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ECONOMIC ACTIVITIES OF THE COMMUNIST COUNTRIES IN THE
MEDITERRANEAN

Report by the Committee of Economic Advisers

At a meeting on 13th March, the Council(1) instructed the Committee of Economic Advisers to study the activities of the Communist countries in the Mediterranean during the period 1965-1968. This is the purpose of the present report. In order to appraise these activities realistically, it has seemed necessary to examine them in the context of the basic economic problems of the Mediterranean area, taking account both of earlier events, where their influence still continues to make itself felt, and the relative closeness of the economic relationship of the Mediterranean countries with the West. This study leaves aside not merely the Mediterranean countries of the Alliance (France, Italy, Greece and Turkey), but also Spain and the two Communist countries of the area - Albania and Yugoslavia. Malta and Cyprus, which present special problems, are dealt with in Annex I, whereas Annex II gives the main recommendations of the Joint Mission for Malta headed by Lord Robens. The study is, therefore, concerned only with countries in the southern part of the Mediterranean - Morocco, Algeria, Tunisia, Libya, UAR, Israel, Lebanon and Syria. Part I contains the Summary and Conclusions, Part II a General Survey of the Economic Situation in the Region. In Parts III, IV and V a more detailed examination is undertaken of the countries in which the economic activities of the Communist countries are more pronounced - namely the UAR, Algeria and Syria.

2. In accordance with established procedure the Committee has, since 1957, submitted a series of reports to the Council on the economic activities of the Communist countries in the developing areas of the Free World(2). In the course of these studies the Committee intends to pay particular attention to the Mediterranean region and, as appropriate, report further to the Council.

(Signed) A. VINCENT
Chairman

OTAN/NATO,
Brussels, 39.

- (1) C-R(68)13
(2) Eleventh report: C-M(67)55 and AC/89-WP/217

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ECONOMIC ACTIVITIES OF THE COMMUNIST COUNTRIES IN THE
MEDITERRANEANPART I: SUMMARY AND CONCLUSIONS

There are various circumstances which favour the economic activities of the Communist countries in the Southern Mediterranean region. All the countries of the area are subject to strong pressure of population and, apart from Israel, they are all definitely less developed. The progress of their economy greatly depends both on foreign aid and on the expansion of their exports. Moreover, these countries have been independent for a few decades at most and because of this most of them are anxious to avoid anything that might suggest dependence on the former colonial powers. They are anxious to obtain aid from different sources and to widen the geographical distribution of their trade. They hope to strengthen their political independence by being economically more independent. The Communist countries have been able to take advantage of this situation. They have cleverly concentrated their economic aid on a limited number of projects of great importance in the countries concerned. In this respect the USSR has sometimes taken the place of the West whose aid had been sought in the first place. The Communist countries have also turned to their own account the conflict between Israel and the Arab countries; they have granted to several of the latter considerable military aid which often preceded and made easier their economic penetration.

2. Apart from Israel, which has reached a standard of living comparable with that of Western Europe, (the domestic product per head of population reached \$1,430 per year in 1965), all the countries in question have relatively low standard of living. There are differences among them, however, since the domestic product per head ranged, in 1965, from \$740 for Libya to \$160 for the UAR.

3. The economic activities of the Communist countries in the Mediterranean are examined, especially in relation to the specific economic factors of the region; certain additional information is given on those countries which present special interest to the Alliance; finally some brief conclusions are submitted to the Council.

(a) Economic Activity of the Communist Countries in relation to factors specific to the region

4. Being aware of the pressing need to industrialise, the countries of the South Mediterranean region are increasingly concerned to utilise to this end their mineral resources in particular any petroleum or natural gas they happen to have. Soviet initiatives as regards these two

sources of energy have so far been limited to prospecting, geological surveys, and the installation of some refineries. They have not come forward as producers, buyers or refiners. However, they are showing increasing interest in the petroleum of the Arab countries(1). The setting up in producing countries of national companies entrusted with finding new buyers of petroleum might have encouraged them. Moreover, their concern to have access to new sources of energy to back up their own production in future years is no doubt also reflected here. If it should turn out that in the course of the next decade the Communist countries are in a position to offer the countries of the region an important market for their crude petroleum the consequences could be serious, both economically and politically. On the other hand, as regards natural gas, Algeria is experiencing, and will no doubt continue to experience in the coming years, fairly strong competition not only from the North Sea gas but also from that which the Russians are trying to sell on the markets of Central and Western Europe.

5. It is difficult at this stage to foresee what effect the closing of the Suez Canal will have on the economic activities of the Communist countries in the region. This situation while being of some disadvantage to the economic interests of the Western countries is without any doubt also most costly for the UAR, which is deprived of an important source of revenue, and even for the USSR. The latter's sea communications with Asia and particularly with the East coast of Siberia are lengthened considerably. In the end the consequences of the closing of the Suez Canal will depend to a large extent on how long it remains closed but one effect is already clear: in so far as Egypt is economically weakened, she is obliged to seek the assistance of other Arab countries and is liable to be more exposed to economic penetration by the Communist countries. Syria, whose attitude in this differs from that of Egypt as regards the Suez Canal, has not closed the two important oil pipelines which cross its territory namely that of the IPC and that of Tapline. These pipelines continue, however, to be a potential means of pressure in the hands of Syria..

6. In all the countries of the region, especially the UAR, Syria, Morocco and Tunisia, agriculture plays a leading rôle, to meet on the one hand the needs of a fast expanding population and on the other to provide export products: cotton, cereals, citrus and other fruits, wine. Agricultural development, however, in this region, which to a large extent is desert, depends on the utilisation of water resources which are scarce and unevenly distributed. It is in relation to this need for water that the USSR has geared much of its economic activities in the countries of the Middle East and North Africa (Assuan, Euphrates, Quessab and Draz Dams)..

(1) They also show an interest in the oil of Iran which is neither an Arab country nor situated in the region studied in this report.

7. As regards foreign trade all these countries - except Algeria and Libya, which export petroleum, have large balance of trade deficits which force them to resort to borrowing abroad. Exports of the region are not very diversified and in particular the countries exporting agriculture products or textiles have difficulty in selling on Western markets. It is this situation which has induced them to turn to Communist countries. The part these countries play in the foreign trade of the region varies a lot from one country to another. It is slight in Libya, Israel, Algeria and the Lebanon (between 2% and 9% of imports and exports of these countries), less so in Tunisia and Morocco (10-15% of trade), and important in the UAR and Syria, which number the Communist countries among their principal clients and suppliers (see below paragraphs 11 and 12). Countries with centrally controlled economies may, in certain respects, be in a better position than the countries of the Free World: the state monopoly of foreign trade which prevails in these countries enables them to undertake barter transactions, to accept stated quantities of products in a given period and sometimes even to offset fluctuations on world markets by fixing in advance the price at which the deals will be effected. Finally the Communist countries allow the countries of the region to pay their debts in local products.

8. The countries of the region are members of the main international organizations: UNO and its regional commissions, ILO, FAO, UNESCO, UNCTAD, IMF, IBRD. They have close links with them and are entitled to the support which these various organizations can give. Some of them belong to or participate in GATT. In virtue of these connections, along with the other countries of the Third World, they are constantly striving to obtain preferential tariffs and the widening of markets for their products. In addition several countries of the region - Lebanon, Israel, Tunisia, Algeria, Morocco are trying to get association agreements with the EEC. They fear namely that as the Common Market agricultural policy comes to be formulated and put into effect it may well imply some discrimination as regards the exports of agricultural products which they send to the Common Market countries and because of this they fear that the difficulties facing their economies may be seriously increased. The question at issue is complex and despite the obvious advantage of tightening the economic links between the South Mediterranean countries and Europe the EEC Commission is handling it cautiously since the legitimate interests of some of its members and of other European countries may also be effected.

9. As regards economic aid, that from the West remains by far the most important, at least if the region is considered as a whole. It amounted to \$4,584 million for the six year period 1960-1965 alone. Over the fourteen years 1954-1967, corresponding aid from the Communist countries (i.e. actual drawings) only amounted to \$818 million. Communist aid -

almost exclusively directed to the three countries of the region considered "progressive", the UAR, Syria and Algeria - represents a little less than a quarter of total Communist aid to the Third World. The bulk of the important credits was granted before 1965. Since then new promises of aid have tended to be smaller, due partly to delay in using aid already granted and partly to a certain change in Soviet aid policy which at the moment favours long term commercial agreements involving credits rather than specific aid commitments. This development, however, has not prevented a recent increase of deliveries from Communist countries arising out of earlier commitments. In 1967 drawings by the countries of the region represented about 37.7% of the total aid actually supplied by the Communist countries to the Third World. The activity of Communist China in the region is negligible. She has not undertaken any new aid commitment since 1965.

10. It is mainly to the UAR, but also to Syria and Algeria and to a smaller extent to Morocco that the USSR and Czechoslovakia have since 1955 granted military aid, the effect of which has been to step up the arms race in the region. At the end of 1966 Communist arms deliveries to these four countries amounted to \$2,050 million. This sum which is two and a half times the size of drawings of economic aid is equivalent to almost 40% of all Communist military deliveries to the Third World. Since then the USSR has sent additional military aid to these countries, including replacement of the losses they suffered during their recent conflict with Israel. The value of Soviet deliveries to the Arab Countries in the second half of 1967 is thought to amount to almost \$250 million, most of it going to Egypt, Algeria and Syria. That same year Morocco bought armaments in Czechoslovakia, the value of which amounted to about \$20 million. Whereas economic aid contributes to the development of the countries receiving it, arms deliveries give rise to extra outlay in respect of maintenance of material and payment of personnel using it; in the budgets of the countries concerned, such outlay is alternative to allocations for investment or for social purposes. Moreover, the allocation of technicians and supervisory personnel to the maintenance of this sophisticated equipment from the East aggravates the shortage of skilled labour in the civilian sector.

(b) Considerations specific to certain countries(1)

11. The UAR has been and remains the chief beneficiary of Communist aid to the region, but she has in the past received from the West, especially the United States of America, more economic aid than from the Communist countries. However, the development of the Egyptian economy is jeopardised by overpopulation, a chronic deficit of food resources and

(1) See also the Italian note AC/127-WP/216/4

excessive indebtedness to the outside world. The loss of the Suez Canal dues has been keenly felt but the petroleum producing Arab States have undertaken to make good, to some extent, the UAR's loss by providing a sum of \$266 million. It is difficult to say whether the UAR will be able to find more aid and new markets in the West. Since June 1966 the United States have not renewed the agreements to supply agricultural surpluses. By and large western suppliers are granting new credits only to the value of repayments of previous loans. However, Italy has recently resumed guaranteeing commercial credits on normal terms. Egyptian exports of cotton, textiles and agricultural products meet strong competition on western markets; the only product which is practically sure of a market is petroleum, on the future production of which the UAR places great hopes. With the Communist countries the position is different. They have become the UAR's chief trading partners (53% of exports, 27% of imports in 1966) and the USSR is beginning to replace the USA as the chief supplier of wheat. Out of aid commitments from Communist countries, amounting to some \$1,600 million for the period 1954-1967, the UAR has at her disposal about \$1 milliard of credits. By keeping to these commitments and - should the situation require it - by speeding up deliveries, the Russians could in the course of the next few years underwrite a substantial part of Egyptian economic development. They will be the more inclined to do this as their Egyptian aid programme is one of the most important elements of their propaganda in the region. The UAR is also the main beneficiary in the region of Communist military aid (\$1,440 million for the period 1955-1966).

