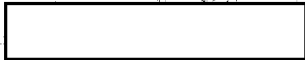


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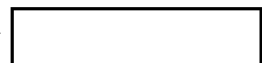
ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JULY - 31 DECEMBER 1958**

EIC-R14-S6

27 February 1959

ECONOMIC INTELLIGENCE COMMITTEE



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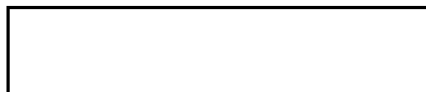
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FOREWORD

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 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 July through 31 December 1958, constitutes the sixth 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 11 February 1959.

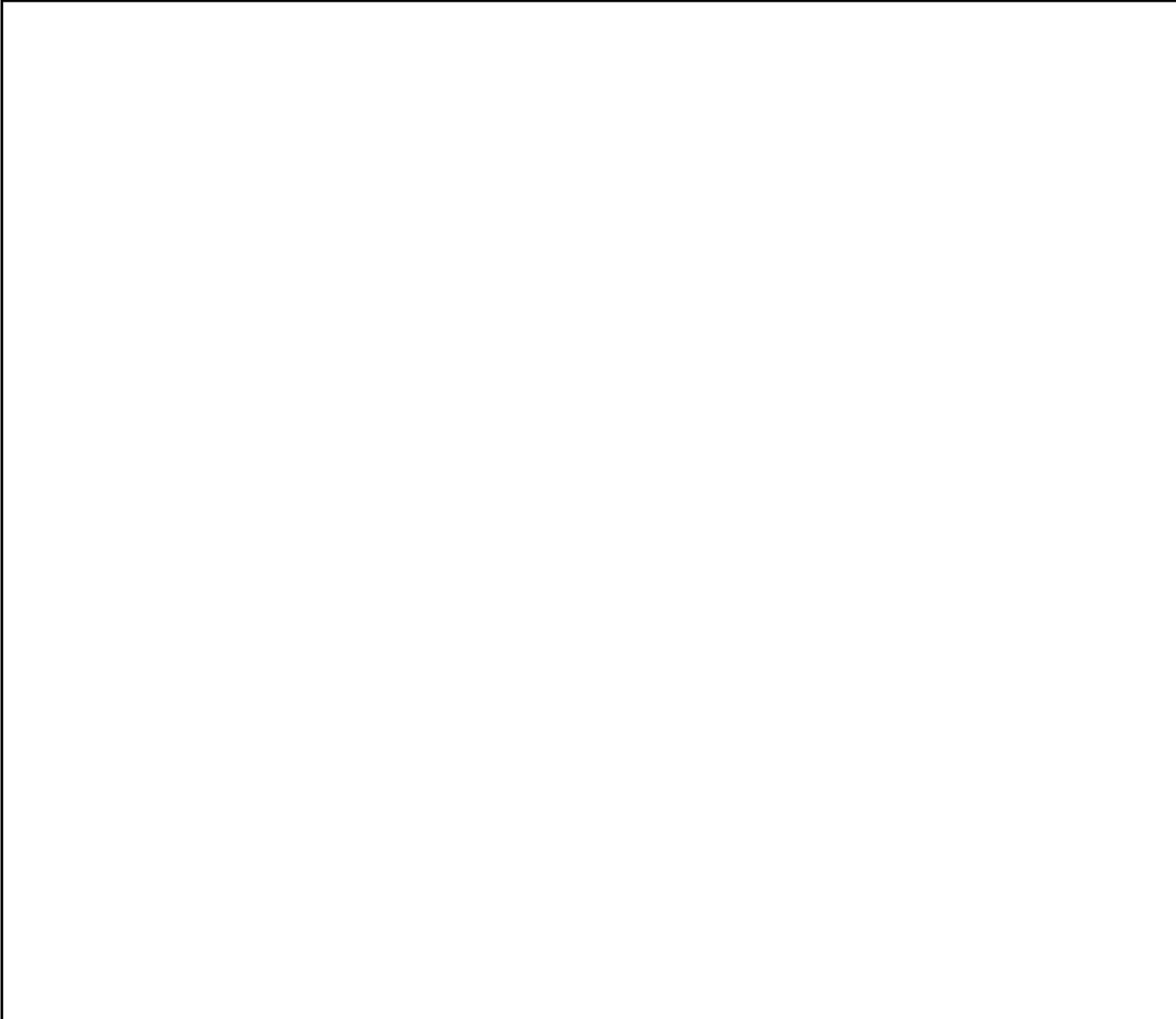
For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all countries in South and Southeast Asia; (2) all countries in the Middle East, including Egypt, Sudan, Turkey, and Greece; (3) the independent countries of Africa, except the Union of South Africa; (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 JULY - 31 DECEMBER 1958

Summary

During the last 6 months of 1958, Sino-Soviet Bloc economic relations with underdeveloped countries of the Free World continued to expand, broadened in scope, and provided additional evidence of the opportunistic nature of the Bloc's economic and military aid programs. While generally maintaining a satisfactory level of progress in implementing developmental and military aid agreements previously concluded, the Bloc continued to exploit political and economic difficulties and succeeded in concluding important new aid agreements. The total of new credits extended in 1958 amounted to more than \$1 billion.* This sum represents more than a threefold increase above 1957 extensions and marks a new peak year in contrast with earlier years when the annual increase averaged about 25 percent. With respect to the trade of these underdeveloped countries with the Bloc, however, the rate of increase for 1958 fell to about 4 percent. Bloc capabilities could easily sustain substantial expansion of the Soviet economic offensive.

