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Economic Intelligence

An adequate assessment of the complex and closely-interrelated problems of the economies of the Sino-Soviet Bloc requires an integrated approach to the research effort. Other components of the intelligence community are not equipped to conduct Sov-Bloc economic research on an over-all basis, nor are they charged with this responsibility; their economic research efforts are oriented toward their individual departmental interests. By inter-agency agreement and DCI directive the primary responsibility for economic research on the Sino-Soviet Bloc now rests squarely in the Office of Research and <sup>R</sup> reports.

To carry out this responsibility, ORR must direct its intelligence effort at all levels of the economy and in varying degrees of intensity. The aftermaths of the economic and political disruptions in Eastern Europe in late 1956 clearly supported the continued focus of attention by the Office in 1957 on the stability and cohesion of the Soviet and Satellite economies. Our analyses have emphasized exploration of the economic factors which could lead to increased disturbances in the European Satellites in the coming years. Considerable attention was also given to the substantial re-orientation of international trade among Bloc members and between them and Free World countries. To provide current appraisals of the continuing unstable situation in this area, our research effort on Eastern Europe, which had been augmented on a priority basis in 1956, was

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maintained at a high level in 1957.

The Office has continued to intensify its economic research on Communist China. We are engaged in a program of complementary and interlocking research projects dealing with the Chinese economy. This program includes the study and evaluation of the Chinese potential for industrial growth, and an evaluation of all available information on the continued dependence of the Chinese Communists on the technical assistance, plant equipment, and other capital goods being furnished by the Soviet Union and the European Satellites. The feasibility of new and ambitious Chinese Communist plan goals is also under rigorous scrutiny.

In 1957 this Office devoted an important part of its research effort to analysis of the implications of an increasing body of evidence indicating a slowing down of the rate of economic growth in the USSR. Even before the Soviet announcements of the substitution of a new 7-year plan to replace the Sixth Five Year Plan and of the modest long-range economic goals for 1972, ORR had provided policy-makers with evidence of a slowing down in industrial growth. Likewise, our analyses of economic administration in the USSR had revealed the existence of serious difficulties - difficulties made manifest by the sweeping industrial reorganization that took place in July.

In response to, and, indeed, in anticipation of, the dramatic

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evidence of Soviet capabilities in the guided missile field, ORR regrouped its resources to provide for an intensive research program on the economic aspects of Soviet missile programs. Similarly, the research effort on Sov-Bloc atomic energy activities substantially increased. The stepped-up economic research program on missiles and nuclear energy has already resulted in important contributions to intelligence on these fields.

During the year Sino-Soviet Bloc countries intensified their efforts to penetrate Free World underdeveloped countries through large-scale trade and economic aid programs. ORR continues to monitor developments in this field, and as a result has come to be relied on by policy-making groups, such as the Committee for Foreign Economic Policy, to provide, in cooperation with the Department of State, most of the intelligence on the Sov-Bloc economic offensive.

How are the problems of the Soviet Bloc economies analyzed, and how are the answers obtained by an integrated and coordinated approach? While Soviet announcements and recent statistical publications in certain non-strategic fields have been of some help, the Office must continue its intensive analysis of fragmentary and conflicting data obtained overtly and covertly from innumerable sources in order to develop the economic intelligence on the Sino-Soviet Bloc that is of national security importance and is required both in production of National Intelligence Estimates and in a

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variety of special studies in response to other high priority requests. Further, it provides guidance to the collection activities of CIA and other agencies. The complexity of the job demands the welding together of all the various skills brought into the organization. The economist, the technical expert, the country and language specialist, all are vital parts of the research team. All need special additional training, which is expensive and time consuming, but absolutely necessary.

Attention is being given to the development of new techniques of analysis in order to make maximum use of the factual information which is constantly flowing into the Office. Pursuing the successful analytical approach developed in the past two years for making cost estimates of Soviet military programs, an effort is now being made to extend this price and cost analysis to our estimates of present and future Soviet atomic energy developments. These costs will be checked against the capability of the Soviet economy to provide for the facilities and new investments indicated. These analyses take the form of rigorous inspection of Soviet cost and price relationships as an important step toward the determination of the principal areas of Soviet industrial strength and weakness. It is anticipated that the results of these studies may make it possible for us to forecast production trends in the Soviet domestic economy and, equally important, to forecast the composition and direction of

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Soviet goods which may move into world trade in competition with US and other Western production in Free World countries.

Concurrently with its comprehensive economic research, the Office of Research and Reports <sup>CRA</sup> evaluates and interprets current economic developments within the Bloc countries viewed in their relation to the Free World. A special staff, working in close cooperation with the Office of Current Intelligence and supported by appropriate research components, prepares timely reports of these developments for inclusion in the Agency's and intelligence community's output of current intelligence. The same mechanism is used in marshalling the full support of this Office <sup>CIA</sup> behind the National Indications Center and the IAC Watch Committee.

Other studies yielding highly factual information of broad interest to the community are based on the

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Soviet BISON aircraft (four-engine jet bombers)

production of these aircraft in 1955, 1956, and 1957 to

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be lower than previous estimates held valid in the intelligence community. This conclusion [REDACTED] 25X1B4d was an important factor in a downward revision of the US estimate of Soviet air strength.

Each of our economic research components periodically calls upon a small panel of cleared consultants drawn from among top executives in American industry. Through these panels, we obtain an excellent independent check on the soundness of our estimates and advice on ways to simplify or economize in our research procedures.

The annual economic research program of the Office, aimed as it is at serving many different interests and purposes, is necessarily complex. Past experience, now analyzed quantitatively through the use of IBM methods, is depended on heavily in the quarterly program reviews and in the development of new programs. Particular attention is given to the Priority National Intelligence Objectives and to such advice as our principal consumers are able to provide concerning their requirements in the months to come. Formulation of the program begins with full provision for support to the production of scheduled and anticipated National Intelligence Estimates. Provision must also be made for scheduled contributions to the National Intelligence Surveys, where this Office has the responsibility for economic sections dealing with the Sino-Soviet Bloc. Similarly, certain aspects of our work in support of other agencies are scheduled in response to

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country-wide deficiencies in economic intelligence as identified by the Economic Intelligence Committee. In addition, we are aware from experience that a substantial portion of our research time must have to be spent in meeting "crash" or emergency requests from various high-level consumers.

It is in this manner that the Office of Research and Reports provides the necessary intelligence on economic activities and trends of the countries within the Sino-Soviet Bloc.

The CIA also produces and coordinates intelligence in support of the US economic defense program. ORR represents CIA on the Economic Defense Advisory Committee (EDAC) and chairs the interagency Economic Defense Intelligence Committee (EDIC) established under it. In this way, not only the knowledge of ORR and the rest of CIA but also that of other intelligence agencies contribute to the intelligence of economic defense activities.

Under the NSC directive on economic defense which emphasized enforcement of controls, CIA, through ORR, has responsibility for providing action agencies with intelligence on illegal transactions and other efforts to circumvent controls. The staff coordinating and otherwise providing this intelligence support by CIA in the field of economic defense has been reduced to a minimum level adequate to handle the changing priority demands of the program.

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