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QUARTERLY REPORT  
to the  
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO - SOVIET BLOC  
ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

1 July 1957 - 30 September 1957

NUMBER 2

PREPARED JOINTLY BY  
THE CENTRAL INTELLIGENCE AGENCY  
AND  
THE DEPARTMENT OF STATE

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY - 30 SEPTEMBER 1957

1. Principal Developments.

An aid agreement signed by Syria and the Soviet Union and a Soviet decision to set forward construction dates for projects in Yugoslavia were the leading events in the Bloc economic offensive during the period 1 July - 30 September 1957. The credit to be extended to Syria was the first provided by the Soviet Union to any non-Bloc nation since November 1956 and was the fruition of an opportunity that the Soviet Union had been nurturing for some time. Rescheduling of Soviet projects in Yugoslavia, on the other hand, was probably a direct outcome of the June shakeup in the Soviet Communist Party Presidium. In addition to these developments, the Bloc was active in other countries, including Western Pact countries -- notably Turkey, Iran, and Iceland -- and there was continued activity in the implementation of earlier trade and credit agreements. There was further evidence during the quarter of the importance attached by the Soviet Bloc to expansion of its civil air activities in the Free World.

2. Syria.

In August, following discussions in Moscow, the Soviet Union agreed to provide extensive economic assistance to Syria and stated its willingness to collaborate with Syria in railway and road construction, irrigation projects, and construction of hydroelectric power stations, as well as in a number of industrial projects. Long-term credits will probably total \$100 million to \$150 million, and negotiations are currently under way in Damascus on the specific projects to be undertaken. The interest rate will be 2-1/2 percent, with repayment at least partially in Syrian exports over a period of 10 years or more. In addition to this economic aid, there have been reports that Syria will receive further military assistance from the Bloc.

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The promise of Soviet economic assistance has greatly strengthened the pro-Soviet Syrian government, improving markedly its chances of survival. For this reason, the present government is politically indebted to the Soviet Union. Many of the projects envisaged under the Syrian government's \$180 million 6-year development plan are expected to be included in the Soviet aid program. Repayment of the Bloc credits will tie up an important portion of Syrian exports for some years to come. Furthermore, in view of the large military burden and certain weaknesses of the domestic economy, Syria may well seek still further economic aid from the Bloc. Thus the political and economic support given by the Soviet Union will undoubtedly result in greater Soviet influence over future Syrian policies.

3. Yugoslavia.

Following the June shakeup in the Presidium of the Soviet Communist Party, which eliminated the leading anti-Tito elements, discussions held in July between high Soviet and Yugoslav officials resulted in the reestablishment of construction dates for previously postponed development projects in Yugoslavia. The cost of these projects is estimated to be about \$245 million. Although the agreement is probably in the nature of a compromise, and the starting dates for the projects are later than originally planned, Soviet-Yugoslav relations are now clearly more cordial than earlier in the year.

4. Western Pact Countries.

The Soviet Union continued its policy of cultivating and expanding economic ties with Free World countries which are members of Western pacts. The Soviet Union and a Turkish private bank, in which the Turkish government has a one-third share, have recently signed a contract for the construction of a glass factory under a Soviet credit of \$10 million to \$14 million. Subsequently the Turkish government also agreed in principle on Soviet assistance for building a caustic soda and calcium plant. In Iran, Soviet engineers discussed improvements of Iranian ports on the Caspian Sea, and a joint Soviet-Iranian commission was established to draw up plans for developing hydroelectric and irrigation projects on border rivers. A Soviet offer to Iceland of up to \$24.5 million

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in financial assistance, in part to refinance a previous Icelandic purchase of East German fishing vessels, was under consideration. Other NATO countries, however, were exploring ways to alleviate Iceland's economic difficulties and thus forestall acceptance of any part of the Soviet offer.

5. Other Countries.

Other countries were also involved in important economic transactions or negotiations with Bloc countries during the past quarter. In Sudan, cotton marketing difficulties and the prospect of large carryover stocks provided an occasion for a Soviet offer to purchase additional cotton. At the same time, the Soviet Union made a general offer of developmental assistance. The Tunisian government in September stated its willingness to accept Bloc arms if arms could not be obtained from Western countries, although there was no evidence that Tunisia had received such an offer from the Bloc. Ceylon renewed for 5 years its rice-rubber agreement with Communist China without receiving the premium rubber payments which it obtained in the past. Under this agreement the quantity of rubber was reduced, possibly to enable Communist China to increase purchases from Malaya. At the same time, Communist China awarded Ceylon a grant of \$15.6 million. /?

