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The Outlook for the United Arab Republic

Submitted by

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Concurred in by the

UNITED STATES INTELLIGENCE BOARD

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CENTRAL INTELLIGENCE AGENCY

24 May 1966

MEMORANDUM TO HOLDERS
OF NIE 36.1-66:
THE OUTLOOK FOR THE
UNITED ARAB REPUBLIC
(Dated 19 May 1966)

CORRIGENDUM

Page 1, Conclusion B, Line 8: Change "(1962-1965)" to read
(1965-1972), . . .

*Done
sub*

[REDACTED]

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THE OUTLOOK FOR THE UNITED ARAB REPUBLIC

THE PROBLEM

To assess the situation of the United Arab Republic and to estimate developments in domestic and foreign affairs over the next few years.

CONCLUSIONS

A. Growing economic difficulties, the costly stalemate in Yemen, and other troubles have produced considerable discontent and even some active opposition in the UAR. The regime has responded by overhauling the security apparatus, by searching—unsuccessfully—for some solution in Yemen, by cutting civilian spending, and by stretching out its five year economic plan to seven years.

B. The program of domestic retrenchment, particularly the cuts in civilian consumption, should help in dealing with economic problems, but it will have to be continued for several years to be effective. Foreign exchange earnings will probably be increased by recent important oil discoveries. To meet its economic goals, the UAR has some \$1.1 billion in aid pledged by Communist countries and about \$500 million promised from various Western sources; it will, however, still need about \$2 billion during the Second Plan period (1962-~~1965~~¹⁹⁷²), partly in foodstuffs and partly in other types of aid. US willingness to supply PL-480 food will greatly affect the willingness of other Western donors to contribute to Egypt. The UAR's need for Western aid will be an important but not overriding consideration in its conduct of foreign affairs.

C. We see no better than an even chance of a settlement in Yemen in the next two years or so. Nasser is highly unlikely to accept a humiliating withdrawal. We also believe that he will try to avoid the risks of escalation, though there is some danger of clashes involving UAR and Saudi forces. His most likely course is to retrench militarily, holding

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the more defensible areas and hoping for some kind of face-saving settlement. In the meantime, antagonism between Nasser and the Saudis is likely to exacerbate inter-Arab relations generally, undermining the detente of the last two years or so.

D. Unless Nasser's troubles get much more severe than at present, we doubt that his regime will be in serious danger of being replaced. A successful move to do so would require considerable backing from the armed forces; this appears unlikely in the near term. However, unless the government improves its economic performance and manages to revive greater political support, it will become more vulnerable in the long run.

E. US-UAR relations have fluctuated considerably over the years, and present indications are for a downward turn. This results mainly from the reviving antagonism between Nasser and the more pro-Western Arab leaders—particularly Faisal. It is exacerbated by Nasser's troubles with the British in the Arabian Peninsula, by his resentment at tightened US aid policies toward the UAR, and by his belief that the US is increasing support for his adversaries. It is also encouraged by Soviet gestures toward the UAR.

DISCUSSION

I. THE UAR'S MOUNTING TROUBLES

1. During the last few years, Nasser's government has been facing tougher problems than many which confronted it in the first decade after the 1952 revolution. In its earlier period, the regime achieved an impressive series of successes. Domestically, it was helped by its leaders' own fresh revolutionary enthusiasm and favorable contrasts with the old regime, by the ease with which it could tap the great wealth of a small minority to help finance its social and economic programs, and by the availability of large amounts of foreign exchange accumulated in previous years. Externally, Nasser emerged as the champion of Arab nationalism against receding British power, and was able to take credit for ending the decades of British occupation in Egypt. He also broke new ground by enlisting Soviet political and material support, thus ending Egypt's historic dependence on the West. And he emerged from his greatest crisis—the 1956 Suez affair—not only in control of the Canal, but with the prestige of having frustrated the “imperialists” and Israel.

