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See Corr following

COMMITTEE OF ECONOMIC ADVISERS

POSSIBILITIES OF COUNTERING SINO-SOVIET
ECONOMIC PENETRATION IN IRAQ

Note by the Secretary

Following the decision of the Committee on 5th July, 1962⁽¹⁾ the Economics Directorate has prepared the attached note and the two Annexes for discussion at a future meeting.

(Signed) A. TANSEVER

CTAN/NATO,
Paris, XVIe.

(1) AC/127-R/94, Item II

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PRELIMINARY CONSIDERATIONS ON POSSIBILITIES
OF COUNTERING SINO-SOVIET ECONOMIC
PENETRATION IN IRAQ

Note by the Economics Directorate

With a view to providing a basis for exchanges of views on policies open to the West in face of the deep economic penetration already achieved by the Soviet bloc in Iraq, the Economics Directorate has established two notes, attached at Annexes I and II,

- (i) a survey of the economic problems in Iraq and the main features of the development programme;
- (ii) an analysis of the various forms of economic penetration by the Soviet bloc, including military assistance, economic credits, presence of Soviet technicians, etc.

2. Although these notes have been partly based on information provided by some delegations they cannot be considered as complete or up-to-date. Given the fact that information on economic problems of Iraq is very scanty, these studies certainly are deficient in many ways. Delegations might therefore wish to provide further information in order to improve them.

3. Even at this stage the two attached notes bring out a few essential features in Iraq's economic situation which have to be taken into account in discussing any policy of the West towards this country:

- (i) Iraq has all the characteristics of under-developed countries: low income per head, fast growing population, heavy dependence on agriculture at a very backward stage, large unemployment and under-employment, low level of education and potential balance of payments difficulties;
- (ii) By contrast with many other under-developed countries Iraq has, however, an important asset: oil which provides the bulk of foreign exchange and of the state revenue;
- (iii) Iraq has launched an ambitious development programme (1961-1966) which aims at an average increase in the gross national product of some 9% per year and requires both a large amount of capital and a great number of technicians and skilled workers.
- (iv) The capital required is expected mostly from the growing output and export to the West of oil (this commodity is not likely to find any significant outlet in the Sino-Soviet bloc); but some capital - about 12% of the whole amount is required - is also expected from the Sino-Soviet bloc in the form of credits.

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- As to technicians, apart from those who belong to foreign firms and a few Iraqis, they are all provided by the Soviet bloc.
- (vi) The new military regime feels the need to maintain large armed forces and equip them with modern weapons provided by the Soviet bloc. Military expenditures are rising, in particular to pay for part of this equipment, to provide for its maintenance and operation, and it is likely to further increase in the future when Iraq has to repay for the part of the material received under Soviet credits. The competition, already apparent, between military outlays and expenditure for development, is likely to become more and more acute.
- (vii) Given the difficulty of expanding the production and sales of Iraqi goods suitable to communist countries, the repayment of Soviet aid, either civilian or military, can only be expected from the proceeds of oil exports to the free world. This shows that the recourse to bloc assistance derives from political rather than economic motives.
- (viii) There is also general mistrust of Western economic interests in Iraq which has resulted in the present deadlock between the IPC and the Iraqi authorities and also in a strict control of other foreign firms, accompanied by the "Iraqisation" of several important economic sectors.

4. Policies to be followed by the West in the face of Soviet economic penetration in Iraq could be guided by the findings of the report of the Committee of Economic Advisers to the Council (C-M(60)4). It was then concluded that Western economic policies and aid programmes should not primarily be designed to be a response to the Communist economic offensive. On the other hand, taking account of the offensive the West should be encouraged to improve its policies towards the under-developed countries. It was also recognised that NATO should discuss special emergency measures which might be needed for dealing with a specific threat and provide a forum for a frank exchange of views on policies for countering the communist economic offensive. In the case of Iraq various policies can be discussed.

5. A policy of active economic co-operation might consist of favouring the increase to the maximum of output and exports of oil, providing large scale economic assistance, sending a large number of technicians, recommending the most conciliatory spirit in negotiating a settlement with the Iraqi authorities on oil. Such a policy would facilitate the implementation of the economic development programme, assist in improving living conditions in Iraq, and contribute to weakening the local pro-Soviet elements.

6. However, this policy has very strict limitations. It would imply great abnegation on the part of the West, which in the present state of affairs might be in direct conflict not only with its economic but also its political interests, especially if Iraq continued to receive arms, credits and technicians from the Soviets. It might be considered as a premium to countries who undertake to play the Soviet bloc against the West, and this necessarily at the expense of friendly under-developed countries who have stuck to their Western alliance. Above all, such a policy would have to be accepted by the present Iraqi authorities while in fact they might see in it a renewed effort to gain a foothold for "neo-colonialism" on the country. To avoid this misrepresentation, it would probably be necessary to rely on international organizations such as the United Nations or the IBRD, rather than on national governments to carry out this policy.

7. At the other extreme, the West might reduce or even sever its economic relations with Iraq. If, for instance, oil imports from Iraq were suspended by the West, the very basis of the Iraqi economy would collapse. Such a policy, however, is hardly conceivable except as a last resort in the face of Iraq taking hostile steps against vital Western interests in the area. It would not create any oil shortages, as in the present surplus situation alternative sources of supply could easily be found. On the other hand, it would hit directly Western interests and might lead the regime to acts of despair with devastating effects. The resulting economic and social chaos might, of course, lead to a change of Government or induce the present regime to yield to the West. Iraq might also turn to the Soviet bloc for a rescue. If the bloc agreed to undertake such an operation, it would be at great economic cost, but the communists might so obtain very spectacular political rewards, i.e. the turning of Iraq into a new satellite. However, the possibility of applying a severe economic policy might in certain circumstances be useful to the West as a threat to deter the local government from hostile action.

8. The middle course of action would be more or less to leave things to follow their current trends, i.e. not to make any special effort to increase the output and export of oil over their present levels and to be resigned to Iraq relying on Sino-Soviet assistance for the achievement of its economic programme and the building up of its army. In fact this may be the only course of action possible for the West. If things are left unchanged, the economic targets set in the Plan will certainly not be met, as the Plan's fulfilment depends to a large extent on growing oil revenues, and as the increasing requirements of the armed forces will reduce the finance available for civilian investment. The West could make it clear that it had no responsibility in either elaborating or financing the economic programme and that its failure is due to the policy of co-operation with the Soviet bloc. After such an experience the Iraqi authorities might be more willing to re-establish closer economic relations with the West although it is not to be excluded that they might stiffen their attitude and get

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more and more involved with the Communists. A policy of reserve towards Iraq should not however exclude seizing opportunities of showing sympathy to this country and endeavouring to maintain the presence of Western interests.

9. The West might encourage:

- trade with Iraq in various products other than oil;
- the maintenance of their nationals in Iraqi business and of foreign firms in the country;
- the provision of technical assistance (for instance model farms and agricultural colleges) which could be clearly identified as Western assistance;
- an expansion of scholarships granted to Iraqi students in Western universities;
- interest by international organizations in Iraq's economic problems.

10. The attached studies and the general considerations above have shown the great importance of oil in the Iraqi economy and also that Western policy on oil is bound to have far-reaching repercussions on economic and political developments in Iraq. Such a situation offers opportunities to the Soviet bloc as well as to the West. Precise information is lacking on the actual relations between the Western oil companies and the Iraqi authorities. In particular, it is not known whether the efforts of the latter to prospect, produce and refine oil will be successful and whether they are likely to create increasing difficulties to Western companies. It is not to be excluded that a growing number of Soviet bloc technicians come to assist the government in its oil venture. Bearing in mind that the Council has instructed the Committee of Economic Advisers to study ways and means by which NATO countries could closely co-operate to counter the Soviet oil offensive in the non-committed countries (C-M(62)30, paragraph 9(v)), the Committee will certainly wish to devote special attention to the situation of Iraq in this respect.

11. Whatever economic policy is considered as advisable towards Iraq, it should probably be, at least in a flexible way, concerted between NATO countries and reviewed periodically in the light of new developments. It may be important that member countries, far from competing with each other or duplicating each other's efforts, should act in the cognizance of their partner's understanding of the situation, and even distribute the work to be done between themselves, in the common interest of the West.

12. Needless to say, the above remarks are very tentative and based on a knowledge of the situation which is only too fragmentary. National governments with a first-hand experience of Iraq's economic problems can at best use the present note as a basis for discussion, and elaboration at a later stage of a more adequate survey of the situation, which may lead to more effective attitudes in the face of serious Soviet economic penetration in this country.

POSSIBILITIES OF COUNTERING SINO-SOVIET
ECONOMIC PENETRATION IN IRAQ

A SURVEY OF IRAQI ECONOMIC PROBLEMS
AND THE DEVELOPMENT PLAN

Note by the Economics Directorate

Geography

Iraq has an area of 168,040 square miles stretching along the western border of Iran from a narrow outlet to the Persian Gulf in the south-east to the boundary joining Turkey with Iran in the north, and from Saudi Arabia in the south to Jordan and Syria in the west. Largely a northern extension of the Arabian desert, the land level rises gradually from the low-lying Mesopotamian valley to a steppe, then to progressively higher mountain ranges and peaks, along both the Turkish and Iranian borders. Two large rivers, the Tigris and Euphrates, cross this vast plain to end in a marshy delta, before flowing into the Persian Gulf down the Shatt el Arab.

2. There is both variety and contrast in climate and vegetation between the steppe grasslands and mountain pastures, the dry deserts, the marshlands and the fertile river valleys. Over four-fifths of the land area is waste. Only one-eighth is arable land, and the remainder is either grassland and meadow or forest.

Population

3. The total population was estimated at 7 million in 1960 and is growing at the very high rate of 2.9% a year, though mortality rates are high.

4. The areas of dense agricultural settlement and principal urban centres follow the Euphrates and Tigris and its tributaries down to the Shatt el Arab in the south and the foot of the Kurdistan mountain ranges in the north. Bagdad, with over a million inhabitants, is the only city; Basra and Mossul, and especially Kirkuk, are entirely provincial, while other minor urban centres are primarily markets for agricultural produce with a substantial proportion of their population dependent on agriculture. Despite considerable recent emigration to urban areas, two-thirds of the

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total population is rural. The majority is of nomadic descent and remains divided into tribes, though fully settled on the land, and now largely assimilated to the original peasant or "fella". Present-day nomad and semi-nomad tribes of Bedouin Arabs are estimated to number only between a quarter to half a million.

5. Over three-quarters of all Iraqis are of Arab origin and more than 95% are Moslems. The Kurds, almost a fifth of the total population, and other smaller racial and linguistic minorities of Iranians, Turks, Turkmans and a few Caucasians, are Moslems. The Christians comprise distinct minorities of Armenians, Syrian Catholics, Syrian Orthodox, Chaldeans and Assyrians divided into separate religious communities. In addition there are a number of minor religious sects, neither Christian nor Moslem, and a very small Jewish community that has survived massive recent emigration.

Natural Resources

6. It is estimated that 8.6% of the world's proven oil reserves lie in Iraq. High yields and quality, allied to low costs, have made this country the world's seventh largest oil producer, accounting for 4.4% of world output and 17.3% of Middle East output in 1961.

7. Minerals have recently been discovered; chromium, copper, lead, zinc, phosphates, large sulphur deposits near Mossul, salt deposits near Basra and some radioactive metals.

Agriculture.

8. The Iraqi economy continues to rest primarily on agriculture which has very considerable scope for further development. The total area that could potentially come under cultivation is estimated at about thirty million acres; fifteen million acres in the central and southern zones irrigated by the Euphrates and Tigris with its tributaries, estimated to carry 70 billion cubic metres of water a year; ten million acres in the northern rain-fed zone; the remainder by the development of areas dependant on artesian wells and the extension of forests in the northern mountain regions. Only about a quarter of this potential total is actually in crops and is exploited by quite primitive methods.

9. Wheat and barley are the main winter crops, while rice, and recently cotton, are the principal summer crops. Sesame, corn, millet and grain sorghum are relatively unimportant. Tobacco is grown mainly in the north. Some fruit and nuts, especially citrus fruit, are of good quality, and vegetables are available near towns. The date crop is the world's largest. Livestock was recently estimated to number about 14 million head, the majority sheep and goats, and the output of wool, hides and skins is of substantial value.