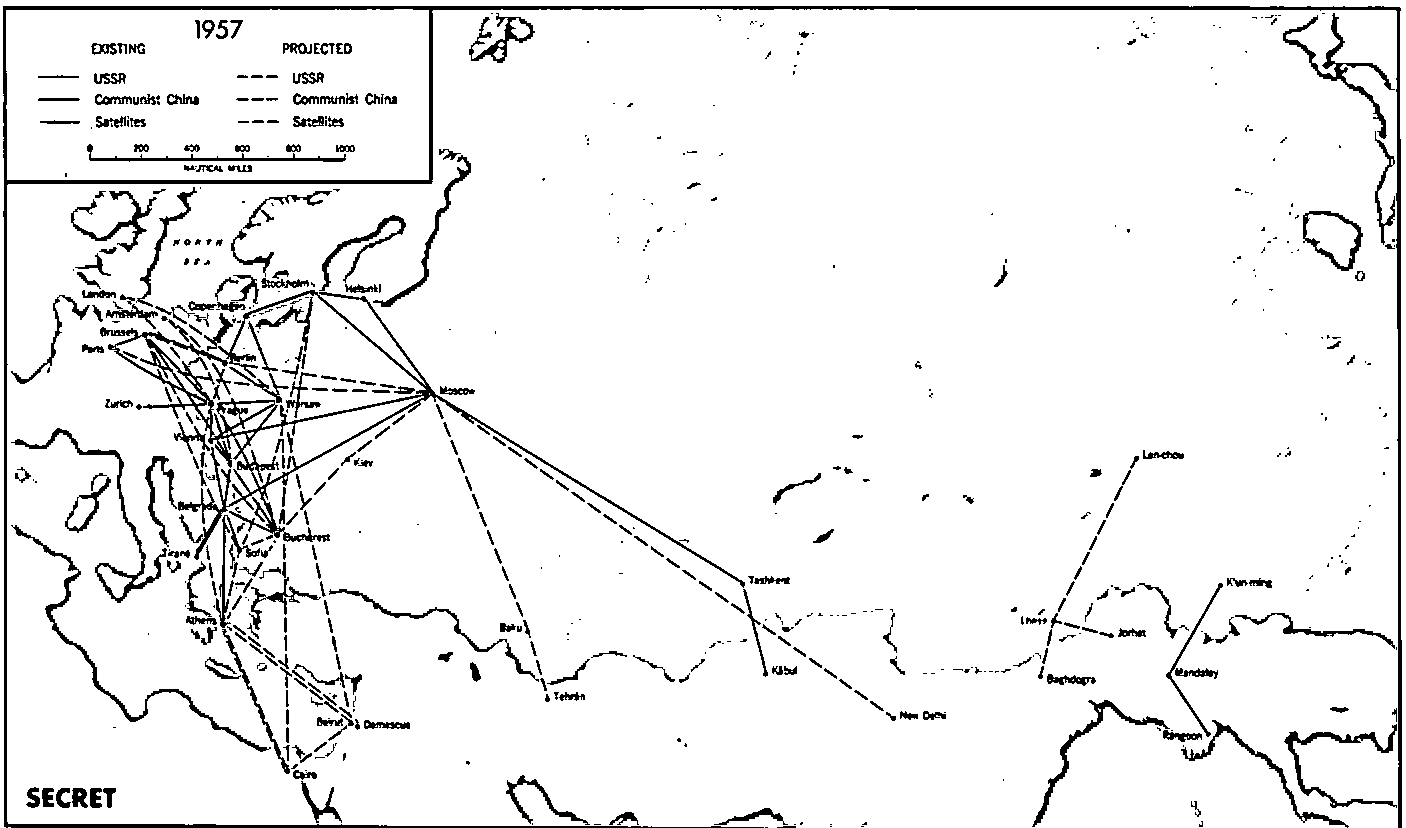
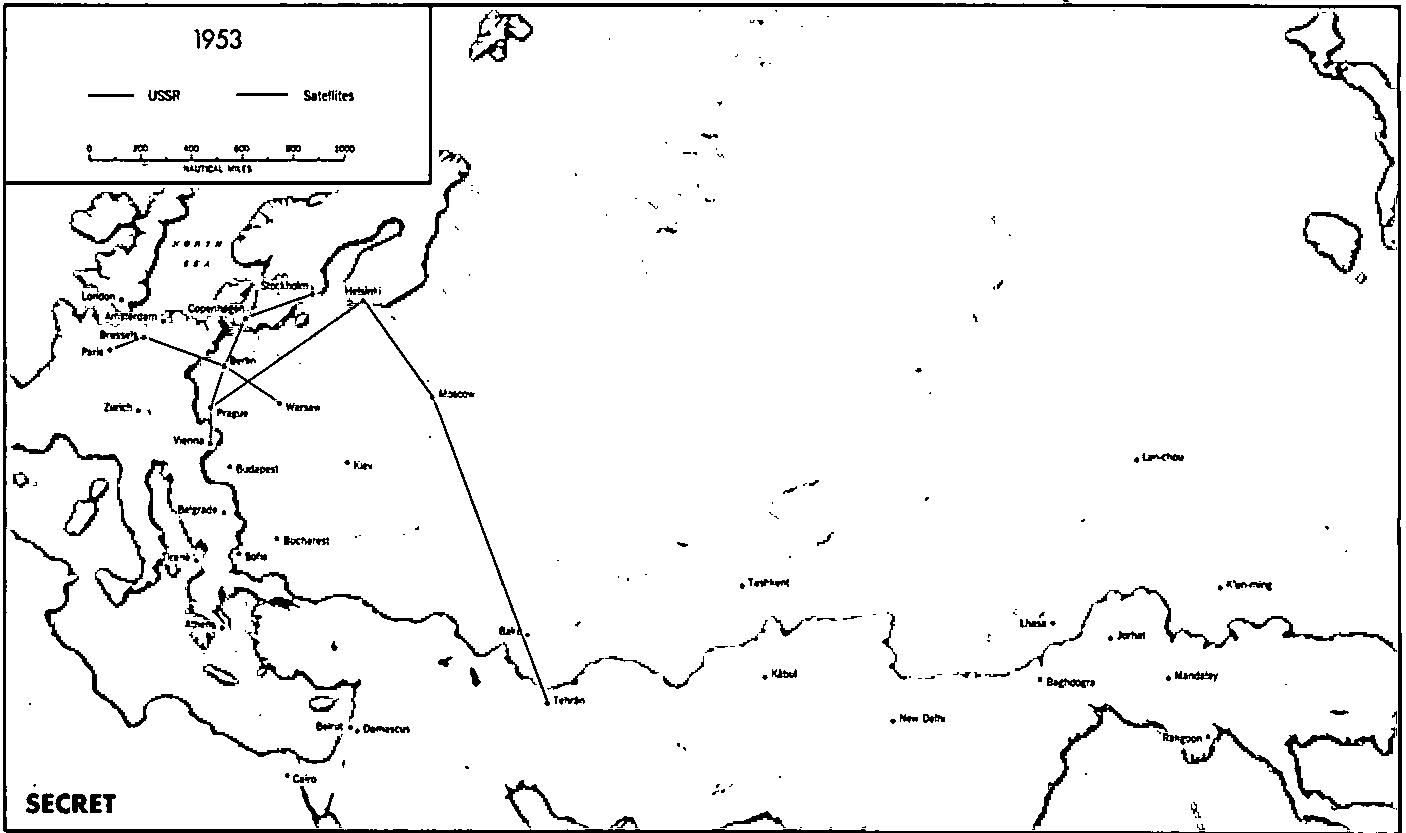
6. Air Agreements.

Over the last few years, there has been an impressive increase in Bloc civil aviation activity in the Free World. A reversal of the policy, which until 1954 had excluded from Soviet airspace all foreign airlines, permitted negotiation of agreements for extension of Bloc air routes into the Free World. The increased prestige accruing to the Bloc from the recent development of modern jet airliners is also spurring the Bloc to seek new routes. Poland and Czechoslovakia as members of the International Civil Aviation Organization (ICAO) should have somewhat less difficulty in reaching agreement with Free World ICAO members than the Soviet Union and other non-member Bloc countries. The contrast between these activities in 1953 and 1957 is shown on the attached chart.

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### SINO-SOVIET BLOC AIR ROUTES TO THE FREE WORLD



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