1929 Convention with Egypt. Almost no industry. Eight-year plan (1956-1963) to cost $300 million emphasises agricultural expansion, especially through irrigation. The US International Co-operation Administration and the IBRD ($39 million) have lent money for communications and agricultural development.

Currency and Banking:

Sudanese pound worth $2.87, but par value not yet established. Currency was linked with Egypt's until 1956, when Egypt redeemed its bank notes. There is a currency board which manages the money supply until a central bank is established.

Budget:

1957-58 Fiscal Year (data incomplete)

| | |
|---|---|
| Ordinary Expenditure | £S 40 million |
| Receipts | £S 45 million |
| Development Expenditures and Government Agencies | £S 25 million |

Balance of Trade

(Millions of US $)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Exports | 148 | 192 | 138 |
| Imports | 140 | 130 | 181 |
| Balance | + 8 | + 62 | - 43 |

Cotton export sales fell sharply in 1957. The 1958 cotton crop was only one-third of 1957's, but stocks are still sufficient for export purposes.

Geographical Pattern of Trade

EXPORTS (Percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Western Europe | 61 | 59 | 51 |
| Soviet bloc | 3 | 3 | 5 |
| Others | 36 | 38 | 44 |
| | 100 | 100 | 100 |

IMPORTS (Percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Western Europe | 43 | 47 | 47 |
| Soviet bloc | 5 | 6 | 3 |
| Others | 52 | 47 | 50 |
| | 100 | 100 | 100 |

The United Kingdom is the largest purchaser of Sudanese cotton.

Commodity Pattern of Trade

Cotton is the main export item, amounting to three-quarters of all proceeds. Principal imports: petroleum, textiles, sugar, coffee, tea, engineering products.



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## SYRIA

| | | % | |
|---|---|---|---|
| Area: | 184,000 km$^2$ - | 19.4 | Arable |
| | | 30.8 | Meadow |
| | | 2.3 | Forest |
| | | 47.5 | Desert |

Population: 3,900,000 Yearly increase: 180,000

| Main Towns: | | | | |
|---|---|---|---|---|
| | Damascus | 395,000 | Hama | 134,000 |
| | Aleppo | 398,000 | Latakia | 90,000 |

Standard of living: High, by Middle East standards.

Economy:

Almost two-thirds of her national income is derived from agriculture.

The main crops are cotton, wheat, barley and tobacco, and Syria is an exporter of these items. Her industry is small-scale and is concentrated on consumer goods, especially textiles. She has a seven-year plan, amounting to $192 million; communist loans will help pay for this. She produces no oil, although some prospecting is presently taking place.

Syria receives about ten per cent. of her foreign exchange (or $15 million a year) from oil transport revenues. There are three main pipelines crossing Syria: The Aramco 30" TAPLINE from Saudi Arabia to Sidon, Lebanon, carrying 15 million tons annually; the IPC 30" pipelines from KIRKUK, Iraq, to Banias, Syria, carrying 16 million tons a year; and 12" and 16" Tripoli, Lebanon, carrying 8 million tons a year.

Budget

Until recent years the budget has been balanced, but since 1955 the rapid rise in defence expenditures and in government investment has caused considerable strain.

(Millions of Syrian pounds)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Government revenues | 279 | 313 | 390 |
| Government expenditures (Current) | 260 | 324 | 390 |
| Government Capital and Development | 33 | 20 | 54 |

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Currency and Banking:

Syrian Central Bank formed in August 1956. However, most financial dealings centre in Beirut. The unit is the Syrian pound, with an official value of US $.28.

Foreign Exchange

Holdings of foreign exchange are estimated at $65 million, equivalent to about four months' imports.

Foreign Trade

The balance of trade has developed as follows:

(Millions of US $)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Exports | 132 | 145 | 153 |
| Imports | 196 | 205 | 172 |
| Balance | - 64 | - 60 | - 19 |

The trade deficit is normally balanced by receipts on services and by migrants' remittances.

Distribution of Trade

An increasing share of Syria's trade has been with the Soviet bloc.