12. The economic problems of Syria are less fundamental than those of Egypt and on this account are less formidable. Present difficulties are largely the result of the decisions of the Syrian leaders to espouse all-out socialisation to the detriment of the urban and rural middle class. Western Europe and the USA together still play a considerable part in Syria's foreign trade: in 1966 they accounted for 20% of exports and 44% of imports as against 32% and 29%, the corresponding figures for the Communist countries. Still Syria has gradually turned away from the West to the extent that the aid she needs for her economic development now comes mainly from Communist countries. The position of the USSR has progressively strengthened owing specially to her contribution to the building of the High Dam on the Euphrates and to the fact that for several years Russians have been entrusted with oil prospecting on Syrian territory. Out of aid commitments from the Communist countries amounting to some \$393 million for the period 1954-1967, Syria has still more than \$300 million at her disposal. Arms deliveries (\$374 million from 1955 to 1966), have also considerably strengthened Soviet influence.

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13. Algeria's economic development and foreign trade remain orientated towards the West. The share of Communist countries in this trade is still small: about 3.4% of exports and 9.4% of imports in 1966. The economic rôle of France remains considerable and although the adjustment of relations between the two countries to the new situation caused by independence still creates problems, these do not appear to be such as would necessarily jeopardize the co-operation which has been achieved. Recent agreements with France especially as regards the production and sale of petroleum limit the scope for Communist economic activities designed to supplant the West. Compared to Western aid (about \$1,500 million over the period 1962-1966), economic aid by Communist countries to Algeria plays only a marginal rôle: out of about \$350 million of aid commitments from these countries, she had drawn by the end of 1967 about 42 million. Military aid (\$223 million up to 1966) is relatively more important and more disquieting.

14. Malta poses problems different from those of the three countries just considered (Algeria, UAR, Syria). Hitherto the island's economic relations with the Communist countries have been limited to ordinary trade; in 1966 5% of Malta's imports came from Communist countries and about 1% of Malta's exports were sent there. However, Malta is experiencing transition difficulties as a consequence of the gradual run-down of the British military bases located there. A mission, composed of British and Maltese personalities, under the chairmanship of Lord Robens, studied the situation on the spot in 1967 and produced a report(1) which includes an action programme for the coming years. An extract from this report indicating the essential features of this programme is given at Annex. To foster the necessary development of the Maltese economy, the United Kingdom has undertaken to grant substantial aid of about £5 million per year over a period of ten years (i.e. \$12 million per year, at present exchange rates). For her part Italy has recently opened a credit for Malta amounting to It.L. 3 billion (i.e. \$4.8 million) on favourable terms. After long drawn out negotiations it has been agreed that the dry docks should become the property of the Maltese Government, and as a contribution to their modernisation and running, the United Kingdom has agreed to grant a further amount of £3 million. Nevertheless Malta is likely to become a target for Soviet economic penetration. The USSR shows an increasing interest in the island, proposing to undertake there oil prospecting and to entrust the Maltese dockyards with the repair of some of its tankers. Moreover an economic mission has visited Malta in order to promote trade between the USSR and the island.

(1) Report of the Joint Mission for Malta - July 1967 Cmdd 3366

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(c) Conclusions

15. After discussing the problem of the economic activities of the Communist countries in the Mediterranean, and aware of the fact that these activities support political aims, the Committee deems it proper to submit the following points to the Council for its consideration:

- (i) Hitherto, military aid by the Communist countries has been important for only three of the countries discussed in this paper (mainly for the UAR and to a small extent for Syria and Algeria). As regards economic aid and trade, the influence of the Communist countries is strong in only two of them (UAR and Syria). The West occupies a dominant position in the economic relations of all the other Mediterranean countries with the outside world as regards both aid and trade. Even in the UAR and Syria, the two countries with whom relations are difficult, particularly because of the conflict with Israel, some Western countries have managed to maintain certain economic positions.
- (ii) From a rational point of view, the economic future of the Mediterranean countries is largely dependent on their economic links with the West. In economic potential the latter will continue to be ahead of the Communist countries and certainly in respect of trade transactions and aid capability will far outstrip them. However this has not prevented Communist countries from gaining influence through their economic activities in the region - in particular in the UAR and Syria. Account must also be taken of the possibility of increasing economic penetration of the region by the Communist countries taking advantage of local conflicts or prolonged diplomatic tension.
- (iii) A moderate and sound expansion of economic relations between the Communist countries and the Mediterranean ones is not necessarily harmful to Western interests. In so far as this expansion might mean enlarged outlets for agricultural and industrial products of the countries of the region, which are difficult to dispose of on Free World markets it could promote their economic development. This would not necessarily exclude their remaining interesting trade partners for the West. Some of the countries in question wish, moreover, both for

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political and economic reasons, to extend the geographical distribution of their trade. Even though at first such a policy might favour trade links with Communist countries, in the longer term it is also likely to encourage the countries concerned to prevent the Communist countries obtaining an economic hold on them.

- (iv) It is contrary to Western interests that the economic relations between the Mediterranean and the Communist countries should be so intensified or become so concentrated in key sectors as to put the countries in question into a position of dependence on the Communist world, in which case they could scarcely avoid becoming instruments of Communist policy. This would mean not only a greater threat to the West on the political and strategic levels but also considerable economic risks, as the Mediterranean region is important to the West as a source of supply (especially petroleum), as a market, and as a centre of communications (Suez Canal and pipelines).
- (v) Since any vacuum left by the West in the economies of these countries is likely to be utilised by the Communist countries to strengthen their economic and political hold, the members of the Alliance have every reason to make it a principle of their economic policy to be actively present in the region as far as the military situation and political attitude of the countries concerned permit. The aim of such a policy should be, not only to foster more trade with the West, but also to encourage economic relations among the Mediterranean countries themselves.
- (vi) Such an active economic policy could be implemented by individual countries or - when it seems appropriate - through certain international organizations. The activity of these organizations which, in certain cases, are less exposed than individual countries to political ups and downs, could prove an effective means of maintaining or restoring economic contacts with the countries of the Mediterranean. Among the considerations relevant to the development of relations between the international organizations and these countries, all due attention should be given to the possibility of strengthening their links with the West at a time when Communist countries are increasingly taking all sorts of initiatives in the region.

- (vii) As regards Malta the Committee has not worked out any detailed recommendations, as the relations between that country and the Alliance are to be studied by a Special Committee which has just been set up for this purpose. However, it is clear that the economic development of Malta depends to a large extent on the strengthening of her economic relations with the West. It appears therefore necessary that the latter should back up Malta's own efforts and help her overcome the economic difficulties she may well face in the transition period following the gradual run down of certain military installations on the island.

PART II: GENERAL SURVEY OF THE ECONOMIC SITUATION OF THE
MEDITERRANEAN COUNTRIES

16. The countries in the southern part of the Mediterranean(1) are, for various reasons, exposed to Communist economic penetration. Apart from Israel, they are all definitely underdeveloped. Moreover, having acquired their independence only a few decades ago they are anxious to avoid anything that might smack of economic dependence on the former colonial powers.

17. The total population of these countries now approaches 74 millions. The annual rate of population growth is very high(2): Israel 4%, Libya 3.7%, Syria and Morocco 3.2%, Algeria 3%, UAR 2.8%, Lebanon 2.5%, Tunisia 2.2%. These are rates typical of underdeveloped regions; in Western Europe the corresponding figure is somewhat less than 1%. The pressure of population is particularly strong in Egypt; emigration has provided a certain outlet for the surplus labour of the Lebanon and Algeria; Syria and Tunisia are not over-populated. As regards the population of Israel, where the growth is largely due to immigration, this is still compatible with the stage of economic development achieved.

18. Apart from Israel, which has reached a standard of living comparable with that of Western Europe, (the domestic product per head of population reached \$1,430 per year in 1965), all the countries in question have a relatively low standard of living. There are differences among them, however, since the domestic product per head ranged, in 1965, from \$740 for Libya to \$160 for Egypt(3); (for Algeria it has been estimated at \$230). In order to speed up economic development and achieve a better balance between population and resources, most of these countries are engaged in developing their territories, in industrialising, especially by exploiting their resources of oil and natural gas, and in seeking larger foreign outlets for their basic products, agricultural or other. Their efforts in these directions provide opportunities for the Communist countries to develop their economic activities in the region every time these countries fail for one reason or another to obtain from the West the satisfaction they expect.

19. Many difficulties are encountered in this planning and development of the national territory: shortage of water, encroachment by the desert, soil erosion following centuries of deforestation. Often the cultivated area is only a fraction of the total territory(4). All these countries are

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- (1) Morocco, Algeria, Tunisia, Libya, UAR, Israel, Lebanon and Syria.
(2) See Table I
(3) See Table II
(4) See Table III

trying to turn to account uncultivated or desert areas, especially by irrigation. Egypt, Syria and, on a smaller scale, Algeria, Morocco and Tunisia have started to build barrages. Tunisia is also planning to set up at least one plant to convert sea water to drinking water. The Lebanon and Israel are planting their high ground with trees and are seeking to tap the available water supplies; the former has a plan to use the river Litani, the latter is trying to make better use of the Jordan waters. Libya and Algeria are looking for underground water tables and are trying to bring torrential streams under control.

20. The USSR has directed a large part of its economic activity in the Middle Eastern countries and North Africa to this question of water supply. In Egypt and Syria it has replaced the western nations in building the Assuan High Dam and the Euphrates Dam. In Tunisia it is participating in the building of the barrage at Quessab, and in Morocco in that on the river Draa and at Ouarzazate. It is also giving assistance to Algeria in the building of irrigation barrages.

21. None of the Mediterranean countries is industrialised in the real sense of the word. Israel has managed to diversify its output - citrus fruits, diamond cutting, potash, soda, light industry and chemicals, and the Lebanon derives much of its revenue both from its financial and commercial activities in the Middle East and from horticulture. The other countries, however, remain dependent on agricultural crops which are sometimes difficult to market, such as cotton and cereals in Egypt and Syria and wine in the Magreb. Morocco, Algeria and Tunisia also depend on the exploitation of certain raw materials: oil, iron ore, phosphates and in Algeria natural gas.

22. Until recent years, these countries were in marked contrast with those of the Persian Gulf in that they had no oil deposits. However, in some of them, there have been radical changes recently. Libya, a very poor country until 1960, has become within five years one of the world's chief oil producers. Algeria has also considerable oil resources, which recently have been partly exploited, and very important deposits of natural gas.

