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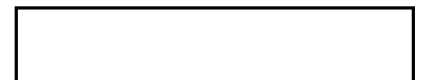
**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1958**

EIC-R14-S5

29 August 1958

ECONOMIC INTELLIGENCE COMMITTEE

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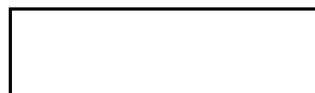


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FOREWORD

The reports on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Sino-Soviet Bloc countries with the 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 6 months from 1 January through 30 June 1958, constitutes the fifth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. This supplement 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 12 August 1958.

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) the European countries of Yugoslavia, Iceland, Spain, and Portugal; and (5) all independent countries in Latin America.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1958

Summary

Sino-Soviet Bloc economic activities in underdeveloped areas of the Free World continued to expand rapidly during the first 6 months of 1958. Significant advances were made in a number of countries, particularly in Indonesia, where the Bloc negotiated and promptly began to implement military and economic assistance agreements. Considerable progress was made on Bloc projects under construction in several underdeveloped countries, and construction or survey contracts were signed for a number of new projects. Arms deliveries to Middle Eastern countries continued, and a new arrangement for future deliveries of military goods was entered into by Syria and the USSR. The flow of Bloc technicians into underdeveloped countries was sharply increased during the first 6 months of 1958. In contrast to the advances in other areas, the USSR unilaterally suspended action under two partly utilized credits to Yugoslavia, thus reducing its commitments to Yugoslavia by about \$244 million.*

The total of Bloc credits and grants which have been extended since the beginning of the economic offensive in 1954 is now about \$2 billion. New credits extended during the first 6 months of 1958 amounted to \$362 million. The Soviet suspension of unused portions of credits extended to Yugoslavia, however, in large part counterbalances the amount of new extensions.

The largest portion of the new credits is for the purchase of arms. Indonesia has contracted for Czechoslovak-Polish military equipment estimated to be in excess of \$100 million, and Syria received a Soviet credit of \$45 million for arms purchases. These transactions bring the total of Bloc military aid to underdeveloped countries since 1954 to well over half a billion dollars.

The principal recipients of economic credit during the first 6 months of 1958 were India, which received \$65 million; Indonesia, \$59 million; Yemen, \$36 million; Ceylon, \$30 million; and Egypt, \$20 million. Pakistan and Iran received small credits, the first assistance which these Baghdad Pact members have accepted from the Bloc.

Considerable progress was made on the implementation of Bloc credits and grants. Most of the \$362 million in new credits extended during the first 6 months was obligated. A larger increase in total

* All value figures in this report are given in US dollar equivalents.

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Bloc obligations above the previous 6 months would be evident except for the Soviet suspension of \$244 million in credits to Yugoslavia. Taking into account this suspension, total obligations are now estimated to be about \$1.3 billion compared with \$1.2 billion at the end of 1957.

Drawings against these credits, which amounted to a minimum of \$580 million at the beginning of 1958, had reached about \$740 million by midyear. Of this amount, about 58 percent was for military purchases.

It is estimated that, since the beginning of the economic offensive in 1954, Bloc countries have participated in 161 developmental projects in underdeveloped countries of the Free World. Of these projects, at least 35 have been completed and another 60 are in some stage of construction. Approximately one-half of these projects have been undertaken with the aid of Bloc credits of a medium or long-term nature. The remainder, for the most part small-scale installations, are being financed by the Bloc under commercial credit terms. Sugar factories, textile mills, cement factories, bridges, and electrical installations represent the types of Bloc projects that are being produced in the largest numbers.

About 3,700 Bloc specialists were in the underdeveloped countries for 1 month or longer during the first half of 1958. Thus there was a substantial increase compared with the last half of 1957, when there were about 2,400 Bloc technicians in the underdeveloped countries. Virtually all of the increase in Bloc technicians was accounted for by the large number of economic specialists going to Indonesia, Iran, Syria, Yemen, and India and of military specialists going to Egypt and Indonesia.

Sino-Soviet Bloc trade with the underdeveloped countries of the Free World was at a level of \$1.8 billion in 1957, approximately double that for 1954, when the economic offensive began, and about 20 percent greater than in 1956. The major portion of the increase in trade for 1957 was accounted for by the USSR. Bloc imports rose considerably more than Bloc exports, largely because of increased agricultural purchases due to drought conditions within the Bloc, and exceeded the latter by about \$71 million. In 1956, Bloc exports to the underdeveloped countries exceeded Bloc imports by about \$71 million.

A summary of Bloc economic activities in underdeveloped countries, by region, follows:

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Middle East and Africa.

During the first half of 1958 the United Arab Republic (UAR) of Egypt and Syria and its associated state, the Kingdom of Yemen, were the principal targets of the Sino-Soviet Bloc economic offensive in the Middle East and Africa. The continued high level of Soviet Bloc trade with the newly formed UAR and the implementation of Soviet agreements with Egypt and Syria featured the economic relations of the UAR with the Sino-Soviet Bloc. Arms continued to be delivered to the Middle East, and Syria concluded a new \$45-million arms credit agreement with the USSR. Implementation of the Soviet credits in both sectors apparently proceeded more slowly than had been anticipated by UAR authorities. The unstable Syrian political situation and the formation of the UAR may have caused some delay in the use of Soviet credits in Syria. By the end of the period, however, Soviet technicians were actively engaged in a number of extensive surveys. Implementation of projects in the Egyptian sector was slow only in relation to exaggerated Egyptian expectations. There have been no instances of Soviet obstructionism. In spite of improved economic relations with the West following the Suez Canal compensation agreement, the UAR is still dependent on the Sino-Soviet Bloc for most of its foreign economic aid, for all of its military assistance, and as a market for a large portion of its exports. The UAR doubtless will continue to be receptive to Bloc economic overtures.

The most important development in Yemen's economic relations with the Sino-Soviet Bloc during this period was the conclusion of a \$16-million credit agreement with Communist China, which brings Sino-Soviet Bloc credit extended to Yemen for economic development to a total of \$36 million. The Kingdom of Yemen is heavily dependent on the Bloc for all of its external economic and military assistance, but there are indications that the Imam would like to obtain Western participation in Yemen's economic development. The USSR continued to make offers of trade and economic assistance to Sudan. Elsewhere in the Middle East the USSR made offers of unconditional economic aid to the pro-Western governments of Jordan and Lebanon, but these governments rejected the offers outright.

The prospect of additional US aid resulted in a decline in Iran's susceptibility to Soviet offers. Iran's trade with the Bloc, however, rose sharply in 1957, and this trend is likely to continue in 1958. Greek trade with the Soviet Bloc continued to expand. The shortage of Western currencies was the principal factor behind Turkey's increased trade with the Bloc. In April, a series of high-level discussions between Turkish and Soviet officials began, and reports indicate that economic matters were involved.

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Although Soviet Bloc trade with African countries expanded during the first half of 1958, the Bloc's share of Africa's total trade remained small. Soviet Bloc countries made credit offers to Ethiopia and Libya, but at the end of the period none had been accepted. The Soviet Bloc's willingness to absorb several major African commodities and the need for foreign economic assistance have perceptibly increased African receptivity to Soviet Bloc economic overtures. Although there is a general wariness of Communist motives, government officials and significant groups in many African countries are now less averse than formerly to obtaining assistance from any quarter.

South Asia.

During the first half of 1958, Afghanistan, India, and Ceylon remained the focal points of the Sino-Soviet Bloc economic offensive in South Asia. The Bloc, however, made new offers of economic assistance to Pakistan and Nepal. Bloc countries continued to account for a large share of Afghanistan's foreign trade. The Soviet Bloc continued to play an important role in Afghanistan's economic development in spite of difficulties stemming from the high cost estimates for Soviet projects and from a lack of budgetary funds to finance local costs. The USSR has taken steps to ease the domestic currency shortage by providing goods for sale in the Afghan markets. Because of its existing burden of international financial obligations, it is doubtful whether Afghanistan will accept any substantial amount in new credits from the Bloc for some time to come.

In India the major development was the extension of new Soviet Bloc credits of \$65 million, bringing total credits from the Bloc to India to \$337 million. The new loans include a Czechoslovak credit of \$34 million for the construction of a foundry-forge plant and a Soviet 3-year credit of \$32 million for additional imported materials for the Bhilai steel plant. Although the bulk of India's external assistance is still from the West, India's dire need for foreign economic aid and its desire to obtain assistance from both East and West continued to make it receptive to Soviet Bloc economic overtures. India's trade with the Bloc, although increasing, still constitutes a small share of its total trade.

Ceylon and the USSR concluded an economic cooperation agreement under which the USSR will extend to Ceylon a \$30-million credit for development and flood rehabilitation projects. Implementation of this agreement has been held up pending Ceylonese-Soviet agreement on specific projects to be undertaken. Total Bloc assistance to Ceylon now approximates \$50 million. The large volume of trade with Communist China under the rice-rubber agreement continues to dominate Ceylon's economic relationship with the Bloc.

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Southeast Asia.

The Sino-Soviet Bloc economic offensive made major gains in Indonesia during the first half of 1958. Intensified Bloc aid for economic purposes was accompanied by prompt delivery of significant quantities of Bloc military equipment, including jet aircraft, under arms credit agreements reported during the period which total more than \$100 million. Taking advantage of a serious economic and political crisis which tended initially to isolate Indonesia from the West, Bloc countries promptly offered to supply urgently needed assistance to the Central Government. Acceptance of Bloc aid and technicians on a major scale portended a significant increase in Communist influence in Indonesia. Near the end of the period there was evidence of growing concern in Indonesia about the increased dependence on Bloc support. There were no indications, however, of a retrenchment in the acceptance of Bloc aid.

Burma evidently remained satisfied with the accomplishments of the Bloc aid programs and its current trade relations with Bloc countries. Plans to accept additional Bloc credits, however, were curtailed because of budgetary limitations.

Concern on the part of Cambodian leaders over the threat of Communist subversion did not hamper the progress of the Chinese Communist grant-aid program. Agreement was reached on the composition of the second phase of the program, including plans to begin work on at least 3 of the 4 projected manufacturing plants.

Bloc trade with Southeast Asian countries in 1957 showed mixed trends but, on the whole, moved moderately upward. The largest increase was registered with Malaya and was a result mainly of purchases of rubber by Communist China. Indonesian and Cambodian trade with the Bloc also increased. Burma's trade with the Bloc declined considerably from previous levels, largely because of reduced rice shipments and lower textile imports.

Latin America.

Soviet Bloc economic activities in Latin America during the first half of 1958 were at a high level by comparison with the 1956-57 lag in Bloc-Latin American trade. Bloc efforts continued to concentrate on Argentina, Brazil, and Uruguay, but marked attention was also given to expanding trade with Chile. Receptivity to Bloc offers appeared to increase as economic difficulties persisted and major election campaigns got under way in Brazil, Chile, and Uruguay. Brazil's search for new coffee markets, Uruguay's lagging wool sales in Western markets, and a growing demand in Chile to sell copper to

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the Bloc helped to set the stage for Bloc propaganda through trade offers to these countries. Bloc offers of petroleum to Argentina, Brazil, and Uruguay, which promised a reduction of hard-currency expenditures, were generally welcomed because of foreign exchange shortages in these countries.

Bloc economic operations in Latin America did not include offers of credit or technical aid to the area in spite of continuing rumors to that effect. Brazil and Argentina did, however, conclude important contracts to exchange raw materials for Bloc machinery and equipment. It appears likely that further offers to furnish petroleum and needed bulk commodities such as chemicals and iron and steel products will be accepted by the Bloc's Latin American trade partners, but only if commodity surpluses continue to overhang the export markets. On the other hand, it appears that offers of credits for equipment and technical assistance will not be taken up readily.

Argentina and Uruguay signed several new trade and payments agreements with Bloc countries during the period. Uruguay granted trade concessions to the USSR after the latter held out the lure of large purchases of the country's wool stocks but did not complete ratification of previously signed trade accords. Soviet overtures to Brazil, linking trade to renewal of diplomatic relations, evoked some public response, but the Brazilian government appeared reluctant to resume diplomatic ties.

The level of Latin American trade with the Bloc in 1958 will probably exceed the comparatively low level of 1957 as a result of trade deals made during the first half of the year and the anticipated conclusion of further substantial contracts to exchange agricultural raw materials for needed commodities from the Bloc.

Europe.

Climaxing a month of bitter ideological controversy, the USSR late in May suspended two large developmental credits to Yugoslavia. Involved are the unutilized portions of a \$110-million Soviet investment credit and a \$175-million joint Soviet - East German credit for the construction of an aluminum combine. The net suspension amounts to about \$244 million, or more than one-half of the total amount of credit which has been extended to Yugoslavia by the Bloc since 1955. The Yugoslavs reacted bitterly, charging the USSR with blatant political pressure. At the time of the suspension, Yugoslavia had utilized about \$131 million of its Bloc credits. The future of Yugoslavia's remaining Bloc credits is presently in doubt.

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It appears at this juncture that the Soviet Bloc does not intend to impose an economic blockade on Yugoslavia as it did in 1948. Late in June, East Germany signed a supplementary trade protocol with Yugoslavia substantially increasing 1958 targets, and shortly thereafter Khrushchev stated that the USSR would maintain "mutually profitable" trade relations with Yugoslavia. Yugoslavia's 1958 trade protocols with Bloc countries call for \$373 million in total 1958 trade, representing an increase of 37 percent above 1957 targets and an increase of 42 percent above the level actually attained last year. In 1957 the USSR was by far Yugoslavia's biggest Bloc trading partner, with Poland ranking next.

There were no major new developments in Iceland's economic relations with the Bloc during the first half of 1958. Iceland's decision to extend its fisheries conservation limit to 12 miles and possible retaliatory measures by Western countries may open fresh opportunities for Bloc economic penetration. It appears possible that Icelandic trade with the Bloc may decline somewhat this year compared with last. During the period under review the USSR reportedly renewed its 1957 offer to refinance 17 fishing vessels, costing about \$3.2 million, built or under construction in East Germany under short-term credit arrangements. The USSR is apparently making its offer on an "economic assistance" basis which Iceland reportedly has not been willing to accept.

There were no significant changes in the economic relations between the Soviet Bloc and Portugal during the first 6 months of 1958. Portuguese exports to the Bloc for 1957 were about 2 percent of total exports, and the total import percentage was less than 1 percent. During the first 6 months of 1958, Spain negotiated trade and payments agreements with Hungary, Czechoslovakia, and Rumania.

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