EXPORTS (percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Middle East | 40 | 42 | 38 |
| Western Europe | 51 | 41 | 38 |
| Soviet bloc | 2 | 9 | 18 |
| Others | 7 | 8 | 6 |
| | 100 | 100 | 100 |

IMPORTS (percentage distribution)

| | 1955 | 1956 | 1957 |
|---|---|---|---|
| Middle East | 20 | 26 | 20 |
| Western Europe | 62 | 47 | 47 |
| Soviet bloc | 3 | 5 | 8 |
| Others | 15 | 22 | 25 |
| | 100 | 100 | 100 |

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Commodity Pattern of Trade

Syria exports mainly agricultural products, including cotton, wheat and tobacco, and imports oil and industrial goods. (Imported oil is Syria's only source of energy.) It has been suggested that Syrian surpluses of cotton, wheat and tobacco might be sold to Egypt, which has a deficit in these products. This would probably not be economical to Syria in terms of products received in return.

Communist Bloc Aid

The Sino-Soviet bloc has reportedly granted Syria credits totalling about $450 million for economic and military purposes:

(Millions of US $)

| | | | |
|---|---|---|---|
| 100 | Arms | USSR and Czechoslovakia | 1956 |
| 15 | Oil refinery | Czechoslovakia | March 1957 |
| 168 | Economic development | USSR | October 1957 |
| 168 * | Economic development | Czechoslovakia | December 1957 |
| $451 million | | | |

* Not certain. There has been no further word on this.

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## TRUCIAL COAST

| | |
|---|---|
| Definition: | Seven States along coast of Persian Gulf. |
| Area: | 83,600 $km^2$ - mostly desert. |
| Population: | 60,000 - 80,000. |
| Main Town: | Dubai (25,000). |
| Standard of living: | Low. |
| Economy: | Nomadic, with some fishing and pearling. |
| Revenues: | Oil concessions (no oil has yet been produced). Annual revenue about 9 million rupees = US $2 million. |
| Financial: | Member of Sterling Area. |

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## YEMEN

Area: 195,000 km$^2$ - mountainous; significant portion is fertile.

Population: 5,000,000

Main Towns: Sanaa 60,000
Hodeida 30,000
Tais 10,000

Standard of living: Low

### Economy

Primitive agriculture. Land is the most fertile in the Peninsula, and coffee is the main item for export. Also produce millet, corn, oranges, prunes, bananas. Some small handicraft industry also. Some textile plants established, but awaiting technicians to manage them. The communist bloc (USSR, China, Czechoslovakia and East Germany) are building roads, petrol depots, small industries, and ports at Ras el Katib and Hodeida.

### Budget

No data available.

### Foreign Trade

Little information, but estimated exports and imports at about $10 annually.

### Currency

New Yemenite currency - the pound - to be established at par with Egyptian pound and to be backed by U.A.R. treasury bills. Also circulate Maria Theresa thaler, Indian rupee and Yemenite rial.

### Sino-Soviet Aid

(Millions of US $)

| Amount | Nature | Country | Date |
|---|---|---|---|
| 3 | Telephone lines | Soviet Zone Germany | 1957 |
| 20 | Arms | USSR | 1957 |
| 17 | Roads, bridges | China | 1958 |
| 25 | Economic, Ports, irrigation | USSR | 1958 |
| $65 million | | | |