23. The economies of these countries have had varying rates of growth recently. But, for the future, they nearly all have ambitious development plans aiming at a rapid rise in the national product. These programmes generally assume that considerable foreign aid will be forthcoming. This provides the Communist countries with yet another opportunity to intervene economically in the region.

24. As regards foreign trade, all these countries, except the two oil producers Algeria and Libya, have a balance of trade deficit(1). The importance of foreign trade varies a good deal from one country to the other. Imports per head of population in 1966 ranged from \$316 in the case of Israel to \$35 for Egypt. Two of the countries concerned, the UAR and Syria, direct a large proportion of their exports to Communist countries (53% and 32% respectively). The products sold by these two countries, (chiefly cotton, agricultural products and fruit), have to contend with strong competition on Western markets, either from local products or from imports from other Third World countries or the USA. Four other countries send a large share of their exports to the Common Market: Algeria (more than 80%), Libya (71%), Morocco (61%), Tunisia (56%). Imports do not correspond particularly closely to the geographical pattern of exports; on the whole the West is more important as a supplier than as a purchaser.

25. All the countries in the region have endeavoured - more or less successfully - to diversify the geographical distribution of their foreign trade and to consolidate their independence(2). As for the future development of the region's exports certain points deserve attention. The countries of the Southern Mediterranean compete with each other as regards the sale of certain local products (for instance citrus fruits and cotton). As to oil, the latent competition between the producing countries in the Near East and North Africa may well in the future become sharper as a result of world wide over-production. Such a situation might provoke tensions between the countries in the region which the Communist countries could seek to exploit for their own ends. As oil production in the Communist countries tends to increase less rapidly than their requirements, it is not impossible that in the future they could offer outlets for the oil of the Arab countries and thereby reinforce their influence in the region. On the other hand, the USSR in her efforts to sell more natural gas on the markets of Central and Western Europe is in competition with Libya and Algeria and this situation is likely to continue in the years to come.

26. None of these Mediterranean countries has organic links with an international Communist organization, the only one which exists at the economic level being COMECON. On the other hand, these countries have close links with Western economic organizations or with organizations in which the countries of the Free World play an important part. All are members of the United Nations and, by virtue of this, participate in the economic commissions of this organization (Economic Commission for Africa or for Asia), and in the subsidiary organizations ILO, FAO and UNESCO. They also belong to the IMF and the IBRD. However, only Israel is a full member of GATT, the UAR and Tunisia so far only having been accepted

(1) See Table IV
(2) See Table V

provisionally. Algeria, since independence, continues apparently to apply the rules of GATT but does not appear to have definitely decided whether to become a member of the organization. All the countries of the area actively participate in the work of UNCTAD.

27. The position of the Mediterranean countries as regards the EEC appears to be as follows:

- (i) Tunisia and Morocco: Negotiations on the association of these two countries are under way. A resolution of the Ministerial Council of the European Communities provides for trade concessions concerning industrial products and certain agricultural goods covered by the Common Market regulations such as olive oil and citrus fruits. On the other hand, the question of wine sales is not yet settled.
- (ii) Israel: This country wishes to replace its June 1964 commercial agreement with EEC by an agreement of association; its application is currently being considered by the Commission.
- (iii) Lebanon: The Commercial Agreement of 21st May, 1965 has been ratified by the member states; it should soon be ratified by the Lebanon and will probably come into effect in 1968. Under the agreements concerning a co-ordination of technical aid, the Lebanese Government has submitted to the EEC an extensive list of projects, seven of which are currently being considered for implementation.
- (iv) Algeria: This country has not yet any special agreements with the EEC. Negotiations are going on at present and it appears that an association agreement might be considered. For the moment, certain Common Market countries, notably France, continue in part to grant Algeria the advantages she enjoyed as a French département before independence. Pending the outcome of the present negotiations France seems anxious to maintain certain advantages for Algeria; for their part her five partners are considering ways of co-ordinating their attitude towards that country as regards trade exchanges.

28. The foreign aid hitherto received by the Mediterranean countries in question, taken as a whole, has come mostly from the West(1). Western economic aid amounted to \$4,584 million

(1) See Table VI. For Italian aid to the region see also AC/127-WP/216/4

for the six year period 1960-1965 alone. Over the fourteen years 1954-1967 corresponding aid (i.e. actual drawings) from the Communist countries amounted to \$818 million(1). This aid represents slightly less than one quarter of the total Communist aid to developing countries. In fact only three countries - the UAR and to a smaller extent Syria and Algeria - have received any substantial economic aid from Communist countries. The latter have also granted, on a comparatively modest scale, aid to Tunisia and Morocco. The apparent desire of these two countries to diversify their sources of aid might well lead them in the future to turn more often to the Eastern countries; however, in view of the known pro-Western feelings of the present Tunisian and Moroccan leaders it seems likely that they will avoid engaging themselves too heavily in economic co-operation with the Communist countries.

29. It is mainly to the UAR, but also to Syria and Algeria, that Communist countries have granted important military aid. Morocco between 1960 and 1966 has procured in the Soviet Union armaments, the value of which amounted to only \$13 million; however, the Moroccan Authorities have recently shown a growing interest in offers of arms by the Communist countries. Thus in Summer 1967 they bought in Czechoslovakia tanks and artillery to the value of \$20 million; they are now studying Soviet offers of military assistance, the precise value of which is not known. Arms deliveries by the Communist countries to Morocco are not on the same scale as to the other three countries mentioned above. Available information indicates that the military aid to the UAR, Algeria and Syria by the Communist countries was granted before economic aid and has definitely been larger. During the period 1954-1966 these military deliveries amounted to nearly \$1,440 million for Egypt, \$374 million for Syria and \$223 million for Algeria, which represents some 40% of the total of military deliveries by Communist countries to the Third World. In view of the lack of information on Western transactions with the countries concerned, involving military material, no comparison between the value of Communist and Western military deliveries is possible.

30. This Communist military aid is without any doubt, from both an economic and political point of view, most disturbing. Whereas economic aid contributes to the development of the receiving countries, supplies of armaments yield no comparable benefit. On the contrary, they give rise to additional expenditure in respect of maintenance of the equipment and personnel necessary to use it. Naturally, as regards the budgets of the countries concerned, such outlays compete with allocations for investment or for improving the social structure. Moreover, these deliveries of military equipment constitute a sort of obligation, binding the

(1) See Table VII

receiving countries in view of the difficulty of subsequently changing to other types and the need to obtain spares to maintain what they have already received. As about half these military deliveries are not grants but credits, the receiving countries have to find the wherewithal to repay. Consequently, they are induced to earmark for this purpose a certain proportion of their exports to the Communist countries, on whose markets they thus become dependent.

31. From what has been said in the preceding paragraphs it is clear that three countries in particular have become the scene of important economic activities on the part of the Communist states: Egypt, Syria and Algeria. It would seem, therefore, that the problem of these activities, as it affects these countries, should be studied in greater detail.

PART III: UAR

32. The economic situation of Egypt is particularly disturbing and this country provides one of the most favourable bases for the economic activities of the Communist countries. The population, which already exceeds 31 million, is rising at an annual rate of nearly 2.8%. Of an area of one million square kilometres, cultivated lands only amount to 25,000 sq.km.- less than in Belgium which has only one third the population. An agricultural country using intensive methods of cultivation - cotton, rice, maize, wheat, beans, onions, cane sugar - Egypt has relatively modest mineral resources: iron ore, manganese, phosphates, soda, salt and petroleum. Hopes have recently been raised by the discovery of petroleum deposits in the Gulf of Suez and the Western Desert. Of the two vital sources of foreign exchange - the Suez Canal (\$219 million in transit charges in 1966) and tourism, the former dried up and the latter was seriously affected as the result of the events of Summer 1967. At the moment it is difficult to foresee when they will be restored. To make up for the loss of the Canal revenue three Arab countries (Saudi Arabia, Kuwait and Libya) promised at the Khartoum Conference in the Summer of 1967 to grant together \$266 million to the UAR.

33. During the period 1961-1965, the economy grew at the rate of almost 6.5% a year, but in view of the population growth the real rise in the national product per head was only about 3.6% per year. Demand has risen faster than supply, especially as the result of the excessive expansion of the construction, transport and services sectors, as the result of which strong inflationist pressures have made themselves felt. Prices have risen and the balance of payments deficit has got worse.

34. In the course of the next few years, the High Assuan Dam, which is almost finished, will provide some support for the development of the economy. It should, in fact, make possible the gradual reclaiming of desert land (5,100 sq.km.

in all) and the transfer in respect of 2,900 sq.km. of land from the present system of flooded fields to constant irrigation which will make possible three harvests per year. In addition, the barrage will supply the Nile Valley with about 10,000 million Kwh of electricity by 1970. It will facilitate the industrialisation of the country: it is already planned to build a bauxite plant, a steel works and new plants to process phosphates and manufacture nitrate fertilizers.

35. As these projects cannot pay off for a number of years the prospects for the Egyptian economy in the immediate future are anything but bright. It is unlikely that the discrepancy between food resources available and the requirements of a rapidly rising population will be reduced. Subsequent to 1965 the second development plan was twice altered, before being abandoned in favour of a new Five Year Plan which will only be put into operation after 1970. As a result of the war in June 1967, the already modest local possibilities of financing economic development have been reduced still further. The chronic disequilibrium in the balance of payments is an impediment to the growth of the national product. It is likely that the Suez Canal, when re-opened, will have lost some of its traffic. Indeed, recent events have encouraged ship owners to speed up the construction of giant tankers of 150-200,000 tons which cannot use the Canal and must take the Cape route. As a result Egypt will earn less in hard currency.

36. Trade statistics show that whereas Egypt depends on the markets of the Communist countries for more than half her exports, (in particular she sells them cotton and rice, partly to repay credits granted), she looks mainly to the West for imports. In recent years her main supplier has been the United States. The fact that the agreements (PL 480) to deliver agricultural products, especially wheat, have not been renewed is likely to alter this situation.

37. The difference in the geographic distribution of exports and imports explains, to some extent, Egypt's balance of payments difficulties and her dependence on foreign aid. She sells a large part of her products to countries with planned economies which, generally speaking, settle trade accounts with her on the basis of clearing. On the other hand, she buys a good deal in the convertible currency countries. This means that her trade surplus with the Communist countries cannot be used to finance purchases in the West.

38. The policy pursued by Egypt in seeking economic aid was defined in the declaration of July 1961. As regards development plans and technical assistance, Egypt relies primarily on the Communist countries of Europe but does not refuse aid from the Free World countries so long as this is not bound by political conditions. In practice, Egypt has drawn considerably on Western aid as well as on that from Communist countries.

39. Public loans and grants from the West over the period 1960-1965 have reached \$998 million (USA \$860 million, Germany \$50 million, Italy \$79 million, UK \$8.3 million, Austria \$1 million). In addition, Egypt obtained in 1959 a loan from the IBRD of \$56.5 million to widen the Suez Canal. The above US figure includes the value of deliveries of wheat and other food products payable in local currency which amounts to about \$640 million. Egypt's drawings on the IMF have amounted to \$1,047 million.