10. The need to expand the cultivated area and to limit floods and wastage by controlling the flow of the Tigris, the Euphrates and their tributaries, has led to the building of several dams and water storage schemes. However, improvements and extensions to the existing network of irrigation canals and pumping stations, required to ensure a regular and adequate distribution of the water supply, have lagged behind schedule. The progressive salination of the top soil is now aggravated by the growing volume of irrigation waters and responsible for the abandonment of large areas formerly under regular cultivation. Plans to remedy this situation by establishing a proper drainage system have largely failed to be carried out.

11. Lack of rain and inadequate irrigation allow only a fraction of the winter area to be cultivated in summer, and the absence of a proper crop rotation has led to half the land lying fallow in winter to recover from the almost exclusive growing of barley and wheat. Grain yields are among the world's largest. Implements and equipment are primitive, draft animals few and poor, farm manure is mostly used for domestic fuel, no use is made of fertiliser or soil building crops, and the winter fallow on which farm animals are grazed encourages the proliferation of weeds owing to quite superficial cultivation of the soil. Livestock is merely an adjunct not integrated to agriculture and is unproductive through lack of breeding, inadequate shelter, disease and summer periods of near starvation. Poor grazing and the absence of mixed farming account for the predominance of sheep and goats owned mostly by nomads.

12. The general absence of small land holdings among peasant sharecroppers and the need to raise rural living standards and limit the feudal power of landlords and tribal chiefs, led to an Agrarian Reform Law in September 1958. Individual holdings are now limited to approximately 250 hectares on irrigated and 500 hectares on rain-fed land. The surplus, including some Government land, estimated at three million hectares, is to be redistributed to the peasantry in lots up to 15 hectares on irrigated and 30 hectares on rain-fed land. The law further provides for the establishment of a co-operative system to organize and assist the peasantry and thoroughly regulates conditions of land tenure and the relationship of sharecropper to landlord. By the end of 1961 this programme, originally planned to be carried out within five years, was far behind schedule. Though over one and a quarter million hectares had already been seized from surplus land holdings, only 19,849 families were then officially reported to have been resettled, out of a total of 700,000 landless peasant families. A very much larger number had become temporary government tenants, pending the allocation of their land. When completed, the total programme will provide holdings for 250,000 to 350,000 peasant families, and it is hoped that the remainder will gradually also obtain land as new areas are developed.

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13. The ignorance and poverty of the peasantry and their dependence on powerful landlords have made sharecropping a thinly disguised system of agricultural labour permanently tied to the soil. Expropriation and redistribution of land under the Agrarian Reform Law has so far mainly involved the state taking over the administration of this system and maintaining the unity of large estates under official management. The most tangible advantage of agrarian reform to the peasantry seems to be the new regulation of sharecropping which is reported to have improved conditions of tenure. However, it is not yet possible to judge whether the fallahoon will be able to emancipate themselves from an authoritarian government administration that allows only very limited freedom for individual farming and purely nominal rights of land ownership.

14. Agricultural output has fallen in recent years owing to unfavourable natural conditions; the reorganization of the management of expropriated estates under the Agrarian Reform Ministry may well have also contributed to adverse effects. Success in progressively raising rural living standards and agricultural yields will, in the long run, very largely depend on the education of the peasantry and efficient government assistance to farming.

15. In the 1961/62-1965/65 Economic Plan, provision is made for experimental farms for cotton, sugar beet, cereals, rice and medicinal herbs; extensions to Government-owned tractor stations; the erection of grain silos, new artesian wells, afforestation, better veterinary services and improvements in the quality of milk and milk products. However, projects for irrigation, water storage, drainage and further extension of the area under cultivation are allowed over 80 million dinars (1) on a total projected expenditure of 112 million dinars and continue to enjoy priority.

Industry

16. Favourable factors to industrial expansion are the abundance of oil and gas - both a cheap source of power and valuable raw material - the availability of mineral deposits and a large supply of low-cost labour. In addition, there is considerable scope for raising further the supply of agricultural produce to industry such as: fibres, oilseed, sugar, dates, hides and tobacco.

17. Industrial output, other than oil, is still of secondary importance in the overall economy. Only recently developed beyond the artisan and workshop level, it is largely confined to the processing of agricultural produce, the supply of building materials and the manufacture of goods for local consumption. The 1954 census lists 22,460 businesses employing 90,291 persons, with only 294 units employing over 20 persons. Inadequate local markets, shortages of working skills, of technical and administrative

(1) 1 Iraqi dinar = £1 = \$2.80

experience and a general reluctance of private interests to invest in industry rather than real estate or trade, explain the census findings and point to the need for Government initiative.

18. The petroleum industry provides Iraq's principal source of government finance and foreign exchange and is also the main employer of labour. Under a ten-year old agreement still in force, profits from petroleum production are shared equally between the government and the oil companies. Government oil revenues rose by 10% both in 1959 and 1960 to reach \$267 million that year, but declined in 1961 to \$265 million owing to lower oil prices.

19. In the course of negotiations opened in August 1960 between the government and the Iraq Petroleum Company and its subsidiaries - who then virtually controlled all rights to production and exploration over Iraqi territory - the government demanded that:

- it should be consulted prior to changes in posted prices or in the principles employed in establishing these prices.
- such principles of price calculation be defined.
- refunds paid to the companies be abolished.
- Iraqis be accepted on the Company's Board of Directors in London and the government allowed to inspect the Company's expenditures.
- the Company's foreign staff be progressively replaced by Iraqis.
- unexploited concessions be handed back to the government.
- gas should not be burnt unnecessarily and should be offered free for Iraqi needs.
- Iraqi tankers be used for transporting Iraqi oil.
- Iraq should participate in at least 20% of the Companies' capital.
- the government's share in profits be increased.
- all payments be made in convertible currency.
- damages be paid to Iraq for losses arising from ambiguities in previous agreements.

By October 1961, no agreement had been reached and negotiations broke down. In December 1961, the government seized over 99.5% of the Iraq Petroleum Company's concession in spite of their final offer during negotiations to give up as much as 90% of those rights. Producing areas have not been affected by this expropriation; it does, however, involve some loss to the Iraq Petroleum Company of proven oil reserves.

20. The government has now set up a National Petroleum Company to exploit the seized areas following the receipt of Russian technical and material assistance in further exploration. The main purpose of the National Petroleum Company, however, is to attract other free-world oil interests to Iraq on more competitive

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terms and to achieve a higher rate of growth in total petroleum production. The government's present policy towards the Iraq Petroleum Company also appears to aim at maintaining pressure on the company for an improvement in present terms and avoiding action that may adversely affect the level of output. Iraqi membership in the Organization of Petroleum Exporting Countries (OPEC), which accounts for almost the whole of the non-communist world's internationally traded oil supply, may strengthen the government's bargaining position.

21. The government controls four small refineries which supplied over two million tons of petroleum products for local requirements in 1960 and now has plans for a fifth in Basra. Several electric power stations using local fuel supplied 852 million kwh in 1960, and generating and distributing capacity, including three hydroelectric projects, is to be vastly expanded at an estimated cost of more than 38 million dinars in the 1961-66 Economic Plan. Four cement works able to produce over 600,000 tons a year, and several brick and tile works supply most local building materials. Two integrated cotton mills and three woollen textile mills supply most local needs, and provision is made in the 1961-66 Economic Plan for new cotton, wool and silk mills, for machine knitting and garment making. Most other organized industrial manufacturing activities at present consist of: a jute mill, cigarette and match making, tanning and shoe making, brewing and distilling, the extraction of vegetable oils and production of soap, flour milling, sugar refining, date packing and the manufacture of aluminiumware. Some minor activities that may develop are: tire retreading, reclaiming of lube oils, woodworking, battery and electrical repair work and shops for the repair of automotive and agricultural equipment, bakeries, confectionaries and other food processing establishments.

22. New government industrial projects contained in the five-year Economic Plan are ambitious. A petrochemical industry is to produce caustic soda, ethylene, polyethylene, chloride, carbon black, synthetic fibres, paper, extract sulphur from natural gas and supply nitrate and ammonium sulphate fertilisers. Rubber tires and tubing and pharmaceuticals are also to be made locally. Further plans include a cigarette factory, a sugar refinery, the making of ceramics, a glassworks, production of light bulbs and electrical apparatus, agricultural machinery and equipment, a modern steelworks, an atomic reactor, the production of cobalt, an institute for atomic study, further mining surveys and petroleum prospecting on the newly seized concessions. Factories for shoes, cigarettes and the canning of fruit, meat and vegetables have already been established; the factories for light bulbs, electrical apparatus, cotton fabrics and pharmaceuticals are now near completion. The total cost of all projects for industrial development is estimated at 166,786,000 dinars in the 1961-66 Economic Plan.

Transport and Communications

23. Though mostly adequate for present needs, the transport system is relatively underdeveloped. The State railways carry most of the traffic, all-weather surfaced roads are few and inland navigation unimportant.

24. Less than a third of Iraq's railway track is European standard gauge. This is the Bagdad to Mossul line that goes on to Turkey through Syria. The Basra-Bagdad-Kirkuk-Erbil line and Khanaqin branch line are only metre gauge. Higher operating costs, trans-shipment in Bagdad and duplication of equipment and maintenance justify present conversion work to standard gauge on the Basra to Bagdad line, scheduled to be completed by 1964. An estimated expenditures of 39 million dinars is quoted in the 1961-66 Economic Plan for this purpose. There is also a minor project for a branch line to Suleimaniya from Kirkuk.

25. The network of main roads maintained by the Department of Public Works in 1951, before the Development Board's extension programme started, was approximately: 2500 kilometres of metalled and surfaced roads, 500 kilometres metalled only, and 5000 kilometres of earth roads. The surfaced roads were in the vicinity of Bagdad and in the north. Over 2000 kilometres of roads have since been built, surfaced or improved, and the 1961-66 Economic Plan makes an estimate of 36.4 millions dinars for further road and bridge building requirements.

26. The port of Basra on the Shatt el Arab, efficiently handles ships up to 12,000 tons, though costly dredging is necessary to maintain a clear channel across the Fao bar. The port at Fao is exclusively used for petroleum. Construction of a sea port started in 1961 at Umm Qasr on the Gulf; this is to be linked to Basra by road and rail and is to receive shipping up to 35,000 tons. Costs are estimated to reach 16 million dinars in the 1961-66 Economic Plan. A mission from the IBRD studying the Iraqi economy in 1951 then considered this project unjustified.

27. The State run "Iraqi Airways" assures traffic locally and to other Middle Eastern countries. There are two international airports, one at Basra, the other in Bagdad. The latter is to be rebuilt and enlarged at an estimated cost in the Economic Plan of 11.25 millions dinars; work was started in 1961.

28. Other minor projects in the Economic Plan include the improvement of inland navigation at a cost of 2 million dinars, extensions to the generally adequate network of postal and telegraph services and telephone exchanges, estimated at 3.5 millions dinars, the development of present broadcasting and transmitting media and the introduction of television to cost 7.6 million dinars.

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29. The oil pipelines to the Mediterranean and the short line to the shipping stage at Fao were constructed and are operated and maintained by the oil companies.

Money, Banking and Prices

30. The State-owned Central Bank of Iraq, in operation since 1949, is the sole currency issuing authority and is responsible for carrying out government monetary policy. Although Iraq withdrew from the sterling area in 1959, the Iraqi dinar remains at official parity with the £ sterling.

31. Short-term finance for foreign and domestic trade is fully supplied by several commercial banks, both Iraqi and local branches of Arab Middle Eastern and formerly British banks, and by the 'Sarafs', minor trading and financing firms. Medium and long-term credit was until recently very inadequately provided by the State-controlled Agricultural Bank, the Industrial Bank and the Mortgage Bank, established to encourage private investment. There is a Post Office Savings Bank, and a small loans Mortgage Bank, also State-controlled, which offers financial accommodation on movable property only.