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## ANNEX II

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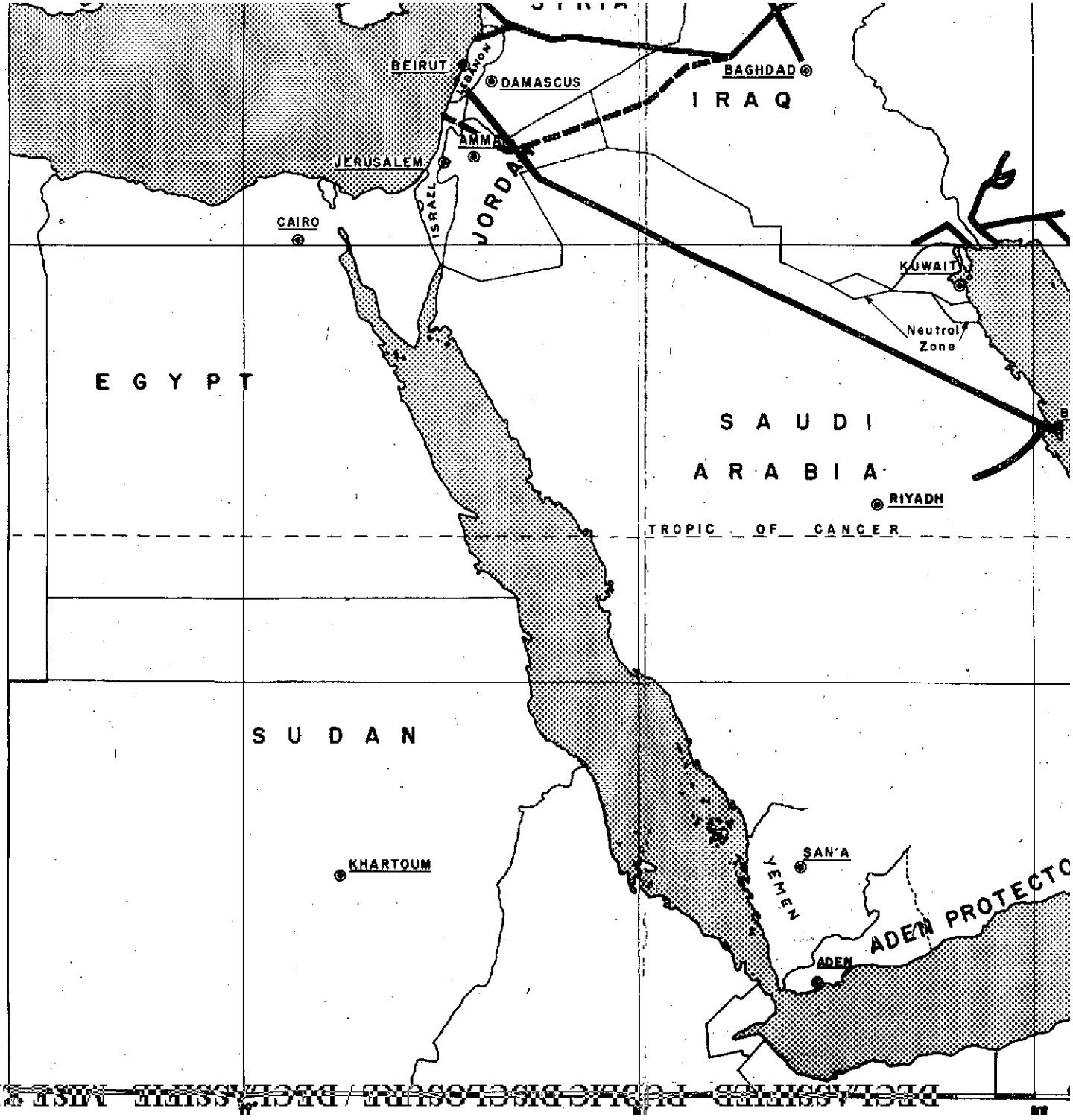
| | |
|---|---|
| MUSCAT, OMAN | 550 |
| QATAR | 40 |
| SAUDI ARABIA | 6,036 |
| SUDAN | 10,226 |
| SYRIA | 3,900 |
| TRUCIAL COAST | 80 |
| YEMEN | 4,500 |
| NEUTRAL ZONE | - |
| TOTAL | 78,604 |

OIL PRODUCTION
(Millions of metric tons in 1957)

| COUNTRIES | OIL PRODUCTION |
|---|---|
| ADEN COLONY | - |
| ADEN PROTECTORATE | - |
| BAHREIN | 1.5 |
| EGYPT | 2.4 |
| IRAN | 34.9 |
| IRAQ | 21.7 |
| ISRAEL | - |
| JORDAN | - |
| KUWAIT | 57.3 |
| LEBANON | - |
| MUSCAT, OMAN | - |
| QATAR | 6.6 |
| SAUDI ARABIA | 48.4 |
| SUDAN | - |
| SYRIA | - |
| TRUCIAL COAST | - |
| YEMEN | - |
| NEUTRAL ZONE | 3.3 |
| TOTAL | 176.1 |

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## III. STRATEGIC ESTIMATE ON THE MIDDLE EAST

### General

1. Apart from its economic aspect, the area concerned is a key position for the defence of the south flank of NATO.

2. It is well known that it is a major Soviet objective to obtain direct access to the Meditteranean, the Indian Ocean, and the African Continent.

