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ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 SEPTEMBER - 31 DECEMBER 1956**

EIC-R14-S2

21 February 1957

ECONOMIC INTELLIGENCE COMMITTEE



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FOREWORD

The EIC-R-14 series of reports on "Sino-Soviet Bloc Economic Activities in Underdeveloped Areas" provide periodic summaries and analytical interpretations of significant developments in the economic relations of Sino-Soviet Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 4 months from 1 September through 31 December 1956, constitutes the second periodic supplement to EIC-R-14, the background paper on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. It was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 7 February 1957.

For purposes of this report, the term "underdeveloped areas" includes the following Free World countries: (1) all countries in South and Southeast Asia; (2) all countries in the Middle East, including Egypt, Sudan, Turkey, and Greece; (3) the independent countries of Africa, except the Union of South Africa; (4) in Europe only Yugoslavia, Iceland, Spain, and Portugal; and (5) all independent countries in Latin America.

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1 September - 31 December 1956

Introduction

Developments within the Soviet Bloc from 1 September to 31 December 1956, particularly the upheaval in Poland and the Hungarian uprising and its suppression by the USSR, have had a perceptible, though minor, impact and will undoubtedly have further impact on the Bloc economic offensive in Free World underdeveloped areas. The extent of such impact, however, was not clear at the end of 1956. Actually, it is not to be expected that appreciable effects would be apparent so soon after the economic and political dislocations resulting from these developments.

Events in the Middle East during the period also have been producing repercussions on the economic relations of the Bloc with the underdeveloped countries in this area. Thus far, economic dealings between the Bloc and Israel have been practically eliminated, and economic and military relations between the Bloc and the Arab countries -- particularly Egypt, Yemen, and Syria -- have become significantly closer. In the light of the recent Soviet-Communist Chinese communiqué on the Middle East, continued expansion of Bloc assistance to Middle Eastern countries can be expected.

The implications of the above international developments for Bloc economic activities in other regions are not yet apparent. In any case, the economic capabilities of the USSR are adequate to take up essentially any shortfalls in deliveries on existing Satellite contracts. The total of approximately US \$1.4 billion in Bloc credits extended to underdeveloped countries -- to be utilized over a period of years -- since the beginning of the economic offensive in 1954 amounts to less than 1 percent of the current annual gross national product of the USSR. Thus, within fairly wide limits, the USSR is in a position to fulfill existing Bloc aid commitments or even to expand economic assistance to the underdeveloped areas, should Soviet policymakers consider that such steps are in the national interest of the USSR.

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Summary

Sino-Soviet Bloc Economic Offensive in Underdeveloped Areas.

Credits and Grants Extended.

During the last 4 months of 1956 the Soviet Bloc extended new credits to underdeveloped countries in the Free World amounting to about US \$260 million.* Most of these credits were provided by the USSR. India obtained \$126 million for economic development purposes, and Indonesia \$100 million. Syria and Yemen obtained arms credits totaling about \$35 million.

These new credits raised the total extended by the Soviet Bloc since the beginning of the offensive in 1954 to over \$1.4 billion. About 75 percent of the credits extended so far have been for economic development, with the remainder for arms purchases. The USSR has been the major supplier of credit for economic development, whereas the arms agreements have been negotiated principally with Czechoslovakia. The three principal recipients of Bloc aid -- Yugoslavia, India, and Egypt -- have received a total of more than \$1 billion in credits in the 3-year period ending 31 December 1956. Indonesia, Afghanistan, and Syria also received significant credits from the Bloc. Communist China has made no loans to Free World countries. In June, however, it made a grant of \$22.4 million to Cambodia, and in October it made a further grant of \$12.6 million to Nepal.

Technical Assistance.

In conjunction with Sino-Soviet Bloc assistance programs, at least 1,400** Bloc specialists were in the underdeveloped areas during 1956. Of these, over 1,100 were industrial or agricultural technicians who assisted in economic planning, worked on project construction, aided in the operation of plants, or provided technical

* All value figures in this report are given in US dollar equivalents.
** In this report the numbers given for Bloc specialists in underdeveloped areas and for trainees from underdeveloped areas who have gone to the Bloc have been computed in terms of individuals involved for at least 1 month in 1956. These numbers, particularly totals, should generally be considered as minimum estimates.

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training for local personnel. Relatively few of these had been concerned with agriculture, however, before the arrival of a Soviet agricultural mission to Burma in December 1956. The USSR has provided more than one-half of the nonmilitary technicians from the Bloc. The majority of the nonmilitary technicians have gone to Afghanistan, India, or Egypt. About 250 of the Bloc specialists sent to the underdeveloped areas in 1956 have been military experts. Egypt has been the principal recipient of this type of assistance, but Syria, Afghanistan, and Yemen have also received military advisers.

During 1956 the underdeveloped countries sent more than 1,200 persons to countries in the Soviet Bloc for training under military or technical assistance programs. Nearly 1,000 Egyptians went to Czechoslovakia, Poland, or the USSR for military training. About 200 persons from various underdeveloped countries have gone to the Bloc for industrial training under technical assistance programs. India sent 85 industrial trainees to the USSR, Yugoslavia also sent a small group there, and Egypt sent a total of 40 to the USSR, East Germany, and Hungary. This part of the economic offensive may well be further expanded in the future. India has fairly definite plans for sending 600 additional persons to the USSR for training in connection with the expanding Indian steel industry. No personnel have gone to Bloc countries for agricultural training.

Trade Promotion and Arrangements.

Promotion of the Bloc economic offensive was carried on by means of trade fairs, by advertising, and by negotiating new or expanded trade agreements. Bloc countries participated in trade fairs in 21 underdeveloped countries during 1956. Extensive advertising campaigns were conducted in most of the underdeveloped regions. By the end of 1956, Bloc countries had 129 trade agreements in force with these countries. Of those in force during at least part of the year, 76 were either new agreements or were reinstated after having lapsed for more than 6 months.

Trade.

Reported 1956 trade of underdeveloped countries with the Bloc (covering for the most part the first 6 to 9 months of the year) was at an annual rate of \$1.4 billion, about 25 percent above the level

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of 1955.* The European Satellites, concentrating in the Middle East and Africa (and to a lesser extent in Latin America), accounted for about one-half of all Bloc trade with the underdeveloped countries. The USSR and Communist China accounted for approximately equal portions of the remainder. Communist China's trade with the underdeveloped countries of the Free World was largely with those in South and Southeast Asia, whereas Soviet trade with the underdeveloped countries was distributed largely among other regions.

During the period of 1956 for which data are available, commerce between Bloc countries and those in the Middle East and Africa rose to levels corresponding to an annual rate of approximately \$525 million, an increase of about 20 percent over 1955. Nearly three-fourths of this trade was conducted by the European Satellites. For this same period, Bloc trade with South and Southeast Asia was at levels equivalent to an annual rate of about \$430 million, or 50 percent above the level of 1955. Although Communist China accounted for nearly 60 percent of total Bloc trade in this area, the USSR significantly increased the level of its trade with some of the countries in South and Southeast Asia.

Trade between the Bloc and Latin America declined through the summer of 1956 to an annual rate of about \$260 million -- only three-fourths the level of 1955. This decline primarily reflected a sharp decrease in Argentine-Bloc trade for the first 8 months of 1956. Cuban sugar exports to the Bloc also fell sharply. The European Satellites accounted for the major share of Bloc trade with Latin America.

Bloc trade with the underdeveloped European countries of Yugoslavia, Iceland, and Portugal doubled over the levels of 1955. Statistics on most of this trade are available through August and indicate an annual rate of trade of about \$200 million during this

* Discussion of trade levels in 1956 is necessarily less up to date than other portions of this report because there is some months' lag in the availability of trade statistics. Returns for the entire year of 1956 will not be generally available until May or June 1957. Caution should be exercised in using the annual levels of 1956 trade discussed in the present report, because of important influences which are known to have affected trade in the second half of the year but which are not reflected in data presently available.

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period. About three-fourths of the Bloc's trade with European underdeveloped countries was with Yugoslavia, and most of the remainder was with Iceland.

Sino-Soviet Bloc Activities in Underdeveloped Areas, by Area and Country.

South Asia.

During the last 4 months of 1956 the principal Sino-Soviet Bloc economic activities in South Asia were in India and Afghanistan. Over the year as a whole, about 700 Bloc technicians (including 20 military personnel) were in South Asian countries for periods of at least a month.