32. Banking is concentrated in Bagdad, Mossul and Basra, and branch offices are few. A general use of cash payments rather than cheques and the hoarding of currency has led to low levels of total deposits, especially savings deposits, in relation both to the note issue and the volume of economic activity. In November 1960, with currency in circulation above 73 million dinars, total demand deposits in the banking system were less than half this figure. Both liquidity and holdings of foreign assets are maintained at high levels by the commercial banks, and financing is confined principally to short trade credits. Oil company payments in sterling have provided the Central Bank with large reserves of foreign assets; after rising steadily for several years, they reached their highest level in 1956, then dropped very sharply in 1957 following the interruption of oil exports, but rose again in 1958, were barely maintained in 1959 and declined severely both in 1960 and 1961, owing to substantial import surpluses. In November 1960, total holdings of foreign assets in the banking system stood at the equivalent of 114.9 million dinars, a figure higher than the combined value of total demand deposits and currency in circulation and larger than the figure required to cover the debit balance of total foreign transactions for the whole of 1959, if net receipts from the oil sector were excluded from the overall balance of payments for that year.

33. The absence of an organized capital market, the underdeveloped state of banking and financial institutions and low level of savings channelled into the system, the inadequacy of private risk capital available for long-term industrial investment, owing to a general preference for the safety of real estate and quick trading returns, have largely restricted medium and long-term borrowing facilities to the State-owned Industrial and Mortgage Banks. Recent government measures to raise their capital and expand credit, and fiscal concessions to encourage private investment, especially in light industries, are both officially stated to aim at a balanced development of the public and private sectors within the framework of the five-year Economic Plan. However, legislation introduced in 1960 to compel the sale of a controlling interest in foreign firms to Iraqi nationals and leading to a high proportion having to close down, political tensions and uncertainty over the revolutionary government's true intentions towards business are now discouraging both Iraqi and foreign private investment.

34. Rising government expenditures for development, welfare and military purposes, growing oil revenues, a substantial increase in the note issue and banking credit, recently further encouraged by Central Bank action to ease and cheapen credit to the commercial banks, have all resulted in a very considerable monetary expansion. The money supply more than doubled from 1953 to 1959 and has since only been held back as a result of very large deficits, both in 1960 and 1961, in the balance of foreign payments. Inflationary repercussions on the level of wholesale prices and the cost of living have so far been small, owing to the very high volume of foreign trade in relation to the gross national product, and the sensitivity of local markets to the government's trading policy. Substantial reserves of convertible foreign assets supported by ~~constant~~ large external injections of sterling oil revenues, offer the government considerable scope for control over internal inflation by massive imports of consumer goods, raw materials and capital equipment permanently uncompensated by exports of local agricultural and industrial products.

35. Iraqi wholesale prices indices rose moderately from 1954 to 1957, then dropped sharply in 1958. In 1959, as a result of import restrictions and dwindling stocks, wholesale prices climbed up to 1957 levels and have since risen only moderately owing to the substantial increase in imports in 1960 and 1961. The cost of living rose somewhat faster than wholesale prices from 1954 to 1957, dropped in 1958 and 1959, then rose again and has since followed wholesale prices. Official Iraqi price indices are unweighted and include several major items subject to government price control; they do not adequately reflect inflationary pressures and fluctuations in the cost of living.

Public Finance and Planned Development

36. The salient feature of Iraqi public finance over the last ten years is steeply rising oil revenue, which has supported a fourfold growth in yearly ordinary budget expenditure to over 116 million dinars in 1960/61 and the even sharper growth of public investment in the development budget from only a few million dinars initially to a peak of 57.4 million dinars in 1957/58. Total public internal indebtedness held principally by the Central Bank, was in December 1960 less than a quarter of ordinary budget revenue, and total external indebtedness then consisted of minor drawings on the USSR development credits and a remainder of \$3.4 million due in 1962 on a £10.8 million interest-free advance by the oil companies in 1957.

37. Ordinary budgets have almost invariably shown^w deficits over the last ten years. However, up to 1958/59, with the exception of the 1957/58 financial year (Suez crisis), these deficits had been more than offset by surpluses in development budgets and in the budgets of autonomous government agencies such as the Tobacco Monopoly, the State Railways, the Port of Basra and Fao Dredging. Prior of May 1959, only 30% of government oil revenue was credited to the ordinary budget, the remaining 70% was regularly allocated to the development budget; these revenues have since been divided equally between both budgets. However, new government policies on defence and social welfare since the July 1958 revolution have led to sharply rising expenditures and further ordinary budget deficits for the years 1959/60 and 1960/61, financed by drawings on previously accumulated government cash balances. After reaching 57.4 million dinars in 1957/58, expenditure on development appears to have been reduced (though precise data are not available) and has remained far below levels projected by development plans.

38. In the 1959/60 and 1960/61 ordinary budgets, receipts from oil accounted for very close to half of all revenues. Indirect taxation through customs and excise provided the second largest source of revenue, principally import duties on sugar, textiles and tea, and taxes on petrol, tobacco, alcohol and salt. Agriculture is lightly taxed, mainly on produce brought to market. Direct taxation is subject to several exemptions and remains of relatively minor importance. It includes a progressive personal income tax, excess profits taxes on business and a property tax on dwellings, commercial buildings and non-agricultural land, and has been raised recently by new taxes on inheritance, rental income and personal income. Other minor sources of revenue are stamp duties and miscellaneous receipts of Ministries and profits of government agencies, such as the Central Bank, the Tobacco Monopoly and the Post and Telegraph Services. The recent sharp rise in ordinary expenditures has been principally due to national defence,

pension payments, investment in education, health and social welfare and the growth of administrative expenditures, though salaries of government employees are low and provincial and municipal administrations are inadequately provided with funds.

39. Public investment expenditure under the Development Board from 1951/52 to December 1959 reached a total of 272 million dinars, and despite difficulties, results have been substantial: three large dams, 2,000 kilometres of road, two bridges on the Tigris in Bagdad, 110 primary schools, 12 secondary schools, 15 hospitals, 49 dispensaries, a new Parliament building and Royal Palace, a university city, a museum, ~~two large airports~~, housing for civil servants, two refineries, two cement works, a textile mill, a dairy and three electric power stations.

40. Since the suppression of the Development Board in 1959, responsibility for planning, co-ordinating and supervising the execution of all public investment projects has been put under an Economic Planning Board. A provisional Economic Plan for the years 1959/60 to 1962/63, estimated at 392.2 million dinars, was first established. This was superseded in October 1961 by an even more ambitious economic plan for the years 1961/62 to 1965/66, with a total estimated expenditure of 556 million dinars, taking into account Russian and Czech financial and technical assistance. Of this total, 113 million dinars are allocated to agriculture, 166 million to industry, 136 million to transport and communications and 140 million to construction and housing. The purpose of this Plan is to raise the rate of growth in real income to 9% per annum with a view to doubling real per capita income within ten years.

41. Total government expenditures in the ordinary and development budgets combined now stand at a very high ratio in relation to national income. Outlays on health, education and welfare, public administration and defence are likely to expand further and expenditure on development may continue to remain below projected levels in the Economic Plan.

Foreign Trade

42. Iraqi foreign trade is typical of that of underdeveloped countries: exports consist of primary produce and imports principally of manufactured goods. The level of trade has more than doubled over the last ten years following rising exports of oil which now are close to accounting for almost all Iraqi foreign exchange receipts. Year to year fluctuations in imports have been relatively large, owing to variations in government policy, and exports, other than oil, have been tending to fall off as a result of rising home consumption by a rapidly growing population and the failure of agricultural output to expand.

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43. The total value of exports reached 233.6 million dinars in 1960. Of this total, oil exports alone accounted for 222.6 million dinars; however, net foreign exchange receipts from the oil sector are approximately half this figure, owing to very large repatriations of investment income and other minor payments in foreign exchange by the oil companies. The bulk of Iraqi oil exports go to Western Europe, principally to Italy, France, the United Kingdom, the Federal Republic of Germany, the Netherlands, and Belgium. All remaining exports in 1960, other than oil, were only 11 million dinars and consisted principally of dates, raw cotton and wool, hides, skins and cement. The export of barley, which had formerly been second only to dates in value, was then prohibited owing to poor grain crops, and considerable imports of both barley and wheat were necessary; exports of livestock, poultry, fruit and vegetables and other foodstuffs were then also prohibited. Until recently, the United Kingdom was the principal market for non-oil exports, taking 28.7% of this total in 1957, followed by Kuwait, Japan, India, Saudi Arabia and Belgium. By 1960, such exports to the United Kingdom had declined very severely, below those of the Lebanon and Kuwait, while exports to Communist China, India, the United States, the USSR and Syria had risen in relative importance. These figures then partly reflected the direction of date exports encouraged by numerous bilateral trade agreements negotiated for this purpose; some of these agreements include bilateral payments and ~~owing~~ credits such as those concluded with the USSR and Communist China.

44. Total imports increased rapidly to 122.4 million dinars in 1957, then declined owing to government restrictions to protect exchange reserves, but rose again to reach 145.6 million dinars in 1961. Iron and steel, boilers and machinery, vehicles and parts and electric machinery now constitute the main group of imports and reflect present industrial expansion; they stood at 44.9 million dinars, i.e., 38.5% of total imports, in 1959. Sugar, tea and most goods popularly consumed are imported freely, though textiles, especially cotton piece goods, have fallen owing to government protection of local mills, while cereal imports, particularly of wheat, have recently been growing. The United Kingdom accounted for 30.9% and the United States for 10.2% of total Iraqi imports for 1959, followed by the Federal Republic of Germany, Belgium, Japan and Ceylon. The Czechs and Russians together provided an insignificant 2.7% of total imports in 1959, but have since improved their position owing largely to supplies of equipment against tied bilateral credits for industrial development. Trade with Israel is prohibited, and France has been boycotted since the Suez crisis.

45. An elaborate non-discriminatory restrictive system, supported by exchange control, implements the Government's foreign trade policy by selective prohibition and licensing of both imports and exports. A distinction is made between goods subject to "limited" and "unlimited" import licensing, supplemented by an

allocation of quotas to individual importers, and all earnings of foreign exchange have to be surrendered. Customs duties are primarily for revenue purposes, import prohibition being the usual protective device, while goods subject to limited licensing are less essential imports dependent on available foreign exchange reserves. Unlimited licensing, which now accounts for 85% to 90% of all imports, is for goods of popular consumption, raw materials, equipment, machinery and all other necessaries. Export prohibition serves the same purpose of maintaining essential local stocks and restraining prices.

Living Conditions

46. Poverty and underemployment, insanitary housing, malnutrition, disease, and ignorance, have accompanied the survival of largely mediaeval living conditions, especially in rural areas where life is sometimes barely at subsistence level.

47. In the central and south irrigated zones, villages are merely a cluster of mud huts, usually with only one room for the fellah and his family, and a small enclosed yard for his draught animals. Stone is available and generally used in the north, while in the southern palm belt and marshes, palm leaves or reeds are the usual building material. There are no proper windows or furniture other than a mat, table or bench, and a few cooking utensils, and no sanitary facilities or piped water. This has to be carried from the nearest canal and is often polluted. Stagnant pools where soil has been used for building only too often lie close to villages. Trees are rare and the absence of fire-wood has led to the use of dung and straw cakes for domestic fuel. Food usually consists of barley, wheat and rice grown by the fellah and his family, though wheat is usually sold for consumption in towns. This, and perhaps the addition of some minor cash return from summer crops, allows him to buy sugar and tea, cheap tobacco and cloth. He rarely consumes meat, poultry or eggs and little milk is provided by his draught animals; he does not grow or buy vegetables or fruit other than onions and dates. Clothing is of cheap cotton and only the more prosperous can afford some form of foot-wear.

48. Easier living conditions in towns and larger municipal centres have led to considerable migration from rural areas. ~~The towns have grown without order into a network of narrow streets and alleys.~~ Buildings are usually of brick though the use of concrete is now growing. In the few larger towns, a sharp contrast is to be seen between the older decrepit areas with extensive slums, sometimes of mud and mat huts occupied by the new migrant peasants, and the wealthier modern districts with concrete buildings, villas and paved dual carriageways, lined with trees. Smaller municipalities are often merely overgrown villages with a majority of mud huts. In centres with more than a few thousand

inhabitants, piped water and electricity are usually available under municipal management, though the water is not always purified and electricity very expensive. No town, not even Baghdad, has an adequate sewage system. Costly plans have now been drawn up for sewage in Baghdad, for extensions to centrally produced and distributed electricity, for the supply of fresh water to minor urban centres and villages and for proper town planning, slum clearance and housing. An ambitious scheme has recently been announced for the reconstruction of villages following the formation of a "Committee for Developing and Establishing Villages". Each is to have a school, a dispensary, a police station, veterinary service and an agricultural extension centre.

