

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

20 August 1959

Western governmental authorities, who must consider the economic merits and consequences of development plans and their prospects for success--leave to the recipient governments the problem of meeting the domestic financial drains occasioned by rapid economic growth. Burma and Afghanistan have found that the debt burden and inflationary effects of Soviet foreign aid limit the use of loans. Burma has canceled some Soviet aid. Afghanistan was able to convince the USSR to supply consumer goods, which could be sold to earn local funds for domestic costs of projects and absorb some currency, the circulation of which was increased by stepped-up construction under foreign aid.

The bloc's own economic capabilities impose no serious limitation on its ability to continue and expand its aid program, particularly if it continues to concentrate on projects for which it has extensive productive and technical facilities. The apportionment among the satellites and the USSR of contracts for actual construction or delivery of equipment tends to minimize the demand on any particular bloc economy. The immediate demand on bloc economies is also lessened by problems of economic planning and local finance in the underdeveloped countries themselves. Before drawing on a bloc line of credit, the recipient country must raise funds to meet the local costs of starting a project. In several countries, internal political and economic difficulties have limited the amount of local funds which could be supplied to development projects, restricting full use of bloc credits.

For most underdeveloped countries, the capital surplus available for investment is usually so small that any serious political or economic disturbance may require revision of original

economic development plans. The bloc, therefore, can make generous offers of aid, aware that it may not be used rapidly or that domestic political considerations make acceptance unlikely.

Industrial Countries

Industrialized countries continue to be the major markets for Soviet bloc exports to the free world and a chief source of imports. Through extensive propaganda and some new purchasing activity, the bloc has encouraged the development of a trade drive in these countries for increased exchanges with the bloc. The bloc has recently stepped up purchases of technologically advanced equipment--principally for the plastics, synthetics, and petrochemical industries--and is securing credits for new purchases.

Under recent trade agreements the USSR has specified it will place additional "substantial" orders for chemical equipment. During negotiations in May for a trade pact with Britain, the USSR provided a list of desired imports during the next five years--factories and equipment worth more than \$1 billion. Moscow has publicized its potential purchases to foster competition among Western European countries, both in price and in offers of credits.

The satellites also are increasing their purchases of Western equipment. In negotiations for American aid, Poland has indicated a large demand for free-world mining equipment and other machinery. Rumania has purchased--largely on credit--Western tire plants, refinery equipment, and textile and paper mills. To expand such purchases despite limited foreign exchange resources, the satellites are pressing Western suppliers to barter additional industrial equipment for bloc raw materials and agricultural products. Both Poland

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

20 August 1959

and Czechoslovakia, as well as the USSR, are stepping up sales of industrial goods to the West. Poland reports that, during the first half of 1959, exports of machinery rose by more than 20 percent; sales to the free world were a significant feature of this increase.

During 1958 the Chinese Communists also stepped up purchases of Western goods, largely semifinished industrial products. Such purchases, supporting their "leap forward" program, have fallen off from the level of last year but are expected to remain an important part of China's imports. Peiping continually strives to increase its exports to nonbloc Asian markets in order to earn foreign exchange for expanding its purchases in Western Europe.

Soviet sales activities in commodity markets--tin, aluminum, oil, and wheat, for example--are primarily designed to earn foreign exchange. Soviet prices occasionally are below others prevailing in the market, chiefly in order to overcome a general reluctance to buy Soviet goods. The USSR's restraint in gold sales probably is explained by its preference for an expansion of economic relations and for barter trade. The Soviet Union drives hard bargains in its trade-pact negotiations and is almost always insistent on balanced trade in an effort to promote its exports, but at a higher level than in preceding agreements.

By offering a wider range of exports and expressing an almost limitless desire for the free world's heavy manufactured goods, the USSR is creating an atmosphere for a significant growth in its trade with industrial countries. Moscow, for instance, is making increased purchases from Japan for the economic development of the Soviet Far East, and British, French, West German, and Italian firms in the past year have secured orders for major industrial installations.

Economic considerations play the chief role in Sino-Soviet bloc trade with free-world industrial countries, as contrasted with the large measure of political motivation in its trade with underdeveloped areas. However, the bloc--primarily the USSR--has occasionally employed economic pressure to further its political objectives toward weaker states. An excellent example is Moscow's dealings with Finland, including postponement last fall of negotiations for a new trade agreement and a cessation of Soviet purchases in order to topple Helsinki's coalition government. The USSR presumably can be expected to use such tactics as long as they have no measurable adverse impact on its world economic relations. (Prepared by ORR)

25X1

* * *

SECRET

Page Denied

SECRET

SECRET