3. During the last few years, rising Pan-Arabism has been skillfully used by the Soviets to loosen existing ties, military as well as political, between the Middle East countries and the Western powers and to penetrate into the Middle East.

4. Soviet control in the Middle East would be the first st of Soviet penetration into Africa and would represent a vital threat to NATO.

### The Strategic Value of the Area to the Western World and Potential of Indigenous Forces

5. The area under consideration is of great strategic importance principally for the following reasons:

(a) It dominates the southern flank of NATO in Europe.

(b) It includes the areas of oil production and oil distribution, from which NATO Europe draws the greatest proportion of its oil.

(c) It contains the principal lines of communication, land, sea and air, between NATO on the one hand an Iran, Pakistan, the Indian Ocean, the Indian sub-continent, and the Far East on the other.

(d) It is the land bridge between Russia and Africa.

(e) It contains some valuable military bases.

### The Threat to NATO's Southern Flank

6. A Russian military foothold in the Middle East would seriously threaten vital Allied communication lines and could provide a Soviet land bridge to Africa. Exploitation of such possibilities could lead to Soviet control of the eastern and southern shores of the Mediterranean. This, in turn, would ope the Mediterranean to Russian submarines, cut the West's lines of

communication, militate against Western use of the Mediterranean as an offensive-defensive base area, and isolate Greece and Turkey from the rest of NATO.

Oil-Producing Areas

7. These areas and the means for oil distribution, including the Suez Canal, are of the utmost importance to the West in peace and war.

Lines of Communication

8. The area is extremely important to air communication and logistics both commercial and military. In addition, Egypt, with direct control of the Suez Canal, has the means to strangle shipping passing between the Mediterranean and the East.

Capabilities of Indigenous Forces

9. Experience points to the general conviction that, with the exception of Israel, the Middle East peoples concerned have not proved effective in battle unless led and directed by foreign nationals, and even then only in local warfare. Russian furnished technical and material aid might well in future so improve the military capabilities and fighting qualities of certain Arab states as to give them a position of military dominance not only within the Middle East Area but extending further afield.

10. Iraq and Jordanian forces, formerly led and trained by British officers, have, through internal dissension and purges, been seriously reduced as to capability for the time being.

11. Israel has proved her ability to match combined, but purely Arab, opposition but would be incapable of sustained, large-scale operations on her own. She can field a compact army supported by a small efficient Air Force.

Western Military Bases and Interests in the Area

12. Of particular significance, however, and quite apart from the strategic value of the indigenous forces themselves, are air, land and naval bases which have been and are being developed by both the East and the West in the Middle East.

13. The principal Western military bases in this area are:

(a) Arabian Peninsula



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| | | |
|---|---|---|
| (1) | Masirah | transit airfield |
| (2) | Ryan Salala | transit airfield |
| (3) | Khormaksar | air base |
| (4) | Khamoran | transit airfield |
| (5) | Aden | naval-army base<br>Hqrs British Forces Southern Arabia Aden Protectorate levies |

(b) Persian Gulf

| | | |
|---|---|---|
| (1) | Dhahran | air base |
| (2) | Bahrein | small army garrison<br>transit airfield<br>naval post |
| (3) | Sharjah | transit airfield, small air bas |
| (4) | Muscat/Oman | Trucial Oman Scouts |

(c) Libya

| | | |
|---|---|---|
| (1) | Tripoli | air base |
| (2) | El adem | staging post |
| (3) | Idris | staging post |
| (4) | various locations | small army garrisons |

(d) Cyprus

| | | |
|---|---|---|
| (1) | Nicosia | air base |
| (2) | Akrotiri | air base |
| (3) | Episcopi | Hqrs British Defence Co-ordinat Committee (Middle East) |
| (4) | various locations | army garrisons |

(e) Iraq

| | | |
|---|---|---|
| (1) | Habanyia | air staging post |

Relative Priority of Value to the West of Western Bases and Military Interests in the Area

14. It might be danverously misleading to attempt to evalua Western bases and military interests in order of priority. Each individual base is a part of the network of Western bases in the area, and each is to a certain extent dependent upon the others, and the loss of any one or more bases would correspondingly affec the value of certain other bases. Furthermore, any change of overflight rights may alter the value of bases concerned.

