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IA. Facts and Soviet Economic Aid to Egypt

The USSR has extended \$1.2 billion of economic aid to Egypt since 1956, of which some \$500 million remains to be used (Table 1). All Soviet aid has been allocated to public sector projects, mostly for power production, irrigation, and land reclamation, and heavy industry. Soviet aid is provided under credits, 85% of which require repayment over 12 years following the completion of projects at 2.5% interest; the remainder allows 5-8 years at somewhat higher interest rates.

With the Aswan Dam completed, the largest ongoing Soviet project is the Helwan Steel Mill being built under a \$160 million credit extended in 1964. The first stage, (annual ingot capacity of 900,000 tons) is scheduled for completion early in 1973. No other major Soviet aid project is underway in Egypt. Only minor amounts of aid are being provided for land reclamation, a rural electrification program, oil exploration, and fisheries development. Scheduled for implementation during the current five year plan are: an aluminum plant, a phosphorous complex, and a ferrosilicon plant, which together will consume some \$110 million of a 1964 Soviet

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credit. Equipment deliveries for the aluminum plant were initiated late in 1971.

Approximately 550 Soviet economic technicians are present in Egypt (Table 2). The annual cost of their services is estimated at about \$5 million annually, most of which is covered under long-term credits.

Egypt's outstanding debt for both military and economic aid at the end of 1971 stood at almost \$1.5 billion, Egypt is meeting annual payments of about \$65 million a year on its economic debt.

Egypt

has made payments for Soviet assistance with goods, including low quality manufactured products, not readily saleable elsewhere. The USSR also has been used as a dumping ground for cotton, mostly of lower grades, which if sold in Western Europe would have disrupted seriously the already weak market for natural fibres. Conversely, the Egyptians have depended on the USSR for a regular supply of essential goods, notably jet fuel for the

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airforce, which are not available in Egypt. In this case, payment has consisted of crude oil from the El Morgan field which was cut off from European markets by the Suez Canal closure.

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IV. Impact-Economic

Withdrawal of Soviet economic aid to Egypt would not seriously affect the Egyptian economy. Although Moscow's economic assistance has emphasized highly visible projects whose impact often has been out of proportion to the amount of aid actually provided or its ultimate economic benefit, this aid has not contributed significantly to Egypt's economic growth. Its most important contribution has been for refineries and electric power expansion. These Soviet-aided plants account for 35% and 55%, respectively, of total Egyptian output of petroleum products and electric power.

Before 1967, the USSR accounted for about one-fourth of Egypt's total receipts of external development capital from official bilateral sources; Western nations provided about 70%. Since then, three Arab countries have taken over as the major donors, and Egypt has received an average of only about \$60 million of development aid annually from the USSR. This accounts for less than 10% of Egypt's total annual investment in state sector enterprises. In terms of resource availability, however, during 1970-71 there was an

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annual net outflow of capital to the USSR, totalling some \$20 million (Table 3). The reverse flow reflects the excess over economic aid receipts of principal and interest payments on Egypt's long term debt. In 1972 and thereafter, the imbalance between capital inflow and debt servicing will be accentuated especially if scheduled payments on the military debt are resumed.

While any denial of development assistance to a less developed country reduces its employment and growth potential, no prolonged or deeply adverse economic consequences would ensue from an immediate and total withdrawal of the 550 Soviet economic technicians or from the termination of further equipment deliveries for Soviet-aided projects. The only important constraint on Egypt's development probably would be the withdrawal of assistance for the three industrial plants just getting under way. These would require alternative sources of capital amounting to \$110 million that would be spread over 3-5 years. Other projects such as the Helwan steel expansion would require some additional assistance. Soviet withdrawal would delay the completion of stage I of Helwan beyond the scheduled first quarter of 1973, but since 90% of the equipment has been received,

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a foreign exchange outlay of about \$20-\$25 million for the technical services and equipment would probably enable its completion. The 45 Soviet technicians still at Aswan were to have remained through the warranty period at the end of 1975, but the Egyptians probably could continue operations without them. Implementation of other projects, such as oil exploration and land reclamation, undoubtedly would proceed even though the pace might be somewhat slower.