49. Insanitary living conditions, malnutrition and the absence of fresh drinking water in most rural areas have led to endemic diseases such as typhoid, dysentery, malaria, anaemia, trachoma and high mortality, particularly infantile mortality, believed to be as much as 400 per 1,000 births in villages. Some success has already been achieved in the cure and prevention of disease, especially in checking epidemics; several hospitals, sanatoria and dispensaries have been built and staffed and very considerable further expenditure is planned by the Ministry of Health to develop medical services, research and new construction. The main difficulty is the shortage of qualified medical personnel, especially doctors, who only too often prefer to remain in Baghdad.

50. Trade union activity, though legal since 1956, has so far led to only very modest results; governments have occasionally dissolved unions on grounds of subversive activity. In 1957 there were four official registered unions, with only 821 members. In December 1957, the establishment of unions in businesses employing over 100 workmen was made compulsory by law. In November 1958, the new revolutionary government dissolved all existing unions but several new unions have since been established and in November 1959 a General Confederation of Labour was set up and officially recognised by the Government.

51. Since 1936, several laws have regulated conditions of employment for men, women and children. A maximum has been set on the length of the working day and the number of hours worked per week; yearly holidays, including official holidays, have been determined by law. A minimum legal wage of a quarter dinar per day was established in 1958. Since 1936 employers in industry are compelled to pay compensation for injury or illness incurred in connection with work and assistance is given for maternity. The State contributes to social security funds and affords some support to old age and the unemployed, and working conditions are inspected by the Ministries of Social Affairs and Health. However, the number of unemployed is not fully registered. In 1957 only three labour exchanges were functioning - in Baghdad,

Mossul and Basra - and it is not easy to ascertain precisely how far legislation on conditions of employment and welfare is implemented in practice.

52. The development of education has only been recent and two-thirds of the male population and a very much higher proportion of women continue to be illiterate. Primary education has since 1961 been made compulsory and progress is now expected to be rapid owing to the large number of the very young in the total population. Attendance for all teaching institutions was close to a million during the 1960/61 school year and the university of Baghdad then accounted for 12,606 students, of whom nearly a quarter were women, while 6,415 Iraqis were studying abroad that year. Technical education and professional training has been relatively neglected and in 1958 there were only four technical schools in Baghdad, Basra and Kirkuk, in addition to training afforded by the oil companies. The Government is now devoting a very high proportion of total budgetary expenditure to better constructed, staffed and equipped primary, secondary and technical schools, the training of teachers, adult education, and the extension of facilities in the university of Baghdad.

53. Although women are expected to live secluded according to Islamic custom, the need to adapt to modern town life in Baghdad, is now leading to their emancipation among the upper classes. Women work in industry and handicrafts, especially in textiles and clothing, in teaching and nursing. Since 1958 they have enjoyed equal political rights with men and may vote or join political parties, and legislation has recently been passed to protect married women by restricting polygamy and repudiation. In 1959 for the first time a woman Minister was chosen to take charge of Municipal affairs; higher positions in the diplomatic and civil services have also been held by women.

STATISTICAL APPENDIX TO ANNEX I

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TABLE I

Land Use

(thousands of hectares)

<u>Agricultural area</u>	
Arable land and land under permanent crops	5,457 ⁽¹⁾
Permanent meadows and pastures	875 ^(1,2)
<u>Forested land</u>	1,770
<u>Other area</u>	
Unused but potentially productive	12,100
Built-on area, wasteland and other	24,242
<u>Total area</u>	44,444

Source: FAO Production Yearbook 1961

(1) 1952/53 agricultural and livestock census

(2) Includes 644,000 hectares of uncultivable land grazed in spring season.

TABLE II

"Index numbers of total agricultural production"

(1952/53 - 1956/57 = 100)

<u>1952/3</u>	<u>1953/4</u>	<u>1954/5</u>	<u>1955/6</u>	<u>1956/7</u>	<u>1957/8</u>	<u>1958/9</u>
85	105	119	88	103	124	105
		<u>1959/60</u>	<u>1960/1</u>			
		98	100			

Source: FAO Production Yearbook 1961

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TABLE III

Area and Production of Major Crops

(thousands of metric tons)
(thousands of hectares)

	1948/1949- 1952/1953		1958/1959		1959/1960		1960/1961	
	<u>Prod.</u>	<u>Area</u>	<u>Prod.</u>	<u>Area</u>	<u>Prod.</u>	<u>Area</u>	<u>Prod.</u>	<u>Area</u>
Wheat	448	936	757	1533	657	1490	592	1271
Barley	722	934	954	1157	733	1091	804	1033
Rice	203	174	137	89	92	61	118	76
Maize	14	20	5	6	2	4	3	5
Millet	13	10	4	6	4	5	3	5
Sorghum	...	...	9	8	8	8	7	7
Onions (green and dry)	...	...	...	...	...	...	63	12
Dry beans	11	20	10	11	6	7	...	...
Chick peas	2'	3'	1	5	3	6	2	4
Lentils	6	10	3	13	9	13	6	10
Grapes	...	...	45	...	...	...	...	...
Dates	313	...	324 ⁺	...	367 ⁺	...	337 ⁺	...
Cotton (lint)	4 ⁺	29 ⁺	7	56	4	37	8	31
Cottonseed	8 ⁺	29 ⁺	14	56	9	37	16	31
Linseed ¹	1 [*]	3 [*]	4	9	4	8	5	8
Sesame seed	9.4	26	14.3	22	6.6	10	5.7	10
Tobacco	3.3	4	5.2	8 ⁺	5.4 ⁺	10	5.5 ⁺	13

Source: FAO Production Yearbook 1961

- + Unofficial figure
- ' Three year average
- * Four year average
- ... Data not available
- 1 Flax grown for seed only

TABLE IV

Comparative Yields

100 kg/hectare

	Wheat		Barley		Rice	
	1948/49- 1952/53	1958/59- 1960/61	1948/49- 1952/53	1958/59- 1960/61	1948/49- 1952/53	1958/59- 1960/61
Iraq	4.8	4.63	7.7	7.56	11.7	15.30
Iran	9.0	8.65 ⁻	10.1	8.65 ⁻	19.3	19.23
Jordan	7.0	5.25 ⁻	8.4	3.56	...	...
Syria	7.7	3.93	8.7	2.70	35.8 ¹	...
Israel	6.9	9.76	8.6	8.26	...	...
Turkey	10.0	10.96	11.5	12.76	35.2 ²	36.90 ³
UAR	18.4	23.80	19.2	24.13	37.9	49.96
<u>World Regional Totals:</u>						
Europe	14.7	18.26	16.9	22.66	42.6	44.43
North America	11.6	15.66	14.5	15.70	25.6	37.40
Latin America	10.6	11.00	10.6	10.70	16.9	17.53
Near East	9.1	9.70	9.3	9.23	23.6	28.20
Far East	7.9	8.13	10.5	11.20	14.0	16.73
Africa	6.0	5.93	6.7	6.06	9.7	11.10
Oceania	11.3	13.10	12.1	12.30	31.7 ⁴	40.56 ⁵

Source: FAO Production Yearbook 1961.

- Two year average
- ... Data not available
- 1 On an area of only four thousand hectares
- 2 On an area of only thirty-one thousand hectares
- 3 On an area of only forty-eight thousand hectares
- 4 On an area of only thirty thousand hectares
- 5 On an area of only thirty-three thousand hectares

TABLE V

Livestock

(thousands)

	1957/58	1958/59	1959/60
Horses (1)	220	195	234
Mules (1)	80	101	100
Asses (1)	400	526	492
Cattle	1,500	...	1,535
Sheep	...	9,221	9,221
Goats (1)	2,500	1,733	...
Buffaloes (1)	...	...	281
Camels (2)	...	...	193
Chickens	...	3,236	...

... Data not available.

(1) Animals registered for taxation.

(2) Excluding those owned by nomadic tribes.

Source: FAO Production Yearbook 1961.

TABLE VI

Composition of the National Income Estimates for 1956

Value added by Sector	Millions of Dinars	Percentage of Total
Agriculture	70.0	24%
Industry	33.7	12%
Petroleum	78.2	27%
Construction	18.9	7%
Trade	31.0	11%
Transport	11.5	4%
Services	49.1	17%
TOTAL	292.4	100%

Source: UN "Economic Developments in the Middle East 1956-57".

TABLE VII

Industrial Production

(in thousands of units indicated)

Products	1948	1957	1958	1959	1960
Crude Petroleum (metric tons) (1)	3,427	21,980	35,670	41,736	47,459*
Petroleum Products: (metric tons)					
Motor spirit	65	216	249	256	286
Kerosene	70	223	271	244	307
Distillate fuel oils	18	317	360	353	420
Residual fuel oil	229	797	30	833	1,044
	<u>1948/9</u>	<u>1957/8</u>	<u>1958/9</u>	<u>1959/60</u>	<u>1960/1</u>
Cement (tons)	11 ⁽²⁾	604	669	661	487*
Beer (hectolitres)		32.6	32.5	43.8	...
Salt (tons)	13.3	22.4	26.4	36.8	...
Leather tanning:					
Upper leather (square feet)		3,223.0	2,481.1		
Sole leather (tons)		-	415.4		
Soap (tons)		6.0	8.3		
Vegetable oil (tons)		9.3	13.1		
Woollen textiles:					
Cloth (square metres)		564.0	620.0		
Blankets (number)		228.0	241.7		

Source: UN "Statistical Yearbook 1961" and UN Economic Developments in the Middle East 1958-59"

* Provisional estimated figure.

... Data not available

(1) Specific gravity 0.84 (2) 1949/50

Note: Whole years refer to the calendar year; split years to the period from 1st April to 31st March

TABLE VII (Contd.)

Industrial Production

(in thousands of units indicated)

Products	1948/9	1957/8	1958/9	1959/60	1960/1
Cotton textiles (yards		21,225.9	30,245.4		
Matches (gross)		652.9	713.1		
Cigarettes (millions)		3.2	3.7		
Shoes (pairs)		1,971.2	...		
Gases (cubic feet):					
Oxygen		7,213.2	8,014.7		
Acetylene		1,418.5	1,576.1		
Carbon dioxide		0.8	0.8		
Nitrogen		35.0	38.0		

Source: UN "Statistical Yearbook 1961" and UN "Economic Developments in the Middle East 1958-59".

* Provisional estimated figure.

... Data not available.

(1) Specific gravity 0.84 (2) 1949/50.

Note: Whole years refer to the calendar year; split years to the period from 1st April to 31st March.

TABLE VIII

Estimated World Crude Oil production

	(Thousand-metric tons)			% Change 1960-61	1961: % of Total
	<u>1959</u>	<u>1960</u>	<u>1961</u>		
MIDDLE EAST					
Kuwait	69,533	81,863	83,000	+ 1.4	7.4
Saudi Arabia	54,162	62,065	68,500	+12.3	6.0
Iran	45,630	52,050	58,800	+13.0	5.3
<u>Iraq</u>	<u>41,730</u>	<u>47,500</u>	<u>49,000</u>	<u>+ 3.2</u>	<u>4.4</u>
Kuwait Neutral Zone	6,051	7,284	8,700	+19.3	0.8
Qatar	7,993	8,212	8,300	+ 1.1	0.7
Egypt	3,076	3,272	3,700	+13.1	0.3
Bahrain	2,253	2,257	2,260	+ 0.1	0.2
Turkey	372	362	400		
Israel	<u>128</u>	<u>129</u>	<u>130</u>		
Total Middle East	230,928	264,994	282,790	+ 6.7	25.3
NORTH AMERICA	371,948	372,948	384,200	+ 3.0	34.2
CARIBBEAN AREA	160,120	161,873	165,115	+ 2.0	14.8
OTHER LATIN AMERICA	27,139	31,393	36,940	+17.6	3.5
AFRICA (excluding Egypt)	2,749	10,424	19,720	+89.2	1.8
W. EUROPE	13,328	14,920	16,465	+10.3	1.5
FAR EAST	25,584	27,269	26,925	- 1.3	2.4
FREE WORLD	831,796	883,821	932,155	+ 5.5	83.3
EASTERN EUROPE AND CHINA	146,643	167,249	186,750	+11.6	16.7
WORLD TOTAL	<u>978,439</u>	<u>1,051,070</u>	<u>1,118,905</u>	+ 6.5	100.0

Source : Petroleum Press Service - Vol XXIX No.1 - January 1962 -

TABLE IX

Cumulative Private and Government Capital
Investment in Industry, 1958/59

	<u>Thousands</u> <u>of Iraqi</u> <u>Dinars</u>
<u>Private Investment:</u>	
Cement	6,900.0
Cotton spinning and weaving	1,432.9
Leather Tanning	615.1
Vegetable oil and soap	1,738.4
Aluminium products	301.0
Asbestos	300.0
Jute	611.3
Wool spinning and weaving	1,125.2
Knitted goods	232.0
Cigarettes	147.0
<u>Government Investment:</u>	
Petroleum refining	22,367.0
Cotton spinning and weaving	3,250.0
Wool spinning and weaving	1,050.0
Cement	5,600.0
Sugar	2,250.0

Source: UN "Economic Developments in the Middle East 1958-59".