2. After nearly 15 years in power, the revolution has inevitably lost some of its élan. Popular aspirations remain high, but it is no longer possible to satisfy them through dramatic reforms paid for by soaking the rich and the foreign community and by drawing on foreign exchange holdings, since these sources have been largely exhausted. Efforts to build a socialist, secular state have alienated various elements of the populace. The economy has continued to grow, but it has become overextended as a result of efforts to do too much too fast, and large segments of the population—beneficiaries of the earlier reforms—have come to feel the pinch of heavier taxation, inflation, and growing shortages of consumer goods. Western imperialism is no longer such a useful scapegoat, since its vestiges survive only in areas remote from Egypt. The Israeli problem remains a source of humiliation. A number of Nasser's fellow-revolutionary leaders in the Arab and Afro-Asian world have fallen or are in serious trouble. The UAR's relations with the major Western powers have generally deteriorated in the past few years, causing them to curtail economic aid. And the UAR is bogged down in a costly stalemate in Yemen with no end in sight.

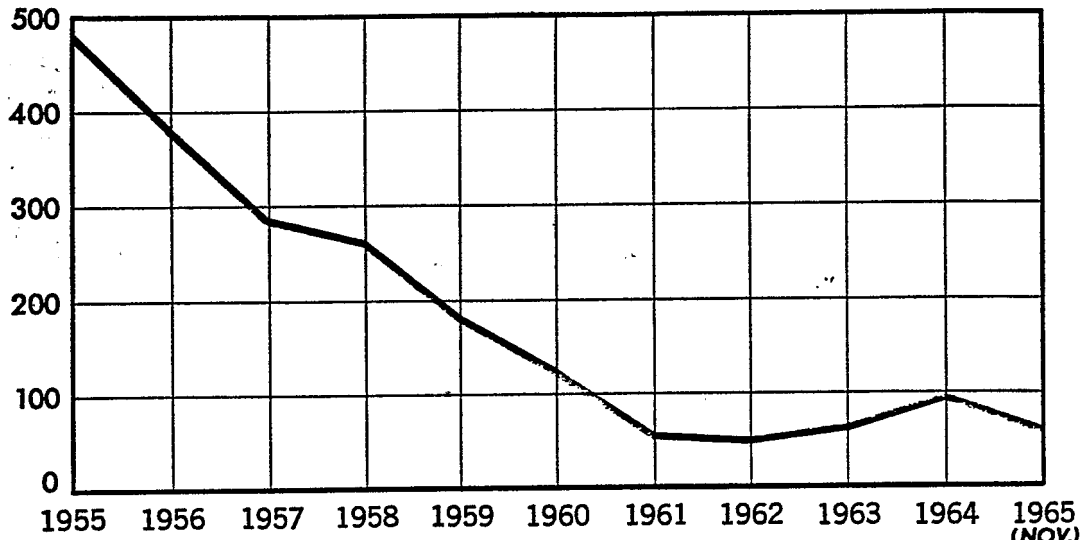
Economic Problems

3. The First Five-Year Plan (1960-1965) called for investments of nearly \$5 billion in order to raise total output by 40 percent (seven percent a year). In fact, the economy did expand by between five and six percent annually during this period. Industry grew rapidly, and became more diversified; the production of chemicals, light machinery, and consumer durable goods made notable gains. Electric power output more than doubled. Food production gains were less striking, but output nonetheless grew slightly more than population.

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UAR: FOREIGN EXCHANGE HOLDINGS* 1955-65