40. Apart from this public financial aid, Egypt has also accepted considerable commercial credits and bank loans. The exact total of these is not known. Not being able to meet her obligations, Egypt has had to fund some of these short and medium term loans. She has also arranged moratoria with the UK, France, Germany, Italy(1), Sweden and Spain, enabling her to spread the repayment of commercial credits over periods of 5 to 7 years starting 1966-1967. At the same time, Egypt has reportedly received new commercial credits from Italy and France.

41. As regards aid to Egypt from the Communist countries, the replacement of Western countries by the USSR in financing and building the High Assuan Dam was, historically, in this as in many other respects, a turning point. The commitments of the Communist countries from 1954 to 1967 amount to about \$1.6 billion. Drawings, however, have not exceeded \$665 million, (USSR \$505 million, East European countries \$145 million and China \$14.7 million).

42. Soviet economic aid normally takes the form of long term credits (12 years) at a low rate of interest (2.5%). It affects nearly all sectors of the economy, in particular the construction of the High Assuan Dam. As regards this scheme(2), Soviet loan commitments are said to amount to \$325 million, of which a little more than \$252 million is said to have been drawn on. Other drawings, amounting to some \$285 million, are spread over various projects, the most important of which are: geological research, the purchase of equipment for oil drilling, the equipment of metallurgical plants, the building of refineries at Suez and Alexandria, the building of factories for pharmaceutical products, the building of a naval shipyard at Alexandria, and a thermal electric power station at Suez, the delivery of textile factories and the expansion of the steel works at Helwan, the capacity of which is raised from 300,000 to 1,500,000 tons a year. The realisation of these projects has meant sending more than 2,000 Soviet technicians to Egypt.

(1) See AC/127-WP/216/4

(2) The total cost of the project is put at about \$1.2 billion, the breakdown being as follows:

Construction of the Barrage	\$188 million
" " " Hydro Electric Plant	\$161 million
" " " Electric Power Network	\$140 million
Infrastructure, Irrigation and Public Works	\$700 million

43. The decidedly less important drawing on aid promised by the other Communist countries have been used to finance various industrial projects such as: electrification of the Nile delta, the construction of cement works, rice husking plants, research laboratories, electric power stations, the supply of railway equipment, ships and barges, etc. These projects have occasioned the presence in Egypt of 350 technicians from Eastern European countries. Of the sum of \$14.7 million of Chinese aid, \$4.7 million represents a gift of hard currency made in 1956.

44. Some idea of Egypt's indebtedness is provided by the figure of \$199 million represented by payments to creditors in the East and West, during the period 1st July, 1964 to 30th June, 1965. This sum is equivalent to 22% of current balance of payment income and 33% of 1965 exports.

45. Egypt is greatly dependent on the Communist countries and the USSR in particular for military equipment and material. No figure is, as yet, available as to the value of equipment received in 1967 and 1968. For the period 1955-1966 the figure might be as much as \$1,440 million. The Soviet contribution amounts to \$1,160 million (\$725 million in grants and price reductions and \$435 million in credits of unknown duration), the Czechoslovak to \$279 million (of which \$50 million cash sales, and \$229 million credits). There is no information as to how Egypt will repay these credits.

46. In the following table, available figures of Egyptian defence expenditure, compared with the total budget, are given for the three years 1965/1966 to 1967/1968 in millions of Egyptian pounds.

Year	Defence Expenditure	Total Budget	Defence Share of Budget (%)
1965-66	210	1,206	18%
1966-67	215	1,296	16%
1967-68	238	1,218	19%

In 1964-1965 it seems that the share of the gross national product at market prices - £E.139 million - devoted to defence was 6.8%, a figure which seems to have risen appreciably since. This represents a considerable burden on the economy of the country, taking into account the modest stage of development reached, and the fact that the national product per head is very small. Information is lacking as to whether the USSR is subsidising the Egyptian defence budget or whether it includes the purchase of Soviet arms. Certainly it seems unlikely that the 1967-1968 figures include the cost of armaments supplied by the USSR to replace those lost in the Sinai disaster.

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PART IV: ALGERIA

47. The economic situation in Algeria presents serious problems, but it is difficult to describe it precisely for lack of up to date statistics. The population, which amounts to nearly 13 million, is rising at an annual rate of nearly 3%. Unemployment and under-employment are considerable: they affect, according to some estimates, at least half the population of working age. Out of an area of 2,750,000 square kilometres only about 70,000 can be cultivated in a regular fashion. This area, though small, is relatively greater than that at Egypt's disposal, (25,000 square kilometres for 31 million inhabitants), but land fertility is definitely greater in the latter country.

48. As regards economic development, Algeria is at a distinct advantage in certain respects. The country is rich in natural resources, especially petroleum, natural gas and iron ore, which, to some extent, are already being exploited. Agriculture was modernised by the French settlers who, moreover, have left behind them a well developed infrastructure. Apart from continuing to provide economic and technical assistance, France offers a relatively open market for Algerian products as well as employment possibilities for about half a million workers. Thanks especially to the presence of numerous French teachers, 55% of the children of school age can attend school. This represents an improvement relative to the position before independence.

49. Since independence, in 1962, Algeria has exploited its possibilities in a very uneven manner. Petroleum production has risen at a high rate. However, further prospecting was held up for a time because of the uncertainty felt by foreign companies as to the feasibility of working in Algeria. They have been reassured on this matter in return for a strict control of their activities by the Algerian Authorities and an increase in the royalties to be paid. In 1967, the quantity of petroleum obtained reached 38 million tons, an increase of 15% over 1966. Economic activity in Algeria has also been stimulated in recent years by the exploitation of natural gas and the building of gas pipelines to the coast. The other extractive industries (iron, non-ferrous metals, phosphates), which are run by nationally owned enterprises, have maintained, and even in some cases increased, their activity. The results in the non-nationalised sector of industry, comprising mainly small businesses accounting for about 75% of manufacturing industry, are more uncertain.

50. In agriculture the results obtained by the self-management system, which succeeded that of the French settlers, have been on the whole disappointing. The level of output and the quality have declined in an alarming manner. Moreover, the maintenance of the transport facilities, (roads, railways, aerodromes), telecommunications and housing has been inadequate.

This is partly to be explained by the fact that the infra-structure left behind by France is too advanced for the lower level of economic activity of the country since independence.

51. Algerian trade remains orientated towards the West. France alone takes about 70% of Algeria's exports and supplies 75% of imports. The remaining foreign trade is largely carried on with other OECD countries(1). Trade with Communist countries is still limited: 9.4% of imports and 3.4% of exports in 1967; it shows great fluctuations, the sharp increase noted last year following on two years of decline or stagnation; Algeria's trade balance with the East shows a constant deficit which is mainly due to the large sales of agricultural produce by the Soviet Union. In 1967, the latter tried to absorb products of which there was a glut in Algeria; thus her purchases of Algerian wines increased from 0.33 million dinars in 1966 to 21.8 million dinars in 1967. For Algeria, as for the UAR and Syria, the USSR provides therefore - to some extent - an alternative outlet when the Western countries have to reduce their purchases of certain products of great importance to the local economy. The new 1968 trade protocol between Algeria and the USSR, while maintaining the total volume of trade at its 1967 level, envisages delivery by Algeria of 600,000 tons of iron ore and a million hectolitres of wine.

52. Algerian exports consist largely of petroleum and natural gas (66%), agricultural products (24%), raw materials (5%). In 1966 revenue in respect of petroleum reached \$490 million, those from natural gas \$25 million. France takes nearly 66% of Algerian petroleum sales. She has been paying a high price for this petroleum and has accepted alterations in the fiscal arrangements governing the exploitation of petroleum in general, the effect of which will be to double the revenues of the Algerian state on this account. Natural gas is mainly sold in the United Kingdom; deliveries which were interrupted as a result of the Israeli-Arab war were resumed late in 1967. The United Kingdom now disposes of plentiful gas supplies in the North Sea; it does not seem likely, therefore, that this country will offer in the future a growing outlet for Algerian gas. France has undertaken to take annually 3.5 milliard cubic metres of Algerian gas for 15 years, starting in 1971, but Algeria has to find markets for nearly half its productive capacity which altogether should reach 9 milliard cubic metres a year. The high prices demanded are often considered unrealistic. Apart from France there are potential markets in Spain, Italy and Central Europe, but supplies of Soviet gas which the Central European pipeline should make available may constitute serious competition for Algeria on the latter two markets.

(1) See Table V

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53. French imports of wine, which represent the most important agricultural item, are to be reduced considerably in the next few years and other Algerian agricultural exports may well decline because of the fall off in quality. The preferential arrangements which France continues to grant to imports from Algeria have not been incorporated into the Common Market rules. Algeria's prospects as regards international trade depend largely on arrangements to be arrived at between Algeria and the EEC. Unofficial contacts appear to have been made already.

54. Algeria, over the last few years, has been largely dependent on outside aid and will certainly long continue to be so. Hitherto, the bulk of this aid has come from the West. During the period 1961-1966, France alone granted \$1,059 million(1), the other Western countries, above all the USA, about \$189 million, the Arab countries \$111 million, international organizations \$86 million. As regards Communist aid, it amounted to \$41.5 million for the period 1962-1967 if drawings alone are considered. These drawings are only a fraction of the aid promised which, over the period considered, amounts to some \$349 million.

55. The new Algerian leaders are conscious of the need to encourage investment, foreign as well as domestic. An Investment Code was published in 1966. It does not guarantee against nationalisation for ten years, which had been envisaged to start with, but makes provision for compensation to owners in case of nationalisation. It provides considerable advantages for private investors, especially as regards taxation and dividend transfer.

56. Although the Ben Bella régime banned the Algerian Communist Party, it tried to develop economic relations with Communist countries, on aid from which it placed great hopes. The present Boumediène government seems to take a more realistic view of Communist aid and its limits. By the end of 1967 Algeria had received promises of aid from these countries up to \$348.6 million. She is in third place among the Mediterranean countries receiving this aid, far behind the UAR, (\$1.6 billion), but not far short of Syria (\$393 million).

57. The USSR alone has provided about 66% of the aid from Communist countries; gifts have not exceeded \$5.3 million and consist of: wheat \$0.6 million, aircraft \$1.7 million, hospital equipment \$1 million, grants to the African Centre of Hydrocarbons and Textiles, training of 50 technicians a year for the textile industry and of 2,000 Africans for the petroleum industry \$2 million. However, according to some reports, this scheme for the African Centre may have been abandoned.

(1) Table VI at Annex covers the period 1960-1965. In fact, foreign aid for Algeria only came up in 1962. By 1966, she received \$181 million from the West, of which \$124 million were from France. Credits opened by France to foster the economic and industrial development of Algeria amounted in 1967 and 1968 to \$130 million and \$117 million respectively.