TABLE X

Energy Consumption

(Quantities in million metric tons of coal equivalent and in kilograms per capita)

<u>Total</u>				<u>Per Capita</u>			
<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
2.30	2.45	2.49	3.05	351	372	358	430

Source: UN Statistical Yearbook 1961

TABLE XI

Electric Energy Consumption (1) (2)

(in million KWH)

<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960^x</u>
258	342	390	489	506	481	626	736	852

Source: UN Statistical Yearbook 1961

(1) Produced by enterprises generating primarily for public use.

(2) Entirely thermal

x Provisional or estimated figure.

TABLE XII

Steel Consumption

Apparent consumption expressed in terms of crude steel.

<u>Total</u> (thousand metric tons)					<u>Per Capita</u> (kilograms)				
<u>Average</u>					<u>Average</u>				
<u>1953-5</u>	<u>1956-8</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1953-5</u>	<u>1956-8</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
144	183	229	265	240	29	30	35	38	33

Source: UN Statistical Yearbook 1961.

TABLE XIII

Railway Traffic (1)

(in millions)

	1948	1957	1958	1959
Passenger kilometres	473	658	574	656
Net ton kilometres (2)	506	909	818	768

Source: UN Statistical Yearbook 1961.

- (1) 12 months beginning 1st April of year stated.
(2) Excluding livestock.

TABLE XIV

Motor Vehicles in use

(in thousands)

	1948(1)	1957	1958	1959	1960*
Passenger cars	8.7	25.9	30.1	31.9	39.2
Commercial vehicles	6.1	14.4	15.8	17.2	20.0

Source: UN Statistical Yearbook 1961.

- (1) Buses included with passenger cars.
* Provisional or estimated figure.

TABLE XV

International sea-borne shipping (1)

(Vessels in thousand net
 registered tons)
 (Goods in thousand metric tons)

	1948	1957	1958	1959
Vessels entered	845	1,640	2,039	3,714
" cleared	483	962	1,080	883
Goods loaded	196	356	473	266
" unloaded	501	668	651	1,133

Source: UN Statistical Yearbook 1961.

(1) Excluding tankers and petroleum.

TABLE XVI

Civil aviation: total scheduled services

(in thousands)

	1948	1957	1958	1959	1960*
Kilometres flown	1,179	2,382	2,488	2,420	2,391
Passenger - kilometres	9,457	52,207	48,084	41,901	52,005
Cargo ton - kilometres	233	589	504	855	986
Mail ton - kilometres	17	81	66	128	160

Source: UN Statistical Yearbook 1961.

* Provisional or estimated figure

TABLE XVII

Telephones: number in use

(units)

1949	1957	1960	1961
13,740	41,725	46,471	54,250

Source: UN Statistical Yearbook 1961.

Note 31st March of year indicated

TABLE XVIII

Price Indices

(1958 = 100)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	April 1962
Wholesale prices	104	99	101	108	111	100	110	114	113	113
Cost of living	91	90	92	98	103	100	99	102	104	104

Source: IMF "International Financing Statistics" (September, 1962)

TABLE XIX

Money Supply

(in millions of Iraqi dinars)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Total money supply	45.4	43.4	51.6	61.9	66.1	76.3	82.1	98.5	114.1	107.6
Deposits	13.3	13.4	17.3	20.7	22.9	27.8	31.4	34.7	37.7	34.2

Source: UN Statistical Yearbook 1961.

TABLE XX

Banking Statistics

(in millions of Iraqi dinars)

	1958	1959	1960	1961
Central Bank				
Foreign assets	103.0	105.7	90.6	75.3
Claims on government	28.5	21.1	24.5	36.4
Assets = liabilities	138.1	145.2	158.0	150.8
Monetary liabilities	116.6	125.2	109.6	...
To: Commercial banks	17.9	15.0	18.0	...
Private Sector	65.2	81.4	75.0	...
Government and Official Entities	33.4	28.9	17.5	19.0
In: Currency	68.0	82.2	79.5	78.9
Deposits	48.6	43.0	30.1	...
Capital accounts	6.2	7.7	9.2	10.7
Commercial Banks				
Cash:				
Currency	17.8	14.7	15.6	12.2
at Central Bank	4.1	5.8	5.1	3.7
at Commercial Banks	13.6	8.9	9.5	8.5
Foreign assets:				
Claims on Government	24.4	25.9	15.1	12.3
Claims on private sector	2.3	9.3	10.4	6.7
Assets = liabilities	38.0	42.8	51.5	59.8
Current deposits	89.4	98.4	99.6	98.1
quasi-monetary liabilities	31.8	30.9	29.6	29.1
Government deposits	20.2	24.9	28.8	31.9
Foreign liabilities	16.6	20.6	15.7	13.6
Capital accounts	0.7	0.5	0.8	1.0
Post Office : Savings deposits	11.5	11.5	12.0	15.1
Sarrafs : Current accounts	2.8	3.4	3.8	3.8
	1.5	1.8	2.0	1.8

Source: IMF International Financial Statistics (August 1962)

... Date not available

TABLE XXI

Direct Payments by petroleum companies to the Iraqi Government

(millions of dollars)

1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
19	43	116 ⁽¹⁾	102 ⁽²⁾	192	207	194	137	224	245	267	265

Source: UN "Economic Developments in the Middle East 1959/61".

- (1) Including \$21 million in settlement of previous claims.
(2) Including \$19.6 million in settlement of previous claims;
actual payment made in 1957 and 1958.

TABLE XXII

Budgetary Revenue and Expenditure (1)

(in millions of Iraqi dinars)

	Actual			Revised Estimate	Estimate
	1956/57	1957/58	1958/59	1959/60	1960/61
Expenditure					
Defence and Police	28.6	30.1	31.3	42.5	45.5
Economic schemes and administration	14.0	12.4	17.1	14.1	15.2
Ministry of Interior	3.5	1.4	1.3	1.5	1.4
Ministry of Finance	3.2	6.3	3.5	5.9	8.0
Ministry of Education	4.1	4.6	5.9	15.8	18.0
Health and Social Welfare	5.9	6.3	6.2	7.9	8.8
Ministry of Commerce and Works	2.8	3.5	3.3	4.2	4.2
Ministry of Agriculture	2.1	2.0	2.5	2.7	3.4
Other	6.0	7.2	8.1	9.5	10.0 (2)
	<u>70.3</u>	<u>73.8</u>	<u>79.2</u>	<u>99.9 (3)</u>	<u>120.5</u>
Revenue					
Oil revenue	20.7	14.6 (4)	26.1 (5)	48.0 (3)	51.0
Customs and excise tax	25.5	29.1	27.7	20.2	30.0
Income tax	2.5	2.7	3.8	3.3	4.6
Property tax and stamp duties	1.7	2.0	2.0	2.5	2.8
Agricultural tax	2.6	2.8	2.4	2.5	3.0
Government agencies income	5.8	6.2	9.0	5.5	5.7
Post and telegraph	2.2	2.6	2.7	2.8	3.0
Other	1.7	1.8	1.9	2.0	2.0
	<u>62.7</u>	<u>61.8</u>	<u>75.6</u>	<u>90.0 (3)</u>	<u>102.1</u>
Surplus or deficit (-)	-7.6	-12.0	-3.6	-9.9	-18.4

Source: IMF Report on Iraq 1961.

(1) Year ended 31st March.

(2) The main reason for the increase was the step-up in pension payments.

(3) Components of expenditures total ID 104.0 million and those for revenue total ID 95.3 million. Totals shown in the table are correct and there is no explanation for the discrepancies.

(4) Includes ID 10.8 million representing advances on oil income.

(5) Net repayment of oil advances: ID 1.1 million in calendar 1958; ID 1.8 million in 1959 and ID 4.5 million in 1960; as of December 1960, ID 3.4 million remained.

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TABLE XXIII

Investment by the Public Sector⁽¹⁾
(in millions of dinars)

	Development Board									Provis- ional Economic Plan Jan.- Dec. 1960	
	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	Apr.- Dec. 1959		Total
<u>Receipts</u>											
Oil revenue	6.7	22.9	34.8	40.0	59.1	48.2	34.2	60.8	31.8	338.5	46.3
Others	0.8	1.1	0.5	0.7	1.7	3.9	1.7	0.9	0.2	11.5	1.8(2)
Total receipts	<u>7.5</u>	<u>24.0</u>	<u>35.3</u>	<u>40.7</u>	<u>60.8</u>	<u>52.1</u>	<u>35.9</u>	<u>61.7</u>	<u>32.0</u>	<u>350.0</u>	<u>48.1</u>
<u>Disbursements</u>											
Administration	0.1	0.2	0.3	0.3	2.8	0.6	0.7	0.7	0.2	5.9	-
Irrigation projects	0.8	2.5	4.8	8.5	10.9	11.3	12.1	10.8	4.2	65.9	-
Roads and bridges	0.6	1.8	1.9	4.3	8.4	9.2	12.4	7.9	10.7	57.2	-
Bldgs. & establish- ments	0.8	2.3	2.5	2.7	1.8	4.7	9.4	10.2	6.6	41.0	-
Land reclamation	0.8	1.0	2.3	3.0	0.6	1.0	1.1	1.3	1.0	12.6	-
Industries	-	0.1	0.5	2.0	2.9	5.0	8.6	11.9	3.9	34.9	-
Others	-	5.0	-	-	6.6	11.2	13.1	8.9	10.0	54.8	-
Total disbursements	<u>3.1</u>	<u>12.9</u>	<u>12.3</u>	<u>20.8</u>	<u>34.0</u>	<u>43.0</u>	<u>57.4</u>	<u>52.2</u>	<u>36.6</u>	<u>272.3</u>	<u>46.0</u>
Surplus or deficit (-)	4.4	11.1	23.0	19.9	26.8	9.1	-21.5	9.9	-4.6	77.7	2.1
Loans disbursed(3)	-	4.7	6.5	2.4	0.7	5.3	12.9	4.4	11.3	48.2	-
Net	<u>4.4</u>	<u>6.4</u>	<u>16.5</u>	<u>17.5</u>	<u>26.1</u>	<u>3.8</u>	<u>-34.4</u>	<u>5.1</u>	<u>-15.9</u>	<u>29.5</u>	<u>2.1</u>

Source: IMF report on Iraq 1961.

(1) Years ended March 31st; data are actual.

(2) USSR credit.

(3) Loans are extended to semi-government agencies and municipalities.

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TABLE XXIV

Planned Public Development Expenditures and Sources of Finance
1961/62 - 1965/66(d)

Allocations	Millions of Iraqi Dinars	Sources of Finance	Millions of Iraqi Dinars
Agriculture	113.0	Oil revenue	315.8
Industry	106.8	Net profits(a)	22.8
Transport and communications	130.5	Repayment of loan to Real Estate Bank	2.0
Buildings and housing	140.1	Cash surplus(b)	5.0
Total	556.4	First loan (USSR)	65.2
Annual Distribution		Second loan (Czechoslovakia)	12.0
		Miscellaneous revenue	1.0
		Other revenues (internal and external)	142.6
1961/62	97.1		
1962/63	108.1		
1963/64	117.6		
1964/65	119.6		
1965/66	114.0		
Total	556.4	Total	566.4(c)

Source: UN "Economic Developments in the Middle East 1959-61".