Recent information indicates that a new pattern has been developed for coordinating the Bloc's economic offensive in underdeveloped countries. The precise form is not yet clear, but it appears that a number of projects listed in Soviet economic aid agreements will be distributed to other Bloc countries. This form of cooperation emerged in the Middle East as the USSR began to implement its economic aid agreements with Egypt and Syria. Apparently the USSR will arrange or provide the credit to cover the foreign-exchange costs for a number of the projects, and the European Satellites will undertake the construction work. This technique will provide the USSR with the means of exercising more control over Satellite activities in the underdeveloped countries and at the same time bring to bear substantial Soviet influence on economic development within the recipient countries.

In a propaganda coup the USSR agreed to provide Egypt with a development credit for \$100 million to cover the foreign-exchange costs of the first stage in the construction of the Aswan Dam. The USSR is providing Egypt with still another \$100-million line of credit for the purchase of arms, further enmeshing the economy of the United Arab Republic (UAR). Iraq arrived at its first financial agreement with a Bloc country when the USSR agreed to provide a \$118-million line of

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

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credit for the purchase of arms. Argentina became the first Latin American country to accept a sizable development credit from the Bloc. The conclusion of a \$100-million aid agreement with the USSR to be utilized for the development of Argentina's petroleum industry may well serve to whet the appetites of other Latin American countries which seek large amounts of development capital but frequently are wary of foreign private investment.

The cumulative total of Bloc credits and grants extended since the beginning of the economic offensive now amounts to about \$2.4 billion, of which about \$1.6 billion is economic aid and about \$780 million is military aid. The extension of approximately \$490 million in new credits during the last 6 months of 1958 raised the total extensions in 1958 to more than \$1 billion. The USSR accounted for more than 85 percent of new credit extensions in the last 6 months of 1958. Total Bloc credits extended for the purchase of arms account for more than 45 percent of the new credit extensions in the latter half of 1958 and for about one-third of total credits extended by the Bloc since the beginning of the Bloc's economic offensive.

Although the Bloc succeeded in broadening the scope of its aid program, a relatively small number of underdeveloped countries still accounts for the bulk of Bloc credit extensions. The UAR received about \$950 million, almost 40 percent of total extensions; India and Indonesia received about \$360 million and \$300 million, respectively, and together account for about 25 percent of the total. Credit extensions to Afghanistan and Yemen, although small in a comparative sense, are significant in economies of their size.

It is estimated that somewhat less than 40 percent of the total value of credits extended by the Bloc has been drawn, and well over half of the drawings have been applied to the purchase of arms. The countries which have developed a greater financial dependence on the Bloc, for the most part, have been those countries which have received military aid from the Bloc over an extended period of time: Egypt, Syria, Afghanistan, and Yemen. Heavy repayment burdens combined with the domestic cost of maintaining large military establishments complicate the already serious financial problems which these countries face, thereby making them susceptible to further Bloc economic blandishments. The UAR has drawn at least \$420 million, more than 90 percent of which went for arms purchases; approximately half of the credits drawn by Indonesia and Afghanistan have gone for arms; and the bulk of Yemeni drawings also has been for arms purchases. Yugoslavia and India (which have not accepted arms credits) are the only other countries with sizable drawings upon Bloc credits. Their economies, however, have a broad enough base so as not to be seriously affected by these credits.

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The services of at least 4,000 Bloc technicians were utilized in underdeveloped countries during the last 6 months of 1958. About 70 percent of these technicians were engaged in economic activities. The distribution of these technicians closely parallels the distribution of Bloc credits. Almost 30 percent served in the UAR; and Afghanistan, India, Indonesia, and Yemen accounted for most of the remainder. The largest influx of Bloc technicians during the last half of 1958 was noted in the UAR, Yemen, Afghanistan, and India. In the UAR, large numbers of Bloc technicians were engaged in geographical surveys. A number of technicians from Communist China arrived in Yemen to implement the Chinese Communist - Yemeni aid agreement. More Soviet technicians arrived to work on the Bhilai steel mill in India and to undertake petroleum surveys in Afghanistan. Additional groups of military technicians entered the UAR, Yemen, Afghanistan, and Indonesia under existing military aid agreements. During the time these agreements have been in effect, Bloc advisers have assisted in reorganizing the military establishments of the UAR, Yemen, and Afghanistan and have engaged in teaching Bloc military doctrine to indigenous military personnel.

By the end of 1958, approximately 3,200 trainees and students from underdeveloped countries, including 1,950 military personnel, had undertaken training in the Bloc. The opportunity for ideological indoctrination is apparent, and the "demonstration effect" of the scientific, technological, and industrial progress of the USSR also can be expected to exert an influence on the thinking of these trainees.

Sino-Soviet Bloc trade with underdeveloped countries of the Free World during the first half of 1958 (latest data available) totaled about \$965 million, an increase of about 4 percent, in terms of value, above the comparable period in 1957. This rate of increase declined sharply from an average rate of about 25 percent annually for the earlier years of the Bloc's economic offensive. Whereas Bloc exports increased from about \$415 million to \$480 million, imports declined from \$515 million to about \$485 million. This apparent leveling off of trade reflects, to a great extent, a decline in the value of Bloc imports from underdeveloