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QUARTERLY REPORT
to the
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

30 JUNE 1957

NUMBER 1

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

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
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A. Summary of Bloc Economic Activities.

1. The Soviet Union, in accordance with its most immediate political objectives in the underdeveloped areas of the Free World, has continued to direct the main thrusts of the Bloc economic offensive toward India, Egypt, Syria, Afghanistan, and Yugoslavia and, to a lesser extent, toward Indonesia, Burma, and Iceland. Although the magnitude of the Bloc program is small in global terms, its impact has been intensified by a concentrated exploitation of specific opportunities in a few selected areas.

2. Neutral countries have generally been the principal targets of Bloc offers, but other countries, including some allied to the West, have also been the object of Communist approaches. For example, the Bloc has become an extremely important trading partner of Iceland. Moreover, Iran, Turkey, and Pakistan have received attractive Soviet credit offers, although as yet few have been accepted.

3. Even though the economic offensive is a relatively recent addition to Soviet foreign policy, Communist nations since 1955 have extended more than \$1.4 billion in credits to the underdeveloped countries. Grant aid has been negligible. Of the credits extended, about \$350 million has been for military purchases, and the remainder -- more than one billion dollars -- has been for economic activity. Definite obligations (including arms contracts) under these lines of credit are more than \$700 million, about \$200 million of which is obligated for 1957. Drawings to date have been about \$400 million. (See attached chart.)

4. With the exception of a small Czechoslovak credit to Syria, the Bloc has extended no new credits since November 1956. Inasmuch as the countries which have been most susceptible to Soviet inducements have already accepted its offers, and many countries allied with the West have been unwilling to take significant Bloc credits, recent probings for new credit outlets by the USSR have found few rewarding opportunities. In view of growing demands within the Soviet and Satellite economies,

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Bloc leaders may be more careful in allocating additional resources for use outside the Bloc; however, the emergence of opportunities to achieve important political benefits in the underdeveloped countries would almost certainly prompt additional credit offers.

5. The Bloc offensive has increased in tempo in other respects during recent months. Specifically, work on Bloc projects under way before November has continued; construction of several additional projects has begun; and surveys for still other new projects have been made. By the end of 1957 the Bloc probably will be active on considerably more projects than at present. The number of Bloc technicians in the underdeveloped countries has also increased as Bloc assistance has been implemented: more than 2,100 have been employed thus far in 1957 compared with 1,400 in 1956. This number is expected to increase as credits are further implemented. Moreover, since 1954, more than 80 new trade agreements between the Bloc and underdeveloped countries have been signed. Trade turnover between the Bloc and underdeveloped countries in 1956 was more than \$1.4 billion, or 60 percent greater than in 1954.

6. There is no doubt that the Bloc, or the USSR alone, can support an offensive of considerably greater potential impact in the underdeveloped countries. The USSR produces annually goods and services in excess of \$150 billion, while the output of the entire Sino-Soviet Bloc is valued at about \$250 billion. Anticipated 1957 deliveries under the existing credit programs will be only a fraction of 1 percent of the Bloc's gross national product. Moreover, the trade aspect of the economic offensive produces substantial economic benefits, particularly for the European Satellites.

B. Significance of Sino-Soviet Bloc Economic Offensive.

1. The Bloc economic offensive is an integral part of post-Stalin strategy generally designed to encourage an atmosphere of detente in which Soviet objectives can be advanced without serious risk of general war. Soviet protestations of common interest in expanding trade and in assisting economic development have done much to dispel the image of Communism as an aggressive force and to gain for the USSR a position of greater respectability. Although brutalities in Hungary have offset some of this gain, Bloc offers of trade and assistance still have great pragmatic appeal to countries hard pressed to achieve more rapid economic growth.

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2. Bloc economic diplomacy has reinforced neutralist positions in the Near East and Asia (India, Indonesia, Burma) as a first step toward gaining greater latitude for Communist diplomacy, propaganda, and infiltration -- all aimed at reducing Western influence and developing opportunities for eventual subversion. Closely allied is the objective of disrupting Western alliances (for example, those with Turkey, Iran, and Iceland). In pursuing this objective, the Bloc has had little real success, although its offers tend to enhance the bargaining power of target countries in negotiations with the US on bases and military assistance.

3. Bloc aid -- particularly for arms -- has also been used to facilitate their fishing in troubled waters where the USSR has seen an opportunity to attain particular foreign policy objectives. Soviet economic, military, and political support for anti-Western elements in the Near East has helped to bring about a critical situation in that region and has provided the USSR with beachheads in a vital area of the world. Economic agreements with Yugoslavia produced some temporary gains for the USSR but were followed in late 1956 by a slowdown of aid implementation when political controversy recurred. Military and economic aid to Afghanistan -- combined with political support in its disputes with Pakistan -- has been an important factor in enhancing the Soviet position. In no country, however, has economic influence been sufficient to permit the Bloc to control or to dominate the policies of these countries.

4. In most countries, Bloc assistance to non-Communist regimes has not notably enhanced the prospects of local Communist parties. Principal exceptions are Syria and Iceland. In at least one instance, India, the economic offensive has created internal difficulties -- probably temporary -- for the local Communist party.