(a) Total net profits expected to accrue to the Port Administration, the National Electricity Service and the government refineries.

(b) Realised on 31st March, 1961.

(c) The ID 10 million surplus is earmarked for payment of principal and interest on loans.

(d) All split years are twelve month periods from 1st April to 31st March.

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Table XXV

Gold and Foreign Exchange held by the Central Bank

(millions of US dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	April 1962
Gold	-	-	8.4	14.0	19.5	33.5	83.9	98.0	83.9	97.8
Foreign exchange	180.8	233.3	286.1	339.4	241.7	254.9	212.1	155.6	126.9	159.4

Source: IMF "International Financial Statistics, September 1962".

Table XXVI

Oil Exports and Exchange Receipts

(in millions of Iraqi dinars)

	1956	1957	1958	1959	1960
<u>Total Value of Exports</u>	154.64	113.15	185.54	201.67	222.73
<u>Total Exchange Receipts</u>	79.91	59.71	92.25	102.34	114.45
1. <u>Direct Government Share</u>	68.84	48.85	79.88	86.55	95.03
2. <u>Local Expenditures of Oil Companies</u>	11.07	10.86	12.37	15.79	19.42

Source: IMF Report on Iraq 1961.

Table XXVII

Balance of Payments Summary

(in millions of Iraqi dinars)

	1956	1957	1958	1959	First half	
					1959	1960
Net receipts of oil sector	79.9	71.3(*)	98.1(*)	100.5	47.49	53.65
Other goods and services	- 90.1	- 101.1	- 81.3	- 86.7	- 34.64	- 55.73
Exports, f.o.b.	13.7	14.1	15.7	14.3	7.45	5.04
Imports, c.i.f.	- 107.2	- 112.1	- 99.8	- 99.4	- 43.20	- 59.97
Services, net	3.4	- 3.1	2.8	- 1.6	1.11	- 0.80
Capital and donations	6.2	6.3	1.3	- 0.7	- 0.31	0.44
Errors and omissions	11.2	- 0.8	- 4.6	- 11.6	- 8.90	- 9.24
Total	7.2	- 24.3	13.5	1.5	4.26	- 10.88
Monetary movements	- 7.2	24.3	- 13.5	- 1.5	- 4.26	10.88

Source: IMF Report on Iraq 1961.

NOTE:

No sign indicates credit; minus sign indicates debit.

(*) Includes drawings (credit) of ID 9.1 million for 1957 and ID 1.9 million for 1958, and repayments (debit) of ID 0.5 million for 1958 and ID 1.8 million for 1959, representing advances from the oil companies.

Table XXVIII

Composition of Imports

(In millions of Iraqi dinars)

	1957	1958	1959	Jan.-June 1960
Sugar	8.8	7.9	6.6	4.9
Tea	6.6	5.7	6.9	3.6
Cotton piece goods	3.0	2.8	3.6	2.4
Artificial silk piece goods	6.2	5.3	5.9	2.5
Woollen piece goods	1.3	1.4	1.1	0.4
Soap	1.4	1.0	1.2	0.3
Iron and Steel	12.4	14.0	17.5	6.4
Boilers and machinery	13.0	7.8	9.7	6.4
Vehicles and Parts	11.8	10.0	7.3	4.3
Electric Machinery	6.1	8.0	10.4	6.2
Chemicals and Pharma- ceuticals	3.2	2.6	3.2	1.9
Papers and cardboard	1.5	1.5	1.5	0.9
Timber	2.7	2.5	2.3	1.5
Cereals	2.4	0.2	5.9	5.0
Vegetable oils	0.5	0.7	1.1	0.9
Tanning and dyeing extr.	1.2	1.1	1.4	0.8
Others	40.3	37.3	30.8	18.1
Total	122.4	109.8	116.4	66.5

Source: IIM Report on Iraq 1961

Table XXIX

Composition of Exports
(excluding oil)

(in millions of Iraqi dinars)

	1957	1958	1959	Jan.-June 1960
Barley	3.0	4.8	0.8	0.0
Wheat	0.1	-	-	-
Other grains	0.2	0.4	0.2	-
Pulses and flours	0.1	0.2	0.1	0.1
Dates	3.4	2.9	4.0	1.7
Raw cotton	1.0	1.3	1.5	0.3
Raw wool	1.5	0.9	1.6	0.4
Live animals	0.4	0.6	0.1	-
Seeds	0.3	0.3	0.5	-
Hides and skins	0.4	0.3	0.5	0.4
Cement	0.7	0.4	0.7	0.3
Fodder and straw	0.2	0.6	0.5	0.2
Others	1.6	1.8	1.1	0.3
Total	12.9	14.5	11.6	3.7

Source: IMF Report on Iraq 1961

Table XXX

Direction of crude Petroleum Exports
(thousands of tons)

	1957	1958	1959	1960
World	20,350	33,800	39,300	45,200
Middle East	1,710	2,300	1,830	1,140
Western Europe	13,300	26,900	31,810	37,220(1)
Far East	4,600	3,320	4,460	5,380
North America	730	1,230	1,200	1,090
Oceania (2)	-	-	-	380
Other America	-	-	-	-
Africa	-	-	-	-

UN

Source: ~~UN~~ "Economic Developments in the Middle East 1959-61"

(1) The principal importing West European countries for 1960 were:

Italy	7.95 million tons
France	7.81 million tons
United Kingdom	7.09 million tons
Federal Republic of Germany	4.48 million tons
Belgium	2.16 million tons
Portugal	1.14 million tons

(2) Imports of Australia.

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Table XXXI

Destination of Exports (excluding oil)

(in millions of dinars)

	1957	1958	1959	Jan-June 1960
United Kingdom	3.7	3.1	1.5	0.3
Japan	1.1	0.2	0.1	0.1
India	0.8	0.8	0.9	0.2
Holland	0.4	0.4	0.0	0.0
Germany (West)	0.4	1.0	0.3	0.1
Lebanon	0.6	0.6	1.1	0.6
Kuwait	1.4	1.8	1.1	0.4
Syria	0.5	0.7	0.6	0.2
United States	0.4	0.7	1.1	0.2
Belgium	0.7	0.6	0.2	0.0
Denmark	0.2	0.9	0.2	0.0
Italy	0.0	0.1	0.1	0.1
Jordan	0.4	0.5	0.0	0.0
Saudi Arabia	0.7	0.9	0.6	0.1
China	0.0	0.0	0.8	0.3
USSR	0.0	0.0	0.9	0.2
Others	1.6	2.1	2.1	0.9
<u>Total</u>	<u>12.9</u>	<u>14.5</u>	<u>11.6</u>	<u>3.7</u>

Source: IMF Report on Iraq 1961.

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Table XXII

Source of Imports

(in millions of dinars)

	1957	1958	1959	January - June 1960
United Kingdom	35.5	30.2	36.0	15.5
United States	17.7	15.2	11.8	7.6
Italy	3.3	3.7	1.5	1.0
Ceylon	6.6	5.7	6.4	3.2
Japan	8.9	8.6	8.5	2.5
India	2.1	1.4	1.9	1.4
Germany (West)	11.9	12.6	10.0	6.0
Belgium	5.8	6.8	5.6	4.6
Holland	3.2	3.3	3.8	1.9
Formosa	3.1	2.2	1.8	1.0
Sweden	2.2	2.3	2.5	1.5
Czechoslovakia	1.4	1.0	1.8	1.8
Syria	2.5	1.8	1.2	0.1
Australia	1.9	1.1	2.9	2.4
Austria	0.5	0.8	0.8	0.4
Switzerland		1.2	1.5	1.1
USSR		0.0	1.4	1.2
China	15.5	0.1	1.4	1.4
Malay States		0.4	0.9	0.7
Pakistan		0.2	1.4	1.4
Canada		0.2	0.8	0.4
Lebanon		1.2	2.0	2.2
Others		9.8	10.5	7.2
Total	122.4	109.8	116.4	66.5

Source: IMF Report on Iraq 1961

International Economic and Military
Aid to Iraq

(In millions of U.S. Dollars)

Multilateral Economic Aid ⁽¹⁾					Bilateral Aid		
Year	IBRD	United Nations			United ⁽²⁾ States	USSR ⁽³⁾	Czechos- ⁽³⁾ lovakia
		UNICEF	UNEPTA	UNTA			
1960		0.2	0.5	0.2	Economic Aid		
1958/59		0.3		1.0	1946/60	1959/60	1960
1954/57	-5.4	0.9		2.0	18.3 + 0.9	+ 182.5	+ 33.6
					Military Aid		
					1955/60	1958/61	
					46.1	+ 238	none

(1) Source: United Nations Statistical Yearbooks for 1958, 1960 and 1961.

(2) Source: International Co-operation Administration "United States Foreign Assistance 1/7/1945 to 30/6/1960", Office of Statistics and Reports.

(3) Source: NATO Confidential C-M(62)13 of 12/2/1962.

Note: All figures in Table XXXII refer to grants with the exception of loans and credits indicated by a plus sign and net repayments indicated by a minus sign.

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Table XXXIVMedical Personnel

	Physicians	Dentists	Midwives	Pharmacists
1958	1,192	112 ⁻	694 ⁺	378 ⁻
1959	1,245	137 ⁻	662 ⁺	430 ⁻

Source: United Nations' Statistical Yearbook 1961

- excluding those described as not fully qualified

+ including those not fully qualified

Table XXXVEducational Institutions

Type of Education	Year	Number of Schools	Teaching Staff	Students Enrolled
Pre-school	1959	99	234	9,594
Primary	1959	3,228	20,040	642,665
Secondary	1959	362	3,186 ⁻	120,155
Technical	1959	38	505	7,382
Teacher-training ⁽¹⁾	1958	65	335	11,050
Higher	1959	5	665	12,115

Source: United Nations' Statistical Yearbook 1961

- Public schools only

(1) Data relating to secondary teacher-training only

POSSIBILITIES OF COUNTERING
SINO-SOVIET ECONOMIC PENETRATION IN IRAQ

THE SINO-SOVIET ECONOMIC OFFENSIVE IN IRAQ

Note by the Economics Directorate

The first attempts of Soviet economic penetration closely followed the Kassim revolution which, on the 14th July, 1958, swept away King Faysal II, and resulted in the ending of Iraq's participation in the Baghdad Pact (24th March, 1959), the denunciation of the assistance agreements with the United States (2nd June, 1959) and the withdrawal of Iraq from the sterling area (4th June, 1959).

2. The Soviet bloc appears to have become Iraq's only source of foreign credits with a total of \$454 million extended by mid-1962, out of which \$238 million was for military aid and \$216 million for economic aid. Iraq is at present the sixth-largest recipient of Soviet assistance among the less-developed countries of the free world, after Indonesia, Egypt, India, Cuba and Afghanistan. The total amount of credits on which Iraq can draw represents the equivalent of about \$63 per inhabitant.

3. Unlike the deliveries of military equipment that followed shortly after the signature of the arms deals, the implementation of the Soviet economic aid programme did not start before 1961, and only a few minor projects are so far reported to have been completed. Actual drawings on credits for economic development up to mid-1962 did not exceed \$35 million, and Czech aid had not then been utilised. However, about 90% of Soviet and Czech credits have now been earmarked for projects, mainly in the industrial field, included in the five-year economic development plan for Iraq (1961/66) adopted in October 1961, and in which bloc credits represent about 12% of the total planned outlay. It is likely that the pace of implementation of Soviet aid will be accelerated.

4. The Soviet and Czech commitments for financial assistance to Iraq were accompanied by a large-scale development of Soviet bloc technical assistance and a constant drive to improve trade relations between the Communist countries and Iraq. By the middle of 1962, the number of technicians and specialists from Communist countries in Iraq was estimated to exceed 1,000, of which four-fifths are working on economic development projects, and one-fifth is rendering advice on the utilisation of Soviet arms and military equipment. At the same time, about 3,600 Iraqi nationals have so far received some form of academic, technical or military training in bloc countries. The bloc share in Iraq's total imports rose from 2% in 1958 to about 11% in 1961, and of the total Iraqi exports of local products other than oil, 23% was directed to the bloc in 1961, as against almost nothing in 1958.