In India the major development was the announcement by the Indian government of a \$126-million Soviet credit -- which, however, is not to be drawn on until 1959. The Indians appeared satisfied with the progress of Soviet assistance in the Bhilai steel plant, and, with a few exceptions, Bloc products were proving acceptable to Indian purchasers. There was a considerable expansion both in the number of Soviet Bloc technicians in India, and in the number of Indians receiving training in various Bloc countries. Although trade with the Bloc increased markedly during the year, it still remained a small percentage of total Indian trade.

The Bloc continued to play an increasing role in the economy of Afghanistan. Delivery of military equipment under the Soviet-Czechoslovak Arms Agreement with Afghanistan began during the September-December period. Implementation of Soviet projects under the \$100-million Soviet loan for economic development continued at a rate that was impressive to the Afghans. It is estimated that Bloc trade comprised roughly 40 percent of Afghanistan's total trade in 1956.

Ceylon continued to follow a cautious course in its economic relations with the Bloc. The Ceylonese signed the 1957 contract with Communist China for the final year of the 5-year rice-rubber exchange, but progress in the expansion of Ceylon's economic relations with the USSR was limited to discussion of future trade and assistance agreements.

Nepal and Communist China signed an agreement whereby Nepal will receive grant aid of \$12.6 million over a period of 3 years. Pakistan's

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reluctance to expand its economic relations with the Soviet Bloc remained evident throughout 1956.

Southeast Asia.

Principal targets for Sino-Soviet Bloc economic activities with underdeveloped countries of Southeast Asia continued during 1 September to 31 December 1956 to be Burma, Indonesia, and Cambodia. There were, however, some signs in the area of a more cautious attitude toward economic relations with the Bloc.

Burma's trade involvement with the Bloc far exceeds that of any other non-Bloc country in Southeast Asia, and available statistics indicate that Burmese trade with the Bloc was substantially greater in 1956 than in 1955, principally as the result of a sharp rise in imports. A three-way clearing agreement was signed which will permit Burma to use \$11.5 million of its credit balance with the USSR to pay for imports from Czechoslovakia. Burma also succeeded toward the end of the year in obtaining agreement for the reduction of announced goals for rice shipments to the Bloc in 1957. These goals had previously called for the export of more than 750,000 tons of rice annually, equal to nearly 40 percent of Burmese rice exports in the 1955-56 marketing year.

Indonesia signed a new trade and payments agreement with Communist China, providing for four times as much trade as the previous agreement. In addition, Indonesia renegotiated trade pacts with Czechoslovakia, Rumania, and East Germany which now provide for payments in transferable currencies. Cambodia concluded a trade and payments agreement with Czechoslovakia in October and has also outlined a program of exports to Communist China which, if fulfilled, would claim a very substantial portion of Cambodia's exportable surplus of certain agricultural products and thus require a reduction in such exports to other areas.

The only new financial aid agreement concluded during the period was the \$100-million Soviet credit which Indonesia signed in September but which it has not yet ratified. There were also indications that Indonesia has received offers of aid from Communist China. A Soviet economic mission was in Cambodia for the purpose of following up an earlier agreement for the establishment of economic relations as well as a Soviet offer of aid. Specific aid projects were delineated under the Communist Chinese \$22.4-million grant to Cambodia.

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All three countries continued to accept Bloc technical assistance. The Burmese contracted for the services of a resident group of Soviet agricultural advisers and also for technical assistance in connection with a textile mill being equipped by the Communist Chinese. Czechoslovak and East German technicians were in Indonesia. Technicians from Communist China were in Cambodia, and in October Cambodia signed an agreement for scientific and technical cooperation with Czechoslovakia.

The situation with regard to the other countries of the area remained largely unchanged. Laos still refrained from accepting Bloc aid, but the future direction of Lao policy is uncertain. Although Thailand for the first time received offers of economic aid from Communist China and the USSR, the Thai government gave no indication of seriously considering them. The Thai government continued to be wary of licensing direct exports to Communist China, and the governments of Singapore and the Federation of Malaya followed a cautious foreign trade policy. An increasing volume of Communist Chinese products, especially consumer goods, has been noted in many of the countries of Southeast Asia -- despite the small size of direct reported trade with their northern neighbor. Many of these products are transshipped via Hong Kong, which continues to serve Communist China as an important outlet for its exports and as a major source of foreign exchange.

Middle East and Africa.

The most significant feature of Sino-Soviet Bloc economic relations with the Middle East was the further strengthening of the Soviet position in Egypt and Syria, following the nationalization of Suez and the outbreak of hostilities against Egypt.

Although the Bloc did not enter into any major new agreements with Egypt, the level of economic relations reflected the increased role which the Bloc now plays in that country. Thus an increasing share of Egyptian cotton exports went to the Bloc in 1956, and a larger proportion of Egyptian imports is coming from the Bloc. Accelerated shipments of Bloc wheat and petroleum products have assisted the hard-pressed Egyptian economy during the post-Suez breakdown of previous commercial ties with the West. Bloc military technicians have been operating in Egypt, and it is estimated that 1,000 Egyptian military personnel have been receiving training in Bloc countries. Nonmilitary Bloc technicians in Egypt numbered about 175 during 1956.

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The economic involvement of Syria with the Bloc -- which had first expanded following the Czechoslovak-Syrian arms agreement early in 1956 -- was further accelerated after the Suez crises. Before 1956, Syrian trade with the Bloc was negligible, but the power struggle in the Middle East, together with the recent weakening of Syria's economy, has afforded the Bloc an excellent opportunity for improving its economic ties. The Bloc has been providing arms on a large scale, purchasing a significant share of Syria's new-crop cotton, and shipping petroleum to Syria to help meet a large portion of its current needs. Bloc participation in the Damascus International Fair was extensive. Trade agreements now link Syria with all European Bloc countries and with Communist China, and Bloc support of Syria through economic development projects and the provision of technical assistance has expanded.

In other Middle East countries there was no significant expansion of Bloc activities during the period under review except for Yemen, where arms shipments began arriving under an agreement with Czechoslovakia. In Israel the Bloc economic position was drastically weakened by Soviet cessation of shipments under a contract to provide a substantial share of Israel's petroleum requirements, as well as by Bloc support of the Arab states.

Bloc economic relations with Greece, Turkey, and Iran did not change significantly during the period. All three countries have traditionally traded with the Bloc but have been reluctant to accept offers of Bloc economic assistance. Bloc economic activities in Africa during the last 4 months of 1956 also produced little of significance.

Latin America.

The period covered by this report was characterized on balance by a weakening of Latin American - Bloc economic relations. In a number of countries, evidence of antagonism to the Bloc appeared in official and press statements, in the failure of trade negotiations, and in adverse reactions of business communities to Bloc trade offers. Reversing earlier indications, total Latin American trade with the Bloc decreased more than 25 percent in the first half of 1956 compared with the same period of 1955 -- primarily as a result of drastic cutbacks in Argentine-Bloc trade, plus a smaller reduction in Cuba's sales of sugar to the Bloc. Latin American countries appear to have been successful in their attempts to limit their credit balances with various Bloc countries.

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Brazil allowed its trade and payments agreement with Czechoslovakia to lapse in September and refused to enter into any barter or bilateral commercial agreement with Communist China.

Czechoslovakia and East Germany participated in the Third International Trade Fair in Bogotá, Colombia (November-December 1956), and Czechoslovakia held a special Industrial Exposition in Montevideo, Uruguay. Except for the Soviet 1955 Exposition in Argentina, these exhibits represented the largest Bloc undertaking in trade promotion in recent years, but their over-all results through the end of 1956 were largely unsuccessful. There have been few Bloc technicians in Latin America in connection with the provision of technical assistance.

Europe.

Although high levels of Bloc economic activity had been evidenced in Yugoslavia and Iceland in the earlier months of 1956, the tensions which arose out of the developments in Poland and Hungary resulted in a slowing down of such activity. No new credit arrangements were made in the period under review, and high Yugoslav officials complained about delays in implementation of Bloc development projects under previous credit arrangements. Iceland's susceptibility to Soviet economic maneuvers has noticeably lessened, and there has been a general revitalizing of Iceland's partnership with the other NATO countries. In both Yugoslavia and Iceland, however, levels of trade with the Bloc have continued to rise, and recent trade arrangements provide for further increases.

In Portugal, economic activities of the Bloc continued to be restricted to attempts to regularize and expand commercial relations, attempts which have met with a measure of success.

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