Million
Dollars

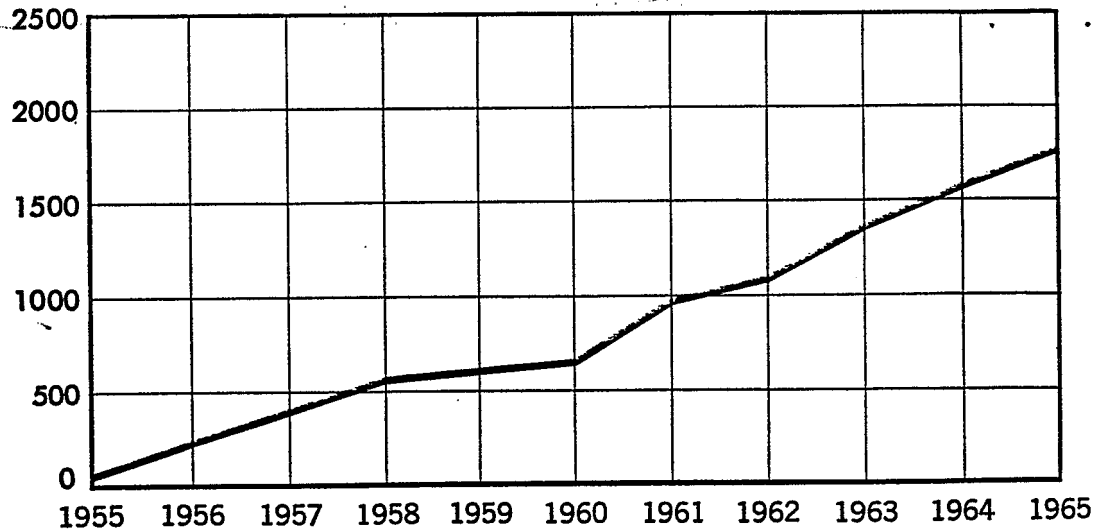


*Exclusive of gold holdings which varied between \$174-188,000,000 until late 1964 when they dropped to about \$140,000,000.

Data approximately as of end of period.

UAR: TOTAL FOREIGN CURRENCY DEBT** 1955-65

Million
Dollars



**Excluding US loans repayable in Egyptian pounds.

Data approximately as of end of period.

ECONOMIC INDICATORS *
1960-1965

CALENDAR YEAR	1960=100				
	GROSS DOMESTIC PRODUCT ^b	INDUSTRIAL PRODUCTION	AGGREGATE AGRICULTURAL OUTPUT	PER CAPITA AGRICULTURAL OUTPUT	AGGREGATE FOOD PRODUCTION
1960	100	100	100	100	100
1961	106	112	92	90	102
1962	109	130	107	102	110
1963	118	143	108	100	113
1964	127	149	112	101	115
1965	133	155 ^c	118	102	118

* Unless otherwise indicated, data are for the calendar year. Data are based primarily on official UAR statistics.

^b Fiscal years, 1 July-30 June.

^c Estimated.

4. However, this impressive record conceals a number of weaknesses. The UAR had used up virtually all its foreign exchange reserves by 1961, and subsequent growth was made possible only by a net inflow of about \$1.8 billion in foreign economic credits and grants, ranging from long-term Communist loans to US PL-480 and short-term borrowings from Western banks.¹ Moreover, much of the aid received was consumed directly or used to produce consumer goods, as Nasser attempted to sell the attractions of socialism by increasing living standards. Domestic savings, scheduled to increase from 13 to over 20 percent of gross national product, rose very little, and investments fell below plan targets. Defense expenditures roughly doubled and are currently budgeted at approximately \$410 million a year.² This is about eight percent of Gross National Product (GNP)—a rate above that of most advanced industrial nations and more than double that of all but a few developing nations. Finally, the annual rate of population growth has gone up from about 2.5 to nearly three percent; in absolute terms this brought the UAR's population to about 30 million, and it is growing by nearly one million annually.

5. The effects of Nasser's overambitious programs began to be apparent in 1964. Despite massive foreign aid, excessive imports led to foreign exchange shortages; this forced the regime to adopt import curbs, which curtailed the availability of consumer goods and industrial raw materials and components. However, only minor efforts were made to reduce consumer demand. Prices, which had been stable for many years, began to rise and black markets developed; these problems became worse after PL-480 shipments were interrupted in early 1965. Industry was particularly hard hit by the shortage of imported items; after expanding by about ten percent annually for several years, the rate of growth in 1964 and 1965 fell to about four percent. Nonetheless, until

¹ Between 1961 and 1965, the UAR also received Soviet military equipment priced at about \$250 million, and repaid about \$200 million of its military debt to the USSR.