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## Value to the Soviet Union of the Countries under consideration

### Soviet Aims in the Middle East

15. (a) To obtain a dominant position of influence in the area and from there further to extend the sphere of Soviet influence.

(b) To obtain access to the Mediterranean Persial Gulf, and Indian Ocean.

(c) To deny to the West existing bases in the area.

(d) To control Western access to Middle East oil.

(e) To control the lines of communications through the area.

(f) To capitalise upon the antagonism between Arab nations and Israel.

16. Soviet political, economic and military penetration of any of the countries concerned would contribute to the achievement of these aims to a greater or less degree. As Soviet penetration of the area increased so the likelihood of further penetration of countries isolated or surrounded would increase.

17. The military effects of the achievement of these aims would be:

(a) to lessen the Western ability to counterattack the Soviet Bloc;

(b) to create a gap in the defences of the West around the periphery of the Soviet Bloc;

(c) to enable the Soviets to establish improved lines of communication through the area from Russian territory to Africa. In particular, it would facilitate the opening by them of a most effective corridor in the Middle East which lies through the area of the Kurdish Tribes, whose racial unity and traditional turbulence they would exploit in Turkey, Iran, Iraq and Syria;

(d) to provide Soviet bases which could place NATO's southern flank and the nations of the Baghdad Pact in jeopardy. Improved communications would enable

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the Soviets to pre-stock these bases in peacetim and thus constitute the Middle East as a mountin area for a planned offensive. It would only remain to lift the personnel into the area, thus gaining valuable time in the initial phases of a war;

(e) to interpose sea, land and air communication barriers between NATO on the one hand, and Iran, Pakistan, the Indian Ocean, the Indian subcontin ent and the Far East on the other;

(f) to reduce Western war potential by denial of oil

The Effects of the Extension of Soviet Penetration to Individua Countries

18. To set out the effects of Soviet penetration of the Middle East country by country may lead to false conclusions. It is primarily the effects of the penetration of the Middle Ea as a whole which is of overriding importance and upon which attention must be focused.

19. However, it is also prudent to bear in mind that Sovi penetration of certain individual countries will have serious specific effects. For instance:

(a) Iraq and Syria Soviet penetration of Syria already exists and its extension, together with Soviet penetration of Iraq could contribute greatly to opening the Kurdish corridor to the Soviets.

(b) Egypt Soviet penetration of Egypt also already exists to a considerable extent. The extension of this penetration not only could provide important bases for the Soviets, but could contribute significantly to the air communicatior barrier and the barrier at sea, where the Suez Canal is of primary importance. It is primarily Soviet penetration of Egypt which could promote Soviet domination of the entire Arab World throug the medium of Nasserism, as well as the extensior of Soviet influence throughout Africa.

(c) Libya The significance of Soviet penetration of Libya would be not only to project Soviet influence along the North African coast, but alsc to threaten seriously the NATO position in the Mediterranean.

(d) Arabian Peninsula and Persian Gulf The primary significance of Soviet penetration of the Arabian Peninsula and the Persian Gulf would be the severe reduction of European war potential as the result of the denial of oil.

20. Cyprus Cyprus must be viewed in a different light from the other countries under consideration. It is one of the most strategically located bases in the area and one of the few bases controlled by a NATO nation. Considerable strategic importance is attached to the ability to sustain this base in support of the free world alliances.

## Conclusions

21. The North Atlantic Treaty Organization is faced with Soviet penetration into the Middle East, which constitutes a most grave military threat.

22. With respect to the defence of the NATO area, Soviet control of the Middle East would prepare the way for a major Soviet overland thrust around NATO's southern flank and across Africa, thereby virtually denying the Mediterranean to the West, imposing a most serious threat to NATO Europe from the south, and ultimately opening the way to the establishment of Soviet submarine bases in the east central Atlantic. Such a strategy might have special appeal to the Soviets as means of gaining control of Western Europe without destroying its industrial complex.

23. Denial to NATO Europe of Middle East oil and the lines of communications through the Middle East would seriously effect the economy of Europe, which in turn would reduce the military potential of the Alliance.

24. Soviet domination of the Middle East would necessitate a revision of NATO defence plans and minimum force requirements.

25. It is of direct and substantial military interest to NATO that this penetration be effectively countered.



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