In addition to some \$45 million of foreign exchange that would be required annually to maintain current Soviet economic aid programs in Egypt, the foreign exchange outlay to maintain Egypt's military capability could be over \$100 million annually. And renewed warfare of any kind with Israel would increase greatly the cost of "maintaining" Egypt. It would be in the face of declining Egyptian economic prospects, including the loss of income from tourism and foreign investment. But Arab nations, especially Libya, presumably would be able and willing to take on the added costs.

Accumulated reserves of the three countries now subsidizing Egypt (Kuwait, Saudi Arabia, and Libya) total at least \$6 billion and surplus assets are expected to accumulate by at least \$3-\$4 billion annually for the

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next several years. The intentions of Saudi Arabia and Kuwait are not known, but Qadhaafi of Libya reportedly has offered Egypt \$600-\$700 million -- a sum that could sustain Egypt under almost any conceivable set of circumstances for at least two years. With reserves of \$3 billion and an anticipated annual income of more than \$1 billion from oil, Libya could continue to support both countries if its internal political situation permits.

If there were an abrupt change in Soviet-Egyptian economic relations, Egypt's economy would be most sharply affected in the trade sphere. This trade rose from \$26 million in 1955 to \$715 million in 1971. The USSR, which is Egypt's major trading partner, takes almost 40% of Egypt's cotton crop as well as cheap manufactures which Egypt would have difficulty disposing of in the world market. Reduced trade with the USSR, especially as a market for its goods, would create critical problems for the Egyptian economy that might take some years for readjustment.

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Table 1

Soviet Economic Aid to Egypt:
Extended and Drawn

Million US \$

	<u>Date Extended</u>	<u>Amount Extended</u>	<u>Amount Drawn (as of 31 December 1971)</u>
TOTAL		<u>1,196.6</u>	<u>729.3</u>
Oil drilling equipment	1957	<u>8.6</u>	<u>8.6</u>
Industrial development credit	1958	<u>175.0</u>	<u>175.0</u>
Aswan Dam, 1st stage	1958	<u>100.0</u>	<u>100.0</u>
Aswan Dam, 2nd stage	1960	<u>216.0</u>	<u>216.0</u>
Grant -- experimental farm	1964	<u>0.3</u>	<u>0.3</u>
Industrial development credit, of which:	1964	<u>324.4</u>	<u>144.8</u>
Expansion of Helwan Steel Complex		161.1	
Aluminum plant, Naja Hamadi		52.7	
Phosphorous complex, Naja Hamadi		55.3	
Ferrosilicon plant, Idfu		2.0	
Fishing industry		7.0	
Oil exploration		N.A.	
Equipment credit	1964	<u>110.0</u>	<u>31.0</u>
Land reclamation	1964	<u>66.7</u>	<u>52.0</u>
Credit, of which:	1971	<u>100.0</u>	<u>1.0</u>
Rural electrification		66.7	
Cement plant, fire- brick plant and expansion of cement plant		33.3	

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Table 1

Soviet Economic Aid to Egypt:
Extended and Drawn
(Continued)

Million US \$

	<u>Date</u> <u>Extended</u>	<u>Amount</u> <u>Extended</u>	<u>Amount Drawn</u> <u>(as of 31 December 1971)</u>
Land reclamation -- added to 1964 credit	1971	<u>40.0</u>	<u>0</u>
Credit for water resource development in Lake Nasis, silos, flour depots and cotton gins	1971	<u>55.6</u>	<u>0.6</u>

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Table 2

Soviet Economic Technicians in Egypt
1961-July 1972

	(persons)
1961	600
1962	1,155
1963	2,115
1964	2,100
1965	2,475
1966	2,030
1967	1,600
1968	1,350
1969	800
1970	600
1971	600
July 1972	550

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Table 3
Net Flow of Soviet Economic Aid to Egypt
1967-1972

Million US \$

	<u>Net Flow to Egypt</u>	<u>Egyptian Drawing on Soviet Economic Aid</u>	<u>Egypt's Repayments (Principal and Interest)</u>		
			<u>Total</u>	<u>Economic</u>	<u>Military</u>
1967	+67	88	21	21	--
1968	+51	82	31	31	--
1969	+ 4	46	42	42	--
1970	-20	45	65	65	--
1971	-21	69	90	65	25
1972 (Est.)	-40	50	90	65	25

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