² This includes expenditures for missile and jet aircraft development and the war in Yemen, and probably includes an estimated \$25 million due annually for Soviet arms.

[REDACTED]

late 1965, the regime balked at making any major changes in its economic policies, resorting instead to debt postponements and new foreign borrowing.

Stalemate in Yemen

6. In Yemen, the UAR has been unable to win and unwilling to withdraw. Since 1962, the venture has cost heavily in Egyptian lives and money, as well as prestige. By mid-1965, between 50,000 and 60,000 UAR troops were in Yemen, unable to achieve anything approaching victory, and casualties had reached estimated totals of between 5,000 and 8,000 Egyptian dead, and perhaps 10,000-20,000 wounded, captured, or missing. Initially, Nasser intervened to help the Yemen republicans in line with his policy of supporting like-minded revolutionaries, and because it promised to give him a foothold in the Arabian Peninsula. He doubtless envisaged a quick and easy success against the royalists, which would have resulted in preponderant Egyptian influence in Yemen. It would also have represented a setback for Nasser's Saudi rivals, who openly backed the royalists, and for the British, [REDACTED]. Instead, the Yemen Arab Republic (YAR) has proved weak and ineffective, with only limited support in the areas over which it does claim control. The royalists still hold much of the country, and Yemeni resentment of Egyptian heavy-handedness has become almost universal.

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7. The UAR's frustrations in Yemen have had repercussions at home. The Egyptian people are unhappy about the costs and casualties, and among the military there is widespread anger and humiliation over the failure to win. Within the government, there are almost certainly divided counsels over how to proceed. Some of Nasser's chief political and military advisors probably favor cutting their losses and withdrawing, or at least reducing UAR forces and hanging on to a few strong points until a face-saving settlement is worked out. Others probably want to increase the military commitment and try for some kind of victory.

Political Unrest

8. The stalemate in Yemen and the country's economic problems have led to political unrest. Discontent became apparent in late 1964, with grumbling about food shortages, black markets, and high prices; there were some small-scale protest demonstrations and sporadic illegal strikes. Popular demonstrations at the funeral of the Wafdist leader of pre-revolutionary Egypt gave the regime cause for thought. These events were overshadowed by the discovery, in mid-1965, of a Muslim Brotherhood plot to assassinate Nasser and overthrow the regime.³ Two aspects of this affair were particularly unsettling to the leadership; (1) the plot was discovered only after it was well advanced, and more by accident than by efficiency on the part of the security forces, and (2) some of the people involved were "children of the revolution"—technicians, engineers, and scientists—whom Nasser had believed to be immune to the appeals of the traditionalist Muslim Brotherhood.

³ At about the same time the regime also discovered another—though less serious—plot organized by men with some link to the Chinese Communists.



II. THE REGIME'S RESPONSE

Domestic Changes

9. By mid-1965, these accumulating difficulties convinced Nasser that remedial action was required. It became apparent that the security apparatus needed reorganizing, the grandiose economic plans had to be scaled down, and the burden of the Yemeni involvement had to be lightened. Prime Minister Sabri, an ardent socialist and strong advocate of UAR activism abroad, was hardly the man to preside over the necessary changes. Indeed, it probably was necessary to replace Sabri in order to convince both Egyptians and foreigners that a change was taking place. His successor, Zakariya Muhieddin, was known to favor a more pragmatic economic policy and to be less enthusiastic about foreign adventures. Such considerations, more than Sabri's alleged pro-Soviet orientation and Muhieddin's reputation for being more friendly toward the West, probably were behind Nasser's decision to install Muhieddin.

10. Muhieddin, who is Minister of the Interior as well as Prime Minister, is concentrating on domestic problems. He has moved with considerable vigor in a number of areas. He has purged the administration, removing over half of the provincial governors and all the provincial security directors. He has been less tolerant of the activities of local Communists—many of whom had been released from prison in 1964 and given jobs by the government. Muhieddin and Nasser have also warned the people that a period of austerity is necessary and that the country cannot consume what it cannot produce or pay for. Taxes and prices have been raised to curtail civilian consumption, some uneconomic projects have been dropped, and increased attention is being given to industries with export potential.⁴ The government has also established a birth control program, though whether it will have a high priority over a prolonged period is uncertain. In any case it will have no appreciable effect on population growth in the next few years.

11. These measures restored foreign confidence somewhat and led to some new foreign aid. In general, Muhieddin's economic policies are moves in the right direction and have improved the domestic economic situation. They will, however, have to be supplemented by improvements in economic planning and management, and continued for several years, if the UAR is to maintain its rate of growth. Moreover, the government needs to find some way to rekindle the popular political support that it had in the 1950s; so far it has not had any notable success in doing so.

12. The military continue to be a source of concern to Nasser. He has been apprehensive over the attitudes of troops returning from the Yemen. There have been recent revelations of smuggling and corruption in high military as well as civilian circles. Some ten officers have been arrested on charges of conspiring against the regime. The government probably fears that there are other plots as yet unknown to it.

⁴However, the regime apparently has decided to continue, at least for a time, its costly and trouble-ridden programs to produce jet aircraft and surface-to-surface missiles.

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Foreign Affairs

13. Nasser's most critical foreign problem arises from Yemen. In August 1965, he went to Saudi Arabia to try to negotiate a settlement with King Faisal, whose support of the Yemeni royalists has been crucial to their cause. Both Nasser and Faisal then saw advantages in bringing the conflict to an end, and they contrived a compromise settlement which provided for a cease fire, an end to Saudi aid to the royalists, a phased withdrawal of UAR troops, and the formation of an interim coalition government in Yemen to conduct a plebiscite on the future form of government.

14. The Yemeni accord has not been successful. The provisions for a cease fire and a halt of Saudi aid have been largely implemented. However, there have been disagreements over the composition of the coalition government, a question not covered in the accord. Nasser and the Yemeni republicans insist that two-thirds of its members be republicans; Faisal and the royalists are holding out for a 50-50 division of government positions. Nasser has also insisted that Faisal agree to keep the royal family—the Hamid al Dins—out of Yemen. Nasser has pulled back UAR troops from some important areas in the Yemen and has returned a few troops to Egypt. He has done this, however, not in compliance with the agreement, but in order to deploy his forces in more tenable positions and to lighten the burden if a protracted occupation becomes necessary.

15. Underlying these specific disagreements is the growing distrust and antagonism between Faisal and Nasser. Faisal now believes that Nasser intends to keep his troops in Yemen regardless of last year's agreement, not only to protect the YAR but also to undermine the Saudi and British positions in the Arabian Peninsula. Indeed, Faisal insists that Nasser has become a tool of the Soviets in the area. Nasser, in turn, suspects that Faisal is working for the destruction of the YAR, which would indicate to the world, and particularly to the Egyptians, that their sacrifices for the Yemen revolution have been in vain. Nasser considers that Faisal is determined to oppose him in South Arabia and the Persian Gulf and is cultivating dissident elements in the UAR. Faisal's active campaign for closer ties among Islamic countries is viewed in Cairo as an effort to isolate the UAR and its brand of Arab Socialism. Nasser has recently attacked Faisal, other Arab rulers, and Western powers on this score and has asserted that he will keep his troops in Yemen as long as necessary to insure the survival of the Yemen revolution. He has threatened to occupy Saudi bases supporting any "aggression" against Yemen.

16. During 1965, Nasser made some moves to placate the US. These moves took the form of limited adjustments on various issues, rather than any single outstanding concession, and in most cases he had other motives in addition to placating the US. Nevertheless, he became aware that PL-480 aid was not to be had for the asking. [REDACTED]

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III. THE GENERAL OUTLOOK

17. US-UAR relations have fluctuated considerably over the years, and present indications are for a downward turn. Nasser suspects that the US is conspiring with his adversaries in the area and in Europe to weaken and isolate him. His frustrations vis-a-vis Washington are fed by his resentment at important US sales of arms to his rivals—Jordan, Saudi Arabia, and Israel—while PL-480 aid to the UAR is now extended in reduced amounts and for shorter periods. Nasser is making countermoves by stepping up political and propaganda attacks against Faisal and other conservative and moderate Arab leaders, and by cultivating closer relations with the USSR—notably through the Kosygin visit. He has also stepped up public criticism of the US.

Economic Prospects

18. On 1 May 1966, Nasser announced that the period of the UAR's Second Five-Year Plan would be extended to seven years. Although revised objectives have not been announced, apparently the national income goals previously set for 1970 have been postponed until 1972. This would imply an average annual growth rate of about six percent over a seven year period, rather than an average 8.5 percent growth rate for five years. The investment target has been increased from about \$5 billion over five years to \$7 billion over seven years. Because of increased opportunities for domestic savings, however, total foreign borrowing requirements are only slightly higher, and it appears that the annual foreign borrowing requirement has been scaled down from about \$600 million to about \$500 million.

19. The stretched-out plan appears more compatible with the UAR's capabilities. Nonetheless, the UAR will have to achieve several simultaneous improvements in economic performance if it is to maintain its recent rate of economic growth, and reduce drawings on external resources somewhat below the unusually high level of the First Plan, as well as meeting its debt service obligations. By 1972, debt service payments will rise from their present level of about \$250 million annually to at least \$300 million. Earnings from exports, the Suez Canal, and tourism will have to grow rapidly enough to cover these increased payments. Foreign currency payments for imports and other current expenses will have to be held close to present levels. Finally, domestic savings and the proportion of investment goods produced in the UAR will have to increase rapidly enough to make possible the necessary rise in total investment.

20. If the UAR can obtain the requisite foreign aid it has a good chance of succeeding in these tasks. Success, however, will also require sustained effort to follow through along the more realistic lines recently adopted. While military expenditures are unlikely to decline, civilian consumption has already been considerably curtailed, and the government is unlikely to lift restrictions on con-

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sumption in the near future. The UAR's earnings from its traditional sources of foreign currency earnings—cotton exports, Suez Canal fees, and tourism—probably will continue to grow steadily. Moreover, a sizable oil field has been discovered in the Gulf of Suez. It seems likely that in a few years the UAR will be earning substantial sums from petroleum exports—perhaps \$50-100 million annually by 1970. The sum could be even larger if there are strikes in promising areas in the Western desert. Finally, the benefits from the Aswan Dam will be increasingly felt throughout the economy over the next few years. Nonetheless, the UAR will still need about \$3.5 billion in foreign financing between 1965 and 1972, minus any debt postponements it can arrange, if it is to maintain its five to six percent rate of economic growth.

21. So far the UAR has secured commitments of over \$1.1 billion in aid from Communist countries for the Second Plan period; substantial additional commitments from these sources presently appear unlikely. It has also obtained from a wide variety of non-Communist sources pledges of aid and of investment that total about \$500 million, plus a \$55 million PL-480 agreement with the US that expires in June 1966. Over \$120 million of this sum is from West Germany and probably will be slow to materialize while diplomatic relations remain suspended. The other major Free World commitments are from Kuwait, Japan, France, Spain, and Italy, and from US oil companies and Western banks under private agreements.

22. Thus the UAR has commitments for about \$1.7 of the \$3.5 billion it needs by 1972. Since the amount of aid in the pipeline at any time cannot be reduced below \$200-300 million without hindering growth, the UAR still needs nearly \$2 billion more through 1972, divided about equally between foodstuffs and other types of aid. Its prospects for securing more assistance from Western sources—both public and private—depend heavily on its ability to obtain PL-480. A continuing supply of PL-480 foodstuffs enhances the willingness of European countries and private Western firms to provide financial backing; without PL-480, the UAR has to use foreign exchange for food imports, thus limiting its ability to handle new debt servicing obligations. The UAR's need for PL-480 will continue to be an important but not an overriding consideration in determining Nasser's foreign policy.

Foreign Policy

23. Nasser's dedication to nonalignment will not mean evenhandedness as between the US and the USSR; there are too many areas in which Soviet and UAR interests are more immediately compatible than are the interests of the UAR and the US and other Western powers. This is generally true with respect to remaining Western installations and special political positions in the Middle East and Africa, Western commercial and oil interests, and—to a certain extent—the Israeli question. Moreover, Nasser is aware that his complete dependence on Soviet arms is likely to continue.

24. Nasser's troubles with the West and with his local adversaries have no doubt made him anxious for greater Soviet support. During the Kosygin visit, however, the Soviets apparently showed greater caution about commitments to the UAR than Nasser would have liked, and in any case there remain limits on how far Soviet-UAR cooperation is likely to go. In particular, we still doubt that Nasser would violate his basic principle of opposition to foreign bases by granting military base rights to the USSR.

25. Nasser deplors the Sino-Soviet split and Communist China's quarrel with India, as well as the more general disarray among the nonaligned states. He believes that these developments weaken his struggle against Western "imperialism, exploitation, and racism." He will seek to secure the backing of the Communists and the Afro-Asian states in his controversies with the UK, the US, Israel, and Saudi Arabia.

26. UAR policy toward Western European states will vary. Cairo will welcome improvements in relations with France, hoping to benefit from de Gaulle's differences with the US. However, French-UAR relations are not likely to become very close, in large part because of French ties with Israel. UAR relations with West Germany are unlikely to improve much because of frictions over West German-Israeli ties and UAR-East German relations. Nonetheless, Cairo will seek to maintain such relations with West Germany as will assure continued economic assistance. There is little prospect of improved UAR relations with the UK.

27. *Policy in the Arab World.* Nasser is aware that his position of dominance in the Arab world has eroded.⁵ In an attempt to reestablish his position, he is trying to rally the Arab revolutionaries against his conservative and moderate Arab rivals. He may abandon the cooperative line which he initiated in the Arab Summit conferences, particularly if he thinks that Faisal's campaign to organize a conservative Islamic alignment is succeeding. While Nasser will remain the single most influential Arab leader, he is not likely to regain the paramount influence he had in the late 1950s, when he personified the Arab revolutionary movement. He is no longer the only Arab nationalist leader capable of facing up to the West, of getting aid from the Soviets, and of carrying out major social reforms. The other Arab leaders, once overshadowed by him or on the defensive against his movement, have successfully resisted UAR efforts to run their affairs. Moreover, the Egyptian people appear less interested in Arab or world affairs than they were a decade ago, and political "victories" abroad would not help the regime much at home. Indeed, the major foreign problem, as far as most Egyptians are concerned, is how to end the involvement in Yemen.

28. Nevertheless, Nasser appears unwilling basically to subordinate foreign affairs to domestic considerations. He sees an indissoluble connection between the revolution in the UAR and that in the Arab world at large. He is convinced

⁵ See NIE 36-66, "The Eastern Arab World," dated 17 February 1966, for a general discussion of trends in the Arab world and in Arab-Israeli affairs.

[REDACTED]

that his leadership and approach alone can enable the Arab world to eliminate its legacy of colonialism and backwardness. While he realizes that his opportunities for playing a dominant role are presently less than they were a few years ago, he probably believes that, in time, upheavals will occur in such places as Libya and Saudi Arabia which he can exploit.

29. For some time to come, Nasser's policies in the Arab world will be strongly influenced by the trend of events in Yemen and in the Arabian Peninsula generally. Essentially, Nasser has three broad choices open to him. On the one hand, he can try again for a settlement with Faisal on Yemen. Such a basic policy shift would require more concessions to Faisal than we believe he is likely to make. At the other extreme, Nasser could try for "victory" in Yemen by renewing a military offensive there, and perhaps attacking Saudi border towns. We are doubtful Nasser will follow this line; he probably thinks that it would not fundamentally improve his military position in Yemen, would cost him Arab sympathy and badly needed Western aid, and would even risk military clashes with Western forces.

30. We think that Nasser's most likely course is to retrench militarily in Yemen, holding the more easily defensible areas, and probably withdrawing some troops from the country. This would have the virtue of reducing the burden on the UAR while preventing a UAR defeat. Some fighting between UAR and royalist forces may occur, and perhaps even between UAR and Saudi forces as well. Such clashes are likely to be limited, but will carry some danger of drawing both sides in deeper. Nasser may make new attempts to reach a settlement with Faisal, though the longer he delays the harder it will be to reach a settlement satisfactory to him in the face of growing Yemeni antagonism. However, the chances of a settlement do not depend entirely on Nasser; the degree of flexibility shown by Faisal will be important, as will the attitudes and policies of the major powers. All things considered, we see no better than an even chance of a settlement in the Yemen in the next two years or so. In the meantime, Nasser will make recurrent political and propaganda attacks upon Faisal and other Arab conservatives. He will also continue his attempts to undermine the British and Saudi positions in the Arabian Peninsula.

31. *Israel.* We foresee virtually no chance of the UAR moving toward any settlement with Israel, though Nasser will continue to avoid actions which risk hostilities with the Israelis. He is aware that they are able to defeat his forces, and that both the US and the USSR are opposed to Arab-Israeli hostilities.

Domestic Implications of the UAR's Foreign Relations

32. Under the most favorable conditions, the UAR is not likely to achieve, in the next two years or so, the kind of widely-felt economic progress that would substantially enhance the regime's domestic political appeal. Even with the benefits from the Aswan High Dam and with substantial amounts of foreign aid—say \$250 million a year from the West plus the pledged contributions from the Communist countries—economic expansion is bound to be slow in

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the next year or two, becoming more rapid only toward the late 1960s. At best, therefore, the kind of domestic discontent which arises from economic grievances will persist. We doubt, however, that grievances of this kind will endanger the regime's control of the country.

33. If, on the other hand, there is a near cessation of Western aid—including PL-480—the UAR will face major economic dislocations and hardships. While the UAR could reduce its need for imported foodstuffs somewhat by curtailing consumption, it probably would have to make up part of any major curtailment by imports from other sources, probably costing some \$60-70 million annually in hard currency. Such outlays, in conjunction with the reduction of other Western aid, would probably lead to a sharp decline in industrial production, since UAR industry is heavily dependent on imported raw materials and semi-manufactured goods. The rate of economic growth would decline substantially.

34. Drastic cutbacks in Western aid would be regarded by Nasser as politically motivated and would almost certainly lead him to strike back at the West throughout the Middle East, though not to the extent of risking military clashes with Western—or Israeli—forces. Nasser apparently is already growing increasingly restive over what he considers a US policy of making aid conditional on his good behavior. It is likely that this feeling will strengthen the UAR's tendency to adopt attitudes and undertake activities unfavorable to the US. However, we believe that the UAR's leaders, while prepared to accept the support of Arab Communists and exploit the East-West contest to their own political advantage, will remain ready and able to repress local Communists if the latter seem to threaten the regime's interests.

35. There remains the question of how such severe economic difficulties and foreign controversies would affect Nasser's hold on the country. In these circumstances, Nasser would probably have some initial success in rallying domestic support by blaming the UAR's troubles on the West. However, the level of discontent would soon rise, particularly if Nasser had been unable to extricate the UAR from the Yemen. In addition, too close an identification with the Communist world and too great alienation from the US probably would intensify this process. Strains within the leadership would also increase. We cannot judge with confidence how secure Nasser's position would be under such stress, chiefly because we know very little about the political attitudes of the military officer corps. We assume that Nasser, a practiced conspirator himself, will continue to keep close watch over the loyalties of his officers. The chances seem to be against Nasser's overthrow in the near future; he has done too much for too many people in Egypt, and he probably still retains too tight a grip on the ultimate source of power—the armed forces. However, several more years without at least occasional successes either at home or abroad could cause dissatisfaction to grow to serious proportions, even to the extent of sparking serious moves against him. Any such moves, to be successful, would almost certainly require backing by military elements.

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