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following

MILITARY AID

5. Financial details of the arms deals concluded between the USSR and Iraq are not available. Such conditions as the amount of down payments, the repayment period of the credits extended, interest charged and discounts granted have not been revealed. Nevertheless, the importance of Soviet military aid to Iraq is clearly demonstrated by the amounts of credits openly extended for deliveries of arms and military equipment, which exceed the total of credits for economic development so far promised by the bloc and by the number of military advisers in the country.

6. By mid-1962, it had been disclosed that at least \$238 million in credit had been put at the disposal of Iraq under three consecutive agreements. The first arms deliveries under the \$118 million agreement of November 1958 included heavy equipment, such as artillery and tanks, and were completed by the end of June 1960. At the time there was some feeling in Iraqi army circles that the USSR had passed off to Iraq a certain amount of obsolete armaments, especially discarded artillery weapons. This criticism was apparently used as a means of pressure to obtain more up-to-date equipment from the USSR, but did not result in a shift towards free world military goods. Iraq concluded a second deal in August 1960 (\$70 million on credit), under which a new wave of deliveries started to arrive in Iraq late in 1960. Among the items then received were about eighty T.54 medium tanks, a number of 122 mm. howitzers, four helicopters and sixteen MiG.19 jet fighters. In December 1961, an additional \$50 million credit agreement with the USSR was signed for the delivery of more technically advanced military equipment, including artillery weapons, TU.60 jet bombers, MiG.21 jet fighters, airborne equipment and a number of surface-to-air missiles. Deliveries under this most recent agreement were well under way in the first half of 1962.

7. It is generally agreed that deliveries of military equipment to less-developed countries do not impose a serious burden on the Soviet economy, and is not impairing the further build-up of the military strength of the Soviet Union. On the Iraqi side, the known drawings of military credits up to mid-1962 represent \$180 million; i.e. \$25 per inhabitant. It is estimated that the total value of Soviet military deliveries, both under credits and otherwise, amounts to at least \$400 million, but no information is available on the actual price charged to Iraq, which may well be different from the estimated value. The repayment obligations, in addition to the already rapidly increasing defence expenditures since the Kassim revolution, will impose a serious strain on Iraq's developing economy. Furthermore, since so much of Iraq's military build-up is now of Soviet origin, the efficiency of the Iraqi armed forces is heavily dependent on the continued availability of spare parts and replacements from the bloc.

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8. The USSR has not only become the chief source of supply for arms and military equipment, but has also gained a near monopoly for rendering military advice. The Russian military mission in Iraq, headed by a General, numbered over 250 by the end of 1961 (including 57 air force personnel), and their numbers have since probably risen to over 300, following deliveries of equipment and aircraft. This compares with the 50 members of the British mission who, before the 1958 revolution, had been responsible for the training of the Iraqi army. So far, there do not seem to be any Communist military advisers in Iraq other than Russians. At present a few military advisers from the Federal Republic of Germany are apparently the only free world military advisers in this country.

9. As a consequence of the switch towards the bloc for the provision of military equipment, the number of Iraqi personnel sent to bloc countries for military training has increased: since 1959 at least 400 have been trained in the USSR and about 50 in European satellite countries. This aspect of Soviet penetration is all the more significant, since Kassim has in the past been relying mainly on the Army to counterbalance local Communist influence.

ECONOMIC AID

10. To date, Iraq has accepted economic aid equivalent to about \$216 million from the bloc, consisting of:

- (a) two development credits extended by the USSR, at 2.5% interest, repayable over twelve years, the first in March 1959 amounting to \$137.5 million, and the second in May 1960 equivalent to \$45 million;
- (b) one development credit extended by Czechoslovakia in October 1960, amounting to \$33.6 million, at 2.5% interest repayable over eight years.

11. In accordance with the traditional Soviet procedure, the economic aid agreement signed in March 1959 provided for a line of credit to be put at the disposal of the Iraqi Government, giving only an indicative description of the possible utilisation of the amounts available. The agreement stipulated that this credit was to be used for a list of projects enumerated, and that the technical assistance necessary for the implementation of a second list of projects could be provided. The way was left open for the extension of credits for the implementation of projects included in this second list. The May 1960 credit of \$45 million represents such an expansion of the aid programme.

12. Progress in the Soviet aid programme was not perceptible fifteen months after the signature of the basic agreement. During this period of prolonged negotiations on projects to be covered by the credit, both sides voiced criticism, putting the blame for delays in actual implementation on each other. On the Iraqi side, the government's inability to construct the indispensable

facilities for the Soviet aid projects, the general failure of local manpower and lower-ranking officials to co-operate with the bloc technicians, the corruption and inefficiency of the Iraqi administration played their part in delaying the execution of the programme. On the Soviet side, the failure to deliver the required goods on schedule, deficient quality control, the poor performance of Soviet equipment under the climatic conditions prevailing in Iraq and, above all, the Soviet tendency to restrict the freedom of choice of the recipient country in projects to be implemented under aid agreements delayed progress and created a certain amount of dissatisfaction in Iraq.

13. During the second half of 1960, Iraq appeared to be eager to improve her relations with the West, but it soon transpired that consultations with Western firms were mainly intended as a means of improving Iraq's bargaining position in negotiations with the bloc, and Western efforts to obtain specific projects ultimately failed. Actual implementation of the Soviet aid programme did not start before 1961, and by mid-1962 less than one-fifth (or about \$32 million) of the total amount of Soviet aid extended had been drawn. Most of these drawings were utilised for preliminary surveys and technical assistance rendered in various fields, and for a few projects of minor importance that have now been completed such as a fruit-tinning and drying factory near Karbala, a tractor station near Baghdad, a broadcasting station, a shoe factory, and an automatic telephone exchange in Baghdad. In addition, work was started in 1962 on a garments factory, a pharmaceutical products factory, two grain silos and a nuclear reactor. Although Czech financial assistance has been allocated to some industrial projects, none of these credits was reported to have been utilised by mid-1962.

14. In addition to the financially-assisted projects, the Soviet Union, Czechoslovakia and some other bloc countries have been able to obtain a number of additional contracts for the construction of industrial development projects; in particular, Bulgaria has undertaken the construction of the first stage of Baghdad's new international airport. Czechoslovakia, Poland and Hungary are supplying some of the equipment required by the Russians for the reconstruction of the Baghdad-Basra railway covered by the second Soviet loan.

15. In Iraq's five-year development plan 1961/62 to 1965/66 (drawn up in 1960 with the assistance of Polish and Czech experts) thirty-nine projects can be identified for which bloc financial assistance is mentioned to be forthcoming. They consist of twenty three industrial development projects, four in the field of transport and communications, and twelve in agriculture. Bloc financial assistance represents 12% of the total outlay envisaged in the plan, but is concentrated on industrial development, which absorbs 70% of bloc economic aid. Transport and communications account for 5%, while agriculture takes the remaining 5%. Czech financial aid so far allocated is devoted to the industrial development programme and to a housing project in Baghdad.

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(a) Agriculture

16. During the early stages of the Soviet economic aid drive in Iraq, a number of Soviet specialists provided technical assistance in the building of irrigation dams and water storage schemes on the banks of the Tigris and Euphrates, and in the mechanisation of agriculture. Soviet financial participation in the five main tractor stations envisaged under Iraq's five-year economic development plan represents half the total cost of these projects. The plan further provides for nine new stations, but no foreign aid so far seems to be contemplated for them.

17. Soviet financial assistance extended for experimental farms, to be set up by the government in order to improve the cultivation of cotton, sugar beet, cereals and rice, is only a small fraction of the estimated cost, suggesting the Soviet assistance will be largely limited to technical advice. All the projects foreseen in the plan under the heading of improvement of agricultural production will be assisted by some form of Soviet aid, including the building of two grain silos, on which work was started in 1962.

18. On the whole, in agriculture the general tendency of Soviet efforts has been towards the rendering of technical advice. Soviet credits represent only 3% of agricultural expenditures which, under the plan, account for 20% of total outlay for economic development.

(b) Industry

19. The economic plan foresees the creation of some forty new industrial enterprises, of which about half would receive Soviet financial aid, representing 30% of the planned outlay for industry. Most of the new factories to be built with Soviet assistance are of a medium size. The estimated cost of each of these projects, covering a wide variety of goods, seldom exceeds \$25 million. In each of the bloc-assisted industrial projects, Soviet credits represent between 40% and 60% of the total cost. The most important industrial installations in which bloc aid represents a major share are, in order of magnitude, a petroleum refinery, and an annex for the extraction of sulphur from gas, to be constructed at Basra, a cotton mill, an agricultural machinery factory, a chemical fertilizer factory, a steel mill with an annual capacity of 60,000 tons, a wool mill, a glass factory, and a pharmaceutical products factory. Soviet credits will also be utilised for the establishment of an electric bulb factory, a silk mill, a factory for electrical apparatus, a clothing factory and a canning factory. Czech financial assistance, which represents about 12% of total bloc aid so far allocated to the industrial development of Iraq, covers more than half of the \$15 million required for a hydro-electric power station to be established at Samara, and the rest has been allocated to the financing of a rubber tyre factory, a ceramics factory and the production of carbon black.

20. The Soviet Union is expected to assume a leading rôle in petroleum prospecting and surveying undertaken by the Iraqi Government, mainly in the Khanaqin region, and will also assist in geological surveys and prospecting for minerals. A workshop for the repair of geological instruments and equipment for this purpose is to be set up in which the USSR's credits will contribute half the total cost. Soviet financial aid will also be utilised for the establishment of several technical schools.

21. In 1959, a separate agreement was signed between the Soviet Union and Iraq on the utilisation for peaceful purposes of nuclear energy under which the USSR agreed to provide technical assistance for the building of an atomic reactor and various laboratory facilities.

22. In general, although a few new industrial projects were being undertaken in Iraq by Western firms, the greater part of Iraq's industrialisation programme under way has so far been allocated to the bloc. If the five-year plan were executed, it would tend to link some selected sectors of newly-established industries to the USSR, which could increasingly become a source of supply for particular industrial equipment, and thereafter for spare parts and major maintenance items.

(c) Transport and communications

23. The Soviet bloc countries have shown considerable interest in transport and communications. They have built a number of radio stations, an automatic telephone exchange in Baghdad and military and civil airfields near Mossul, extended special credits for the modernisation of the most important railway links, and rendered expert advice on the improvement of navigation on the Tigris, the Euphrates and the Shatt-al-Arab, and on the construction of the Umm Qassar port. In addition, they have shown particular interest in the Iraqi airlines. One of the most important recent developments in this field was the awarding of a contract by the Economic Planning Board of Iraq for the construction of the first stage of the new Baghdad international airport to a Bulgarian firm. The entire project is to cost over \$30 million, and the part allocated to the Bulgarian firm amounts to \$13.2 million. The design for a modern jet airport at Baghdad had been drawn up before 1958 by a British engineering firm. The conversion to standard European gauge of the Baghdad-Basra railway is the largest single project under the bloc economic aid programme. The credit of \$45 million extended by the Soviet Union represents 40% of the total estimated cost of this project, which is to be completed by 1964.

24. Although large-scale infrastructure projects, such as the railway reconstruction, have a certain propaganda value, they do not appear to involve the same degree of permanent dependence on bloc deliveries of spare parts and maintenance as in the case of industrial projects. They do, however, allow a certain number of technicians to be sent to the recipient country.

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TECHNICAL ASSISTANCE

25. Economic aid on this scale has brought a considerable influx of bloc technicians and specialists. By the middle of 1959, the first civilian technicians from the USSR started to enter the country for preliminary surveys and the replacement of Western experts. Some of them occupied key positions, such as the Polish and Czech experts who contributed to the elaboration of the five-year economic development plan for Iraq, and the Soviet experts that rendered advice on agrarian reform problems. The Daura oil refinery, operated by Western technicians before the Kassim revolution, was placed under the management of Soviet bloc experts before the end of 1959, allowing them to get acquainted with advanced Western oil technology. In addition, Soviet and European satellite experts provided technical assistance for the current work on the Basra power station and for projects related to industrial development, transport and communications.

26. In the early days, considerable criticism of the competence and behaviour of Soviet technicians led to the withdrawal of members of the team from the Daura oil refinery and a number of Soviet doctors and nurses. Since then, they have been replaced, and the number of Soviet and satellite experts increased steadily from about 220 in mid-1959 to over 800 three years later, of which about 650 were reportedly Russians, and 175 from the European satellites, mainly Poland, Czechoslovakia and Hungary.