58. Two credits were granted to Algeria by the USSR, one in December 1963 for \$100 million, the other in July 1964 for \$127.6 million. The latter was mainly intended to complete the metallurgical plant at Annaba (Bone). Although of this total of \$227.6 million a sum of nearly \$180 million appears to have been allocated to specific projects, drawings have not exceeded \$16 million. Among projects, the financing of which has been envisaged, are the purchase of aircraft and lorries, 550 tractors, 12 repair shops, equipment - along with technical assistance for the construction of 28 small irrigation barrages (covering 8,500 hectares of land) drilling equipment (to provide 2,200 cubic metres of water for irrigation in the South), 5 experimental stations, 2 artificial insemination centres, a factory for the manufacture of aluminium products and the cost of prospecting for copper, lead, zinc and mercury. The finance for preparing land for cotton growing and for setting up a brandy distillery, which will export most of its output to the USSR, has also been provided for.

59. The gifts of the Eastern European countries (Bulgaria, Hungary, Poland and the Soviet Occupied Zone of Germany) only amount to \$1.5 million, spread among various projects, especially in the field of medicine. In addition, Bulgaria granted, in 1963, a credit of \$6 million to make possible the construction of a textile factory and an electric engine plant. For her part, Czechoslovakia extended a credit of \$15 million in 1964, mainly in respect of a shoe factory and a motorcycle assembly plant. She has recently (the second half of 1967) granted a new credit of \$50 million intended for a rolling mill at the steel plant in Annaba(1).

60. The gifts of Communist China amount to \$2 million in respect of deliveries of grain and school equipment. In addition, China opened a credit of \$50 million, of which \$20 million was in hard currency, the rest being intended for the construction of a cement works, other industrial installations, various agricultural programmes, as well as a stadium and an exhibition hall. These various projects are still in the study stage.

61. The launching of these various aid projects has meant sending to Algeria 2,300 Communist technicians, including a certain number of doctors from the USSR and Bulgaria, (the number of French "Coopérants" amount to 10,000). Algerian students have been trained in Communist countries but their number probably does not exceed a third of those who have pursued their studies in Western countries.

(1) Yugoslavia has also granted Algeria a credit of \$7.3 million, intended for the construction of two textile factories, a tannery and a fruit juice factory. She has also granted substantial aid in the field of medicine and education.

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62. As to Soviet military aid, this has amounted to about \$223 million from the time of independence until the end of 1966, that is, hardly less than economic aid promised by the USSR (\$228 million). Moreover, the gift element in military aid is much greater than in economic aid: it represents in fact \$100 million. Furthermore, whereas only a fraction of the economic aid promised has been drawn on (\$41.5 million), nearly all the military aid has been used. As a result, military aid received by Algeria from the Communist countries is about five times the value of economic aid. The USSR has made possible the training of a certain number of Algerian officers. Naturally, the military aid under discussion here does not cover recent deliveries, intended to replace equipment lost during the recent Arab-Israeli war.

63. All in all, the economic activities of the Communist countries in Algeria are disquieting, largely because of the size of the military aid given by these countries. The economic aid, on the other hand, in relation with economic aid from the West or with the needs of Algeria, appears slight. Besides, the aid deliveries by the Communist countries and the technical assistance rendered have not been up to the standard of the French, to which the Algerian population has long been accustomed. Hence the disappointment of the people with regard to assistance from Communist countries.

PART V: SYRIA

64. The economic situation in Syria has deteriorated over the last few years as a result of the chronic instability of the political system and of the extreme socialisation measures taken by the actual régime, which have mainly affected the commercial classes and discouraged the middle class in town and country. There has been a stagnation of trade activity, accompanied in the towns by unemployment and under-employment. At the same time, Syria has moved closer to the Communist countries, seeking their co-operation and aid in preference to that of the Western countries, with whom the links have been loosened. The ideology of those in power and the direction they have given the Syrian economy could create a difficult situation in the country and complications for their neighbours.

65. Despite the high rate of population growth - 3% per year - Syria is not over-populated, (5.5 million inhabitants). She is better off than the other countries of the region as regards cultivated land which represents about 36% of the territory (185,180 sq.km.). Agriculture is the chief source of Syria's wealth, which is one of the most important producers of wheat and barley in the region. The cultivation of cotton, tobacco, vegetables, oil seeds and olives is highly developed. On the other hand, the country is poor in mineral resources, which are limited to the following: salt, natural asphalt, phosphates and a little petroleum.

66. During the period of the First Plan (1961-1965) the GNP per head rose by 6.4% per year in real terms. This satisfactory rate of growth shows that the Syrian economy is potentially sound. The Second Five Year Plan (1966-1970) aims at the more ambitious rate of growth of 7.2% per year. Although mainly relying on improvement in agriculture, it also envisages the industrialisation of the country mainly through the construction of plants for chemical fertilisers, installations for extraction of salt and soda, assembly plants for agricultural machinery and tractors. The expansion of the oil industry and the creation of an electrical industry are also envisaged. It is not certain, however, that all these aims will be achieved because of the low productivity of the economy, the modest rate of saving, the lack of technical knowledge and of skilled labour and, especially, the weakness of the country's administration.

67. The Syrians are especially anxious to raise their petroleum output, well beyond the figure of 4.5 million tons which appears to be the target for 1968. Since 1960 oil prospecting has been exclusively in Soviet hands. Royalties paid by IPC and Tapline for the transit of petroleum across Syrian territory have been a considerable source of revenue (around £17 million per normal year). The Syrians are looking to irrigation to solve their water problems. The first Five Year Plan (1961-1965) envisaged the construction of several barrages which would permit the irrigation of 194,000 hectares of new lands. The building of the High Euphrates Dam, considered since 1948, was started in 1968 in the framework of the second Five Year Plan with Soviet financial and technical assistance. When it is completed, in the course of the next decade, it will make possible the irrigation of another 600,000 hectares.

68. In the course of the last few years, the state of the trade balance has deteriorated. Exports consisting largely of agricultural products and raw materials have declined, whereas imports have continued to rise, forcing Syria to resort to foreign loans to meet her obligations. Statistics show that in 1966 nearly one third of Syrian exports were directed to Communist countries which, in turn, provided 29% of Syria's imports; the gap between the two percentages is not great. In 1966, Syria had a large trade deficit with her Communist partners. It seems likely that, in future, imports from the East will tend to rise still more at the expense of the sales of the industrialised Western countries, because of the important rôle the Communist countries are to play in the realisation of the second Five Year Plan.

69. During the 1960-1965 period Western aid in the form of deliveries of food products, gifts and public loans amounted to \$43.80 million. During the same period, UNO aid intended primarily for Palestinian refugees in Syria was \$29.48 million.

Finally, Syria, on 30th June, 1967, owed \$8.5 million to IDA. Until 1963/4 the Federal German Republic and the USA were the chief Western suppliers of aid to Syria. Owing to Syria's hostile attitudes, these two countries have considerably reduced their contributions in recent years. On the other hand, some co-operation continues between Syria and the West. For instance, the construction of the Karatchouk-Tartus pipeline has been entrusted to an Italian firm.

70. The aid commitments of the Communist countries between 1955 and June 1967 amounted to \$393 million, (USSR \$232 million, Eastern Europe \$145 million, China \$16 million). The drawings amounted to: USSR \$53, Eastern Europe \$29.5 million and Communist China \$8 million. Syria is the only country of the South Mediterranean Basin where, during the period considered in this Note, Communist economic aid has exceeded Western aid. The Communist countries have, in particular, provided for the construction of cement works, flour mills, sugar refineries, the oil refinery at Homs and its expansion, textile mills, fertiliser factories and an electric power station. They have also supplied Syrian industry with various mechanical and electrical equipment. The Russians are especially active in the following sectors: petroleum (drilling, prospecting, geological surveys), agriculture (Euphrates barrage, study of the hydrological possibilities of the valleys of the Orontes, Euphrates etc., technical schools), communications (roads, topographical surveys, bridges, railway Lattakia-Quarnishili). The Syrian leaders are counting almost exclusively on the aid of Communist countries as to foreign financing of their second Five Year Plan. For the realisation of these projects, 515 technicians from the Communist countries have been in Syria, 350 coming from Russia, 150 from Eastern Europe and 15 from China.

71. Military aid by the Communist countries to Syria from 1955 to 1960 has amounted to \$374 million. Czechoslovakia has supplied arms to the value of \$47 million, selling on credit terms. The USSR has supplied military equipment worth \$327 million, of which \$167 million in the form of gifts and the rest credit. The arms gifts represent more than three times the value of Syria's drawings on Russian economic aid commitments in the course of the same period. Relative to the population, the arms deliveries to Syria are greater than those to the UAR and to Algeria, about \$68 per inhabitant, in Syria as against \$48 for Egypt and \$20 for Algeria. This comparison throws light on the importance of the links between the Syrian army and the USSR which is practically its sole supplier. These links have been reinforced as a result of the Arab-Israeli war of June 1967, the arms lost by the Syrians having been replaced by the Russians.

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TABLE I

COUNTRIES OF THE SOUTH MEDITERRANEAN BASIN
REGIONAL POPULATION STRUCTURE AND GROWTH

Country	Population in 1966 (000)	Country's share of total population of region (%)	Approximate annual average rate of growth in recent years
Israel	2,629	3.6	4.0%(1)
Libya	1,677	2.3	3.7%
Syria	5,400	7.5	3.2%
Morocco	13,725	18.9	3.2%
Algeria	12,150	16.7	3.0%
UAR	30,147	41.5	2.8%
Lebanon	2,460	3.4	2.5%
Tunisia	4,460	6.1	2.2%
Total	72,648	100.0	

(1) High rate largely due to immigration

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TABLE II
COUNTRIES OF THE SOUTH MEDITERRANEAN BASIN
ECONOMIC GROWTH AND STANDARD OF LIVING(a)

Country	Annual Rate of Growth of GDP per head 1960-65		Domestic product per head 1965 \$
	Current prices	Constant prices	
Israel(1)	14.5%	5.8%(6)	1,429
Libya(2)	42.4%	n.a.	739
Lebanon(3)	5.2%	n.a.	337
Algeria	n.a.	n.a.	230(10)
Tunisia(1)	6.2%	3.2%(7)	221
Syria(4)	n.a.	6.4%(8)	208(11)
Morocco(1)	4.4%	-0.05%(7)(9)	195
Egypt(5)	5.4%	3.6%	160

(a) Source: UN Monthly Statistical Bulletin, February 1968, except for Egypt, for which data of an IMF study of January 1967 have been used.

- (1) GDP market prices
 (2) GDP factor cost
 (3) NDP factor cost (61 65)
 (4) GNP market prices
 (5) IMF data GDP market prices
 (6) 1964 prices
 (7) 1960 prices
 (8) 1956 prices
 (9) Gross domestic production. Excludes the product originating in general government agencies, private non-profit institutions, financial intermediaries and households (domestic services) estimated by IBRD in 1966
 (10) estimated by IBRD in 1966
 (11) 1956 prices

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TABLE III
 COUNTRIES OF THE SOUTH MEDITERRANEAN BASIN

TOTAL AREA AND AREA CULTIVATED

(000 sq.km.)