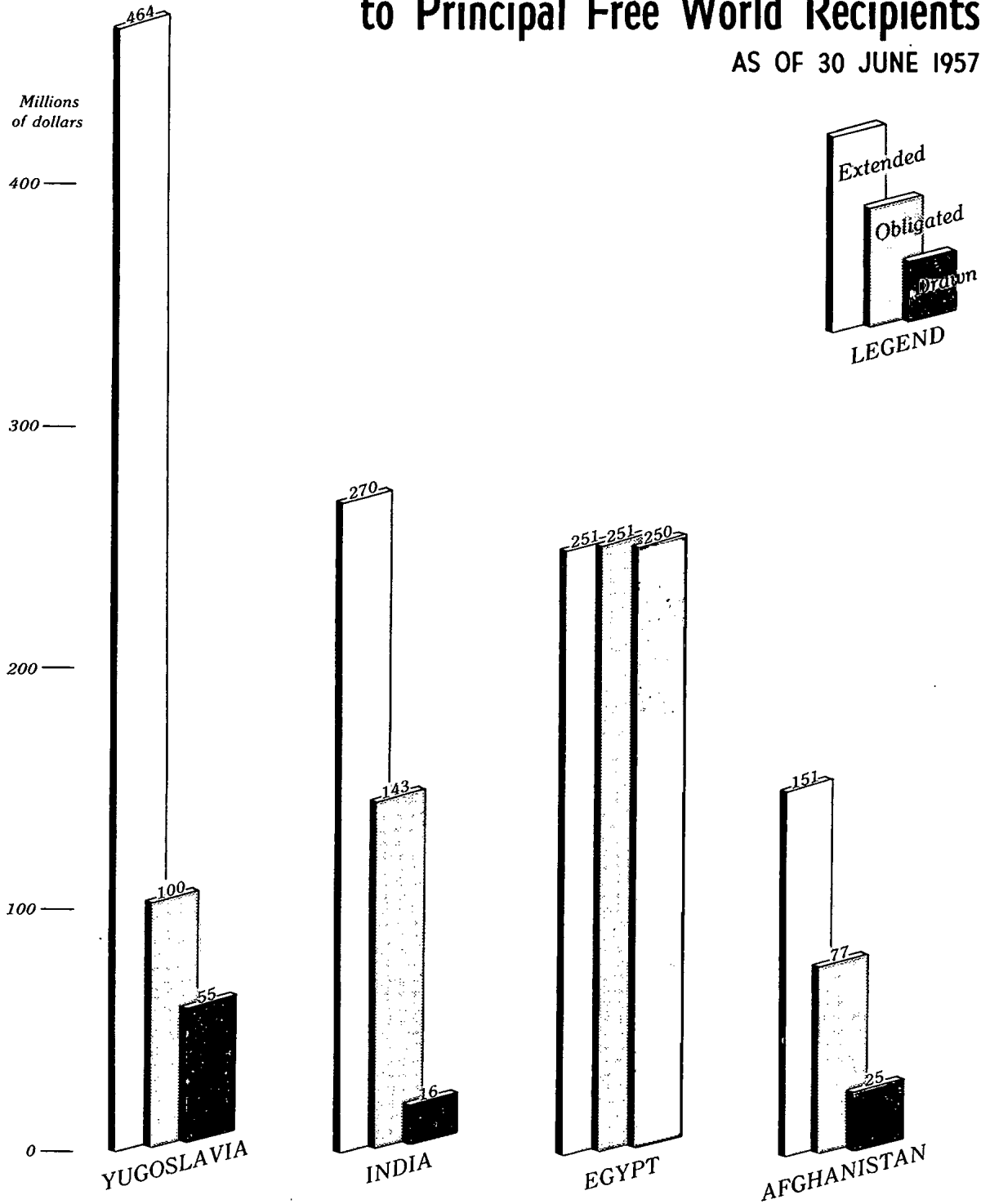
5. In the long run, expanded economic relations, particularly the increase in contacts with Bloc advisers and technicians, provide an opportunity for increasing acceptance of Communist products, economic techniques, and institutions. Despite some complaints about the quality and price of Bloc goods, they seem to be fairly satisfactory to the underdeveloped countries, and Soviet technicians sent abroad have generally been considered competent. Even where Soviet political oppression is recognized, there is often widespread admiration for the Soviet economic model. There is a very real danger that the strains and pressures inherent in the drive for rapid economic progress would provide an increasingly receptive atmosphere for Communist alternatives, particularly if a country already had a few examples of successful Bloc-constructed projects and can obtain essential imports by expanding sales to the Bloc of products which face difficulties in world markets.

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Credits from the Soviet Bloc to Principal Free World Recipients

AS OF 30 JUNE 1957



Millions of dollars

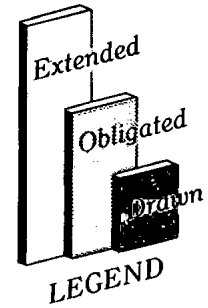
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