27. Most of these experts now seem to be discharging their professional duties competently, though some Iraqi dissatisfaction is occasionally reported. These advisers and technicians are not obtrusive; they generally keep very much to themselves and most of them, particularly the comparatively low-grade staff employed on the railways and the irrigation surveys, live in fairly remote areas. There is no evidence that these technicians have been used as political propagandists, although the pervasive effect of such numbers should not be underestimated. If the Soviet bloc chose to replace the leading advisers by men with political training and objectives, it could be a powerful means of expanding Communist influence, but so far there is no indication of any such intention.

TRADE

28. Before the Kassim revolution trade between Iraq and the Sino-Soviet bloc consisted almost exclusively of some imports of machinery and consumer goods from Czechoslovakia, never exceeding \$7.5 million per year, while exports to the bloc were negligible. Iraq's total trade with the bloc has since risen to \$24 million in 1959; \$41 million in 1960 and \$44 million in 1961, mainly as a result of the fast increase of imports from the bloc, while exports are still lagging far behind. The European satellites account for about 55%, the USSR for 27% and Communist China for 18% of the 1961 total bloc trade with Iraq.

(a) Imports from the Sino-Soviet bloc

29. Iraq's imports from Communist countries increased as a result of the deliveries of Soviet arms and of the first arrivals of Soviet industrial equipment for development projects. Other categories of imports have not risen significantly, and consist mainly of sugar, ferrous and non-ferrous metal products and textiles. If military deliveries are excluded, the overall evolution of Iraqi imports from the bloc can be described as follows: prior to 1959, less than 2% of total imports came from the bloc. Since then, the share of Communist countries increased to about 6% in 1959, 10% in 1960 and 11% in 1961 of Iraq's imports.

30. Communist China provides foodstuffs and cotton textiles; the USSR wood and wooden articles, iron and iron bars and girders; Czechoslovakia machinery, cotton textiles and shoes; Hungary cotton textiles. In absolute figures, the European satellite exports to Iraq in 1961 amounted to about \$21.6 million, the USSR \$10.6 million, and Communist China \$6.7 million. Iraqi imports from the Soviet-occupied Zone of Germany have increased at a slower rate than those from the other satellite countries. As the implementation of industrial development projects with bloc assistance gathers speed, further increases in bloc exports to Iraq are to be expected.

(b) Exports to the bloc

31. In 1961, out of Iraq's total exports, 95% consisted of oil, none of which went to the bloc. The volume of Iraqi exports, other than oil, to Communist countries has increased markedly. Before 1959, they seldom exceeded \$100,000 in any one year. In 1959, the total value of such exports amounted to \$6.1 million; in 1960, \$3.4 million; and in 1961 \$4.8 million. In 1961, the share of the Soviet bloc in the total value of Iraqi exports other than oil was about 23%, largely owing to purchases of Iraqi dates (Communist China being the principal market for low-grade dates), which, together with linseed and wool, are among the chief commodities exported by this country to the bloc. The purchases of Iraqi dates have particular significance, as Iraq has experienced some difficulty in finding satisfactory markets for her dates in the West. Production of Iraqi agricultural surpluses for export has tended to decline in recent years. Even if Iraq stepped up her exports of local produce other than oil to Soviet countries at the cost of free world markets, there would not be the slightest chance that she would be able in the foreseeable future to balance her actual and planned Soviet imports.

ASSESSMENT OF BLOC PENETRATION SUCCESS

32. The bloc has been able to substitute to a large extent its presence for that of the West in Iraq, taking advantage of the policy adopted by Kassim after his coming into power. Despite some complaints about the competence and behaviour of the numerous bloc

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technicians in the country, and despite criticism regarding the quality of equipment delivered, the Soviet bloc has practically become Iraq's only source of credit for economic development, technical assistance and military build-up, thus providing a firm foothold for further penetration.

33. It would seem that the bloc has scored its main gains in the field of military assistance, most of the equipment of the Iraqi armed forces now being of Soviet origin. This has resulted in a serious dependence of the efficiency of the armed forces on the bloc, not only for spare parts and replacements, but also for technical advice and military training. Moreover, the number of Iraqi army officers and specialists trained in bloc countries is constantly increasing, and this might possibly, in the long run, influence a section of Iraqi public opinion on which Kassim has in the past relied to counterbalance local Communist activity.

34. The bloc's possibilities of obtaining a dominant economic influence over Iraq are rather more problematic. Not only current economic life, but also the future development of the country depends on crude oil exports, for which there appears to be no need in the bloc. As long as world oil productive capacity vastly exceeds demand, Iraq is bound to depend on the West for a market. At the same time, her ability to procure an overwhelming part of her own requirements from the West through her earnings there gives her considerable independence vis-à-vis the bloc, if she chooses to use it.

35. This position could, however, be altered, if Iraq mortgaged too much of her future by running up debts with the bloc. This point is certainly not yet reached, but, on balance, the bloc has made some headway in drawing Iraq closer to the bloc, and the results may well be felt in the future in terms of a still further waning of Western presence in the country as industrialisation proceeds.

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STATISTICAL APPENDIX TO ANNEX II

- I. Bloc financial assistance
- II. Technical assistance:
 - A. Soviet bloc personnel in Iraq
 - B. Iraqi nationals trained in bloc countries
- III. Iraq's trade with the bloc
- IV. The bloc economic aid programme in Iraq
 - A. Agriculture
 - B. Industry
 - C. Transport and communications

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I. BLOC FINANCIAL ASSISTANCE

Situation by mid-1962

	million US \$	purpose
A. CREDITS EXTENDED	<u>454.1</u>	
By the USSR: October 1958	118.0	Military equipment
March 1959	137.5	Economic development
May 1960	45.0	Baghdad-Basra railway
August 1960	70.0	Military equipment
December 1961	50.0	Military equipment
USSR TOTAL	<u>420.5</u>	
By Czechoslovakia October 1960	33.6	Economic development
B. CREDITS DRAWN TOTAL	<u>211.9</u>	
From the USSR	180.0	Deliveries of arms
	31.9	Economic projects
From Czechoslovakia	0.0	Economic projects

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Cott following

II. TECHNICAL ASSISTANCE

Soviet bloc personnel in the country for a period of one month or more (personnel engaged in diplomatic and commercial activities excluded).

Minimum estimates rounded to the nearest 5 during 6-month periods

	Civilian technicians			Military advisers from the USSR	Grand Total
	from USSR	from Eur. satellites	Total		
Up to December 1958	0	0	0	0	0
January - June 1959	215	5	220	150	370
July - December 1959	240	60	300	150	450
January - June 1960	295	130	425	170	595
July - December 1960	250	150	400	190	590
January - June 1961	320	160	480	285	765
July - December 1961	465	160	625	285	910
January - June 1962	655	175	830	300	1,130

B. Iraqi nationals trained in bloc countries

Cumulative totals from 1956	Academic and technical students trained in:				Military personnel trained in:			Grand Total
	USSR	Eur. sat.	Com. China	Total bloc	USSR	Eur. sat.	Total bloc	
Up to end 1959	525	175	0	<u>700</u>	135	45	<u>180</u>	880
Up to July 1960	595	360	20	<u>975</u>	235	45	<u>280</u>	1,255
Up to end 1960	685	535	30	<u>1,250</u>	285	45	<u>330</u>	1,580
Up to July 1961	1,045	535	30	<u>1,610</u>	315	45	<u>360</u>	1,970
Up to end 1961	1,860	840	35	<u>2,735</u>
Up to July 1962	2,135	945	35	<u>3,115</u>	<u>485</u>	3,600

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ANNEX II to
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III. IRAQ'S TRADE WITH THE BLOC

(million US \$)

Year	Iraqi exports to:				Bloc as % of total exports (excluding oil)	Iraqi imports from:				Bloc as % of total imports
	USSR	European satellites	Communist China	Total bloc		USSR	European satellites	Communist China	Total bloc	
1956	-	-	-	-	0	-	6.2	-	6.2	2
1957	-	-	-	-	0	-	7.2	-	7.2	2
1958	-	-	-	-	0	-	5.8	0.2	6.0	2
1959	2.5	1.7	1.9	6.1	16	4.0	10.7	3.5	18.2	6
1960	0.7	1.3	1.4	3.4	14	7.4	23.5	7.2	38.0	10
1961	2.0	0.8	2.0	4.8	23	10.6	21.6	6.7	38.9	11

- = less than \$100,000

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IV. THE BLOC ECONOMIC AID PROGRAMME IN IRAQ

(Soviet bloc aided projects included in the five-year economic development plan for Iraq (1961/62 - 1965/66) as adopted on 14th October, 1962.)

in 000 dinars
(1 dinar = US \$2.8)

	Total estimated cost of the planned outlay	of which bloc financial aid	bloc aid as % of total planned outlay
Agriculture	112,990	3,074	3
Industry	166,786	47,946	30
Transport and communications	136,450	17,410	15
Housing	140,114	0	0
GRAND TOTAL	556,340	68,430	12

IV. THE BLOC ECONOMIC AID PROGRAMME IN IRAQ (Continued)

A. AGRICULTURE

in 000 dinars

Bloc-aided projects	Total cost of project	Bloc country assisting	Amount of bloc participation
1. Water storage schemes on Tigris and Euphrates	5,300	USSR	900
2. Cotton plantation (Surveira)	2,348	USSR	348
3. Sugar beet farm (Aski-Kalak)	1,145	USSR	145
4. Cereals farm	1,150	USSR	150
5. Rice plantation (Shatra)	1,769	USSR	175
6. Medicinal herb farm (Abu Ghraib)	171	USSR	11
7. Tractor hire station (Abu Ghraib)	314	USSR	130
8. Tractor hire station (Kirkuk)	318	USSR	150
9. " " " (Mosul)	664	USSR	404
10. " " " (Kut)	310	USSR	135
11. Grain silo (Baghdad)	546	USSR	226
12. " " (Kut)	730	USSR	300
			3,074

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IV. THE BLOC ECONOMIC AID PROGRAMME IN IRAQ (Continued)

B. INDUSTRY

in 000 dinars

Bloc-aided projects	Total cost of project	Bloc country assisting	Amount of bloc participation
1. Black carbon factory	1,250	Czech.	850
2. Sulphur extraction from natural gas	3,400	USSR	1,350
3. Chemical fertilizer factory	9,000	USSR	5,000
4. Rubber tyre factory	1,000	Czech.	800
5. Pharmaceutical products factory	3,800	USSR	2,050
6. Canning factory	310	USSR	150
7. Modern housing (Baghdad)	1,500	Czech.	600
8. Ceramics factory	800	Czech.	350
9. Glass factory	5,200	USSR	2,241
10. Electric appliances factory	2,160	USSR	1,000
11. Electric bulb factory	2,786	USSR	1,630
12. Steel mill	8,250	USSR	4,850
13. Agricultural machinery factory	9,184	USSR	5,284
14. Repair shop for geological instruments and other equipment	130	USSR	65
15. Cotton mill	10,300	USSR	4,600
16. Wool mill	7,000	USSR	4,000
17. Silk mill	2,463	USSR	1,126
18. Clothing factory	800	USSR	380
19. Petroleum refinery (Basra)	10,600	USSR	6,000
20. Mining prospecting and surveying	2,600	USSR	500
21. Petroleum prospecting	2,000	USSR	1,200
22. Power station (Samara)	5,500	Czech.	3,000
23. Technical schools	1,850	USSR	920
	91,883		47,946

IV. THE BLOC ECONOMIC AID PROGRAMME TO IRAQ (Continued)

C. TRANSPORT AND COMMUNICATIONS

in 000 dinars

Bloc-aided projects	Total cost of project	Bloc country assisting	Amount of bloc participation
1. Baghdad-Basra railway	39,000	USSR	16,000
2. Kirkuk-Sulaimaniya railway	250	USSR	110
3. Navigation on Tigris, Euphrates and Shatt-al-Arab (improvement)	2,000	USSR	500
4. Radio station (Hurriya and Salman Park)	1,250	USSR	800
			17,410

LEGEND

- ROADS
- RAILROADS
- OIL PIPE LINES
- RIVERS
- LAKES
- MARSH
- DAMS
- BARRAGES
- OIL FIELDS
- AIRFIELDS
- ELEVATIONS IN FEET