Country	Area	Cultivated area	Cultivated area as percentage of total
Algeria	2,750.0	70.7	2.5%
Libya	1,750.0	25.0	1.4%
Egypt	1,000.0	25.5	2.5%
Morocco	445.0	78.6	17.6%
Syria	185.2	66.5	35.9%
Tunisia	125.2	43.3	34.6%
Israel	20.7	4.1	19.5%
Lebanon	10.4	2.7	25.9%
Total	6,286.5	316.4	5.0%

Source: FAO Production Yearbook - volume 19.

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TABLE IV

COUNTRIES OF THE SOUTH MEDITERRANEAN BASINFOREIGN TRADE (1966)

(1,000 US \$)

Country	Exports (fob)	Imports (cif)	Balance
Algeria(1)	847,196	704,563	+ 142,633
Israel(2)	503,281	832,588	- 329,307
Lebanon(3)	99,600	518,000	- 418,400
Libya(2)	986,547	405,050	+ 581,497
Morocco(3)	428,500	478,000	- 49,500
UAR(3)	605,400	1,070,000	- 464,600
Syria(3)	169,600	294,000	- 124,400
Tunisia(2)	140,350	249,048	- 108,698
Total	3,780,474	4,551,249	- 770,775

(1) Algeria does not publish foreign trade statistics. Estimates have been made on the basis of her trading partners' statistics (OECD foreign trade statistics series C and IMF's Directions of Trade). For trade with Communist countries, United States estimates have been used.

(2) UN figures of Foreign Trade.

(3) IMF figures of Foreign Trade.

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TABLE V
COUNTRIES OF SOUTH MEDITERRANEAN BASIN
STRUCTURE OF FOREIGN TRADE (%)

Exports to:	USA	EEC	EFTA	Communist countries			Other countries of Free World
				Total	USSR	China	
Algeria (3)	neg.	82	11	2 (4)	1	neg.	5
Israel (b)	15	29	22	4	neg.	1	30
Lebanon (a)	4	9	6	6	2	neg.	75 (1)
Libya (b)	5	71	18	neg.	-	2	6
Morocco (d)	2	61	9	15	3	5	13
UAR (b)	3	11	5	53	24	11	28
Syria (c)	2	16	2	32	10	1	48 (2)
Tunisia (b)	13	56	8	11	3	1	12
Imports from:	USA	EEC	EFTA	Communist countries			Other countries of Free World
				Total	USSR	China	
Algeria (3)	10	73	2	4 (4)	3	neg.	11
Israel (b)	26	24	25	2	neg.	neg.	23
Lebanon (a)	12	31	13	9	1	1	35 (1)
Libya (b)	12	47	18	8	1	2	15
Morocco (d)	8	56	8	13	3	4	15
UAR (b)	20	19	9	27	9	4	25
Syria (c)	8	25	11	29	7	6	27
Tunisia (b)	16	52	6	10	9	1	16

Sources: the same as for Table IV.
- for footnotes see next page

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- (a) 1965, (b) 1966, (c) Jan. - Nov. 1966, (d) Jan. - June 1966.
- (1) Lebanese exports to Middle East are 60.3% of total sales; imports 22% of total purchases.
- (2) Syrian exports to Middle East are 32% of total sales.
- (3) See footnote (1) to Table IV.
- (4) As mentioned in paragraph 51 of the present report Communist countries, in 1967, accounted for 3.4% of Algerian exports and 9.4% of her imports.

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TABLE VI

ECONOMIC AID GRANTED TO COUNTRIES OF THE
SOUTH MEDITERRANEAN BASIN

(million US \$)

From To	Bilateral aid from West 1960 - 1965	Net aid of United Nations 1960 - 1965	IBRD, AID etc. Credits outstand- ing on 30.6.67	Communist aid 1954-67		Total
				promised	drawn(a)	
Egypt(1)	998.00	55.45	56.50	(1,588.30)	664.70	1,774.65
Algeria(2)	1,067.00	5.70	80.50	(348.60)	41.50	1,194.70
Israel	760.54	4.44	94.40	-	-	859.38
Morocco	542.69	9.97	71.00	(76.80)	5.60	629.26
Tunisia	454.00	9.30	47.80	(54.50)	16.00	527.10
Syria	43.80	29.48	8.50	(392.70)	90.50	172.28
Libya	161.22	4.06	-	-	-	165.28
Lebanon	26.20	26.40	27.00	-	-	79.60
Total	4,053.45	144.80	385.70	(2,460.90)	818.30	5,402.25

Sources: OECD statistics for Western aid, AC/89-WP/217 for Communist aid.

- for footnotes see next page.

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Footnotes of Table VI

(a) Drawings on aid from the main Communist donors from 1954 to 1967

(Million US \$)

To \ From	USSR	Eastern Europe	Communist China	Total 1954-1967
Egypt	505.0	145.0	14.7	664.7
Syria	53.0	29.5	8.0	90.5
Algeria	16.0	5.5	20.0	41.5
Tunisia	9.0	7.0	-	16.0
Morocco	0.8	4.8	-	5.6

Egypt has received more than 81% of this Communist aid, Syria 11%, Algeria 5%, Tunisia 2% and Morocco less than 1%. Libya, Israel and Lebanon do not receive aid from the Communist countries.

- (1) Mention should be made here of recent aid from Kuwait, Libya and Saudi Arabia (\$266 million) which to some extent has made good the losses caused by the closure of the Suez Canal; also the Egyptian medium term debt to IMF which amounts to \$104.7 million.
- (2) In the case of Algeria both Communist and Western aid starts in 1962.

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TABLE VII

EVOLUTION OF COMMUNIST ECONOMIC AID TO THE SOUTH
MEDITERRANEAN COUNTRIES

(million US \$)

	New aid commitments						Drawings	
	1954-60	1961-64	1965	1966	1967	Total 1954-67	Total 1954-67	in 1967
<u>SYRIA</u>								
Soviet Union	100.0	0	0	132.0	0	232.0	53.0	13.0
East Europe	17.1	40.0	50.0	29.0	8.3	144.4	29.5	7.0
Communist China	0	16.3	0	0	0	16.3	8.0	0
TOTAL	117.1	56.3	50.0	161.0	8.3	392.7	90.5	20.0
<u>UAR</u>								
Soviet Union	500.0	502.1	0	0	0	1002.1	505.0	96.0
East Europe	66.7	184.4	230.4	0	20.0	501.4	145.0	29.5
Communist China	4.7	80.0	0	0	0	84.7	14.7	0
TOTAL	571.4	766.5	230.4	0	20.0	1588.3	664.7	125.5
<u>ALGERIA</u>								
Soviet Union	0	227.6	0	0	0	227.6	16.0	5.0
East Europe(1)	0	21.0	0	0	50.0	71.0	5.5	1.0
Communist China(1)	0	50.0	0	0	0	50.0	20.0	2.5
TOTAL	0	298.6	0	0	50.0	348.6	41.5	8.5
<u>TUNISIA</u>								
Soviet Union	0	33.2	0	0	0	33.2	9.0	3.8
East Europe	9.8	11.5	0	0	0	21.3	7.0	1.0
Communist China	0	0	0	0	0	0	0	0
TOTAL	9.8	44.7	0	0	0	54.5	16.0	4.8
<u>MOROCCO</u>								
Soviet Union	0	0	0	42.0	0	42.0	0.8	0.8
East Europe	0	4.8	30.0	0	0	34.8	4.8	0
Communist China	0	0	0	0	0	0	0	0
TOTAL	0	4.8	30.0	42.0	0	76.8	5.6	0.8
<u>Total Mediterranean Countries</u>								
Soviet Union	600.0	762.9	0	174.0	0	1536.9	583.8	118.6
East Europe	93.6	261.7	310.4	29.0	78.3	773.0	191.8	38.5
Communist China	4.7	146.3	0	0	0	151.0	42.7	2.5
TOTAL	698.3	1170.9	310.4	203.0	78.3	2460.9	818.3	159.6
<u>Total Developing Countries</u>								
Soviet Union	2402.9	1881.2	401.6	961.2	154.3	5801.2	2406.0	274.5
East Europe	361.1	925.3	570.3	127.2	152.1	2136.0	613.9	85.9
Communist China	168.8	564.1	141.8	107.0	76.9	1058.6	383.5	62.4
TOTAL	2932.8	3370.6	1338.7	1195.4	383.3	8995.8	3403.4	422.8

(1) In addition Eastern European countries granted as a gift \$1.5 million to Algeria, and gifts from Communist China amount to \$2 million. Gifts from the Soviet Union amounted to \$5.3 million.

THE ECONOMIC DEVELOPMENT OF CYPRUS AND MALTA

A. MALTA

(a) Description of the Economy

1. Independent since September 1964, Malta for centuries has been a Western outpost in the centre of the Mediterranean, facilitating the control of the sea routes between Gibraltar, Suez and the Bosphorus. Since the 19th century its economy and its prosperity have been linked to the presence of British military and naval bases on its territory and to the activity of the port of Valetta.

2. A serious economic problem has now arisen because of the withdrawal - which will be completed in a few years - of the British naval and military forces and because of the need to reconvert and modernise its dry docks(1) and diversify some of their activities. The closing of the Suez Canal in June 1967 created new difficulties for the Maltese economy as a result of the re-routing of ships which in the ordinary way make use of the port facilities of Malta. At least some of the 5,000 people who, at the beginning of 1967 were employed in the dockyards, are threatened with unemployment.

3. With an area of only 320 square kilometres, of which one half is unsuitable for cultivation, Malta has little in the way of natural resources, particularly as regards water supply, a situation which shows little sign of improvement. The population (317,000 inhabitants in 1966) is slightly less than that of Luxembourg, which has a territory eight times as great. Over-populated, Malta has managed to diminish its total population over the last ten years by an active policy of emigration to the United Kingdom and the other Commonwealth countries, and by a reduction in the birth rate (the crude birth rate fell from 2.3% in 1961 to 1.7% in 1966).

4. The Maltese economy is essentially geared to the provision of services. Although the available statistics on the sector composition of the GNP relate to 1964, they give a precise enough idea of the rôle of the tertiary sector and the military bases in the economy:

<u>Sector</u>	<u>Contribution to GNP</u>
Agriculture	7%
Construction and Mining	5.3%
Industry	17.9%
Commerce	21.4%

(1) These have recently become the property of the Maltese government.

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<u>Sector</u>	<u>Contribution to GNP</u>
Transport and Telecommunications	5%
Administration	13.5%
Other Services (of which activities linked with military bases)	29.9%
	14.9%(1)

The distribution of labour employed also brings out the importance of this sector, to which 59% of the 97,364 people economically active in 1966 belonged. It is, however, impossible to give a precise figure of the number of Maltese employed at the military bases. In this same year the number of registered unemployed amounted to 7,770, or about 8% of the working population.

5. In 1966 the gross national product at market prices was £62.5 million(2), or about \$550 per head. This figure, which is relatively high, disregards the very slow growth of the economy in the course of the present decade. The UN statistics bring out the fact that the same GNP in constant prices rose from £44.7 million in 1960 to £47.4 million in 1965, or a rise of 6% in 5 years. The annual real rise per head of population was only 1.9% during this period(3).

6. Vines, wheat, barley and fodder plants are the chief crops in the island. Horticulture and potatoes supply not only the local market but yield an export. However, the local agricultural resources are insufficient. Malta has to import a high percentage of the food consumed (wheat, meat, milk, fruit and fodder cereals). Fishing only employs 1% of the working population and its products do not even cover local needs. This sector could be developed so as to help reduce the country's food deficit. Efforts are being made to raise the productivity of the agricultural sector, the more so as industrial development will gradually encroach on land suitable for cultivation.

7. Industrial activity is limited to light industries: manufacture of tobacco, food products, tanneries, light metal manufacture, brewing, synthetic textiles, manufacture of chemical products based on rubber. The state subsidises the development of the industrial sector on which it counts to absorb manpower thrown out of work by economic changes in recent years.

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- (1) Estimate, to be treated with reserve.
 - (2) UN Bulletin Mensuel de Statistique, February 1968
 - (3) This figure is due partly to a 3.1% fall in the population over the period.

8. Tourism is of very great importance for the Maltese economy. This industry has developed very fast in the course of the present decade opening up new employment prospects especially for female labour. In 1966, 72,880 tourists visited the island, of whom 70% were British. The development of tourism is, however, hampered by two important obstacles: distance from the North of Europe where most of the visitors come from, and lack of hotel accommodation and of facilities for leisure. The improvement in transport, especially by air, and the reduction in fares would be an excellent means of promoting this branch of the economy.

(b) Foreign Trade

9. Although the trade balance of Malta traditionally shows a deficit, an important part of this is balanced by invisibles, as is shown by the following table for the years 1964-1966:

(In million £)

	1964	1965	1966
Export of goods	6.92	8.65	10.76
Import of goods	-34.48	-34.97	-38.71
Trade deficit	-27.56	-26.32	-27.95
Export of services	21.08	20.55	22.54
Import of services	- 2.72	- 2.83	- 2.39
Net revenue from foreign investments	+ 4.00	+ 4.40	+ 4.90
Net deficit	- 5.20	- 4.20	- 2.90

Source: Bulletin Mensuel de Statistique des Nation Unies - February 1968.

During this period, whereas imports have risen moderately (+12%), exports of goods have increased greatly (+56%); but sales of services have tended to stagnate owing, no doubt, to the continued rundown of the military bases. The structure of foreign trade reflects the pattern of the Maltese economy based as it is on the tertiary sector and on the possible development of a light industry and processing.

10. The bulk of Malta's foreign trade is with Western Europe, particularly with the United Kingdom and the Common Market. In 1966 the geographical distribution of Malta's

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foreign trade was as follows:

	<u>Exports</u>	<u>Imports</u>
USA and Canada	11.9%	6.4%
United Kingdom	30.2%	38.2%
EEC	16.1%	27.3%
Rest of Western Europe	12.6%	7.7%
Communist countries	0.7%	5.2%
Others not specified	28.5%	15.2%
	<u>100.0%</u>	<u>100.0%</u>

11. The distribution by product is not available for 1966, but in 1965 imports(1) of foodstuffs represented about 29% of the total, manufactured products 44%; mineral fuels 6.4%. One-third of exports consists of textiles, fabrics and clothes, 13% agricultural and horticultural products (especially wine, potatoes, flowers, oils and greases), the rest of the sales being mainly of manufactured products and scrap metal. One must stress the entrepôt rôle of Malta, whose re-exports to the extent of 50% were in the form of supplies to ships and aircraft calling at the island. Currently there may well be some reduction in this activity because of the run down of the bases and the closing of the Suez Canal.

(c) Economic Development and Western Aid

12. Malta is currently carrying out its second plan of economic development covering the period 1964-1969. This plan, worked out largely on the advice of United Nations experts, follows on the first Five Year Plan 1959-1964 put into effect while Malta was still under British protection.

13. The first Five Year Development Plan, revised in 1961 to take account of modifications already envisaged in the island's rôle of military base, provided for a global expenditure of £35.8 million. This sum was financed as to £29.1 million by the United Kingdom, £4 million by local loans, £2.7 million by a loan from the World Bank intended for the construction of a power station and a factory to distil sea water.

14. The second Five Year Development Plan 1964-1969 envisaged state investments of the order of £38.4 million, financed largely by the United Kingdom within the framework of the financial agreement signed in 1964. This plan proposes to encourage the tourist industry, to increase agricultural productivity, to encourage the setting-up of new industries in the island and to facilitate the emigration of a part of the population.

(1) These percentages, especially those for exports, are very approximate.

It was also intended to create a free port in Malta. The financial agreement between Malta and the United Kingdom envisaged economic aid by the latter spread over 10 years amounting to £50 million. A sum of £18.8 million was to be put at the disposal of the Maltese Government over the period April 1964 to March 1967. The balance, £31.2 million would be spread in principle over 7 years ending in 1974. Starting from March 1967, the annual sums due to the Maltese Authorities would be the subject of negotiation and their payment would depend on the maintenance of the agreement of Mutual Aid and Defence concluded between the two countries. During the first 5 years of the programme, 75% of the aid would be given in the form of gifts, the other 25% in the form of interest-bearing loans. The distribution between gifts and loans granted between 1969 and 1974 will depend on negotiations which should take place during that period. The United Kingdom also undertook to spend £1 million in restoring public and historic buildings occupied by the British Authorities in the framework of the Defence Agreement with Malta. In addition the British Government has recently accepted to grant a supplementary assistance amounting to £3 million for the modernisation and the operation of the dry docks.

15. Other Western countries have also granted some aid to Malta; she received, according to OECD statistics \$490,000 of net public gifts in the period 1960-1965 from the United States of America, Canada, Italy and Germany, and \$380,000 in public loans from Italy. In April 1968 moreover, this latter country granted the Maltese Government a credit of \$4.8 million on favourable terms. No aid has been granted by the Communist countries since independence. However, the USSR is showing a growing interest for this island, a trade mission has just visited Valetta with a view to increasing trade between Malta and the USSR. The Soviets have also offered to prospect for petroleum and to send some of their trawlers to the island's dry docks.

16. The implementation of the two plans of development seems to have been on the whole satisfactory up to now. A growth in economic activity has been achieved which has more than made up for the contraction in the expenditure of the Armed Forces in Malta. Nevertheless, there is anxiety as to the economic future of the island on two counts. It is becoming difficult to create new work for the male population and only eight new enterprises employing more than 100 people have been set up. A large number of new enterprises make textiles and clothing products, the export of which may prove difficult in future. Malta, however, badly needs export industries. With regard to the reconversion of the dry docks to meet the needs of merchant shipping, a recent official report(1) stressed the need, as far as the economy was concerned, to build a floating dock capable of taking

(1) Report of the Joint Mission for Malta - 18th July, 1967 - HMSO London, Cmnd 3366.

ships up to 200,000 tons. This report, established by a mission of British and Maltese high officials headed by Lord Robens, contains a realistic programme for the future for the economy as a whole. An extract of the report indicating the main points of this programme is given at Annex II.

17. The Government is also trying to attract investments to the island. To this effect, trade and investment agreements have been concluded with the Federal Republic of Germany, the United States, Italy and Yugoslavia. Agreements with Japan and Czechoslovakia are being prepared. The Czechoslovak Government seems interested in a sort of industrial consortium financed by Czech, British and Maltese funds, which would study the setting up of new industries on the island. A Japanese firm has announced that it proposes to set up a factory in Malta to assemble air conditioning plant.

(d) Conclusions

18. The Second Development Plan (1964-1969) will end at the time when Malta is going through a transition and reconversion period which will continue over the next decade. Malta remains very vulnerable to external conditions over which she has no control, as the current crisis in the dockyards shows. Her economic prosperity is entirely due to her entrepôt rôle, tourism, her capacity to produce for export at competitive prices. This ability to compete will be vital in the years to come. In this respect, Malta is less well placed than certain neighbours and direct competitors such as Tunisia or Sicily, owing to the almost complete absence of natural resources and a local market. Any measure which would ease the export of Maltese products to the Western countries or investment by them in the island would be most useful in supporting the Maltese economy.

B. CYPRUS

19. Independent since 1959, Cyprus occupies an important geographical position in the South East Mediterranean. From bases located on its territory, it is possible to cover the whole Middle East and especially the petroleum deposits of the Persian Gulf region. With an area of 9,250 square kilometres, of which 4,320 are suitable for regular cultivation, the island has a population of 615,000. Over the last few years the population growth has been slight, about 1% or about the same as in Western Europe; emigration to British Commonwealth countries partly explains this situation.

20. Essentially an agricultural country, (40% of the working population are engaged in agriculture, forestry and fishing), Cyprus also has, relative to its size, considerable mineral resources: chrome ore, copper, iron pyrites, gypsum, asbestos etc. The standard of living is relatively high. In 1966 the GNP per head at market prices amounted to \$730, showing a rise of 5% relative to the preceding year. This figure, comparable to the Greek GNP per head, is definitely higher than in the countries examined in the present study, with the exception of Israel and Libya (the latter being a special case). Between 1960 and 1965, the economy advanced at a satisfactory rate. In real terms the national product per head rose 4.8% per year.

21. The trade balance of Cyprus is always in deficit. The deficit in 1966 reached \$76.5 million, almost as much as total exports (\$78.1 million). In that year the main exports were food products, wines and tobacco (c. 47% of total), and raw materials (45%). Sales of machinery, transport equipment and other manufactured products only accounted for 8% of exports. Cypriot imports were as follows: food products, beverages etc. 16%; chemical products 10%; fuels 9%; raw materials 2%; manufactured products, machinery and transport equipment 63%. Cyprus manages to offset a large part of its trade deficit with the revenue received by the Government from the military bases located on its territory and the United Nations forces. In 1965 this revenue amounted to \$62 million. Tourism could also become an important source of hard currency but this industry still feels the pressure of events which have troubled the island in recent years.

22. The table below indicates the part played by different countries in the foreign trade of Cyprus. The United Kingdom and the Common Market are the island's chief suppliers and purchasers.

STRUCTURE OF THE FOREIGN TRADE OF CYPRUS IN 1966(1)

Country	Imports	Exports
United States	5	1
United Kingdom	32	34
EEC	28	30
Greece	4	2
Turkey	neg.	neg.
Communist countries	6	12
Other Free World countries	25	21
Total	100	100

(1) Source: IMF - Direction of Trade, Annual Supplement covering 1962-1966.

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23. Precise and comprehensive information on Cypriot development plans are not available. The first Five Year Plan (1962-1966) envisaged investment outlay of \$173.6 million, especially for the development of water resources, the ports of Famagusta and Limasol, the electrification of the country, the expansion of the agricultural sector, the construction of roads and airports and a telecommunications network. All these projects imply substantial foreign aid, especially British. This plan has not been completely implemented, the investments made having reached \$109.2 million only. The second 5-year plan for the period 1967-1971 aims at an average yearly rate of growth of GNP of 6.5%; it gives priority to agriculture with the main emphasis on land reclamation and irrigation schemes. According to OECD statistics, Western aid from 1960 to 1965 - net deliveries of American agricultural surpluses, net public gifts and gross public loans - amounted to \$81 million, of which \$59.10 million came from the United Kingdom, \$19.34 million from the United States, \$2.51 million from Germany and \$50,000 from Canada and Sweden. In addition, during this period, Cyprus received UN aid amounting to \$2.83 million. Loans from IBRD amounted, on 30th June, 1967, to \$19.2 million.

24. Economic aid from the Communist countries has been very slight. It consists merely of a credit of \$1.3 million granted in 1961 by Poland for the development of the port of Famagusta. This credit was fully used. In 1964 the International Press referred to a promise of aid by the Soviet Union(1), but the latter in fact does not appear to have granted anything. No military aid has been granted to Cyprus by the Communist countries; Czechoslovakia is said to have offered to deliver arms to the Cyprus Government but the latter is thought to have refused the offer.

25. Although still under-developed, Cyprus has various advantages as regards economic growth: fertile land, an active population and a fairly high national product. Unlike many other countries in the area, Cyprus is not subjected to population pressure. Western aid has not been lacking since independence and it is likely that the industrialised countries will continue to support domestic efforts to develop. The economic expansion of the island depends to a great extent on exports consisting mainly of basic products intended for Western European markets; it is therefore indispensable that Cyprus should maintain and, if possible, enlarge its outlets in this part of the world.

(1) Agreement on "Measures of practical aid for Cyprus which the USSR will take enabling Cyprus to maintain its independence and territorial integrity" signed in Moscow 30th September, 1964. (See Financial Times 20th October, 1964).

EXTRACTS FROM THE REPORT OF THE JOINT MISSION FOR MALTA,
HEADED BY LORD ROBENS, WHICH STUDIES IN 1967
THE ECONOMIC SITUATION IN MALTA

CHAPTER 11

CONCLUSIONS

I. INTRODUCTION

The programme which is set out in the previous chapter is an ambitious one. Given the scale and urgency of the problems, it is clearly important to set the sights high. Otherwise the effort necessary for success will not be forthcoming. On the other hand, it is equally important that the objectives set should not be impossible of achievement: to do so would run the risk of creating false hopes to be followed by subsequent disappointment and recrimination; it could also lead to rash policy action which could produce both wasteful investment decisions and damaging inflationary pressures.

The operational feasibility of the employment programme which we have outlined in this report cannot be established by any kind of statistical or scientific proof. It is essentially a matter of judgment. In arriving at such a judgment, a number of different factors need to be considered. The main points at issue are:

- (i) Malta's ability to attract the right kind of investment in manufacturing industry and tourism on a sufficient scale;
- (ii) the capacity of the Maltese administrative and decision-taking machinery to put through the action programme in the time required;
- (iii) the ability of the construction industry to carry out the necessary investment in the time required;
- (iv) the seriousness of the danger that the increased investment will generate inflationary pressures;
- (v) the extent to which increased employment in hotels and manufacturing is likely to generate new employment in other sectors of the economy, given that some fall in employment in the rest of the economy is likely to result from the withdrawal of British servicemen and their families.

CHAPTER 12
ACTION PROGRAMME

I. INTRODUCTION

This chapter is designed, for ease of reference, to identify the strategic recommendations contained in the Report. However, the Mission wishes to emphasize that for the purposes of follow-up action by the two Governments concerned, the Mission's Report should be taken as a whole including all recommendations contained in each chapter.

Chapter 1. INTRODUCTION

Chapter 2. THE INFRASTRUCTURE

A. Electricity

- (i) The programme for the Stage II extension of "B" Power Station should be strictly followed so that the first 30-megawatt steam turbines can be brought into operation by August 1969 and the second set during 1970. To this end the problem of financing Stage II must be solved immediately;
- (ii) If by December 1967 it emerges that it will not be possible to have the first generator in operation by the winter of 1969-1970, then an immediate order must be placed for a 13 megawatt gas turbine generator;
- (iii) If a gas turbine capacity has to be installed this should not be allowed to delay the installation of the steam generating capacity if power cuts are to be avoided in the winter of 1970-1971.

B. Water

- (iv) The programme of works to reduce storage and distribution leakages should be intensified so as to bring down waste to 12% of production by 1972;
- (v) The tariff structure should be examined with a view to using the pricing mechanism to prevent wasteful use of water;
- (vi) The programme of distiller installations should be strictly adhered to and consideration should be given to increasing the number under tender from two to three.

C. Roads

- (vii) As soon as the master plan for the islands is completed the Public Works Department should as far as possible build roads ahead of hotel and villa developments.

D. Ports

- (viii) Immediate steps should be taken to recruit and train pilots for Malta's ports;
- (ix) A separate Port Authority should be established to run Malta's ports;
- (x) The programme for building quays, storage space and passenger terminal facilities should be completed without delay.

E. Airport

- (xi) The land required for future extension of the runway should be earmarked immediately for this purpose and the airport buildings should be expanded to double their present capacity.

F. Telephones

- (xii) The present programme of extensions must be completed immediately and the overseas service improved, possibly by obtaining additional lines to London.

Chapter 3. DRYDOCKS

- (i) The two Governments are urged to take steps immediately to settle the ownership problem;
- (ii) When the ownership problem is solved the drydocks should revert to Malta, free to operate on a commercial basis;
- (iii) The British Government should do all in its power to release facilities to provide additional wet berthage;
- (iv) The British Government should put in hand the necessary feasibility studies for a floating dock;
- (v) The industrial engineering department of the drydocks should be hived-off from ship repairing work.

Chapter 4. TOURISM

- (i) Approval must be given to a land-use plan for the North Western Region immediately. The areas for hotel development throughout the Maltese Islands must be delineated as a matter of urgency while the overall master plan is proceeded with as fast as possible.
- (ii) A phased and co-ordinated programme for the provision of services to hotel development areas must be drawn up by the Public Works Department in consultation with the Tourist Board, the Electricity Board and the Post Office.
- (iii) The Tourist Board should be reconstituted and given greater authority so that it can:
- advise on land use planning;
 - co-ordinate services in tourist development areas;
 - be consulted in the planning of villa, flat and hotel development;
 - consult fully with the Development Corporation on all matters involving tourism;
 - grade and inspect hotels;
 - formulate with the Ministry of Labour a policy towards recruiting key expatriate personnel;
 - promote training;
 - encourage the development of ancillary tourist facilities and attractions;
 - advise on and regulate the development of internal and external communications;
 - plan cultural programmes; promote tourism actively and effectively.
- (iv) The question of establishing a training hotel in the islands, its ownership and finance, should be urgently considered.
- (v) Training "on the job" in the hotel and catering industry should be dealt with in the same way as in manufacturing industry.
- (vi) Beach facilities should be provided immediately in those areas with a high density of population and hotels.

- (vii) A new appraisal of tourist policy must be carried out based on a thorough assessment of the present and future trends of tourism from the United Kingdom and Northern Europe to the Mediterranean area.
- (viii) Special inducements should be offered so that hotels of 40 or 20 beds be encouraged.
- (ix) Expatriates should in most cases be given five-year work permits provided they train Maltese successors.
- (x) A small department for the development of handicrafts should be set up staffed with experts in design, production and marketing.

Chapter 5. MANUFACTURING INDUSTRY

- (i) The Development Corporation should investigate the problems of management, working capital and factory space affecting the smaller established firms, in order to devise means for encouraging them to expand.
- (ii) Considerations should be given to providing appropriate financial incentives to local shipowners to encourage the establishment of a regular shipping service.
- (iii) A general review of the cost effectiveness of the present incentives in attracting new industries and new employment must be undertaken, in particular an examination should be undertaken of the possibility of:
 - providing more incentive for Maltese participation in new investment projects, specifically by concessionary rates of succession duty.
 - treating expansion schemes on the same basis as new profits for the purposes of capital aid.
- (iv) The present factory building must be accelerated and, concurrently, the planning and construction of an industrial estate of at least 30 factories must be undertaken immediately to ensure that the supply of factories is kept ahead of demand. The contract for this industrial estate should be let on bloc to a single contractor with a strict time limit on its completion.
- (v) The Development Corporation should immediately set up an overseas promotion organization.

- (vi) Advisory panels of businessmen should be appointed to assist the promotional organization in Britain and possibly in Europe.
- (vii) The Development Corporation should have delegated authority to extend grant/loan aid of up to, say, £250,000 per project.

Chapter 6. AGRICULTURE

- (i) Steps should be taken to spread knowledge of new farming techniques through a strengthening and enlargement of the role of the Government Agricultural Extension Service;
- (ii) The present policy towards the development of glass-house culture should be re-examined with a view to determining the most economic size of unit.

Chapter 7. CONSTRUCTION

- (i) A vigorous programme of training for skilled and semi-skilled construction workers must be launched immediately.

Chapter 8. TRAINING AND PLACEMENT

- (i) Additional training and re-training places for teaching the basic skills required in manufacturing, tourism, construction and other occupations should be provided immediately based on the broad calculations set out in Appendix II of the Report.
- (ii) As the more detailed requirements emerge as new projects are approved, provision for more specialist training facilities should be made.
- (iii) The hardware of training in terms of equipment, tools and materials should be improved.
- (iv) Sufficient trained instructors should be recruited. Key instructors should be sent on short courses, covering such subjects as job analysis, instructional techniques and training assessment.
- (v) A Training and Placement Authority should be established with the following duties:
 - to act as a link between the United Kingdom Departments, the training authorities and the new employees;

- to interview men before discharge and assess them for adaptability and training;
 - to arrange for pre-release and re-orientation training;
 - to place men in training courses and employment.
- (vi) Employers who are willing to train redundant men on behalf of the Authority should be eligible for subsidies.
- (vii) Ten per cent of every employer's payroll should be made up of men discharged from the United Kingdom Departments.
- (viii) A training allowance should be payable to men undergoing training over and above the normal social security benefits.
- (ix) A technical training inspectorate should be established.
- (x) A small group of Government, employers' and union representatives should be established to advise on technical training.
- (xi) The Polytechnic should work in close harness with industry, aligning its courses to industrial needs.

Chapter 9. FREEPORT

Chapters 10 & 11. GENERAL ISSUES AND CONCLUSIONS

- (i) Discussions should be initiated between the United Kingdom and Malta Governments to devise an arrangement which could reduce the time taken in granting waivers to allow United Kingdom aid money to be spent on materials and services from third countries;
- (ii) A Consultative Council should be set up to advise the Government on economic policy and to discuss new ideas for economic development. The Council should be chaired by a senior Minister and consist of a small group of men prominent in Government, industry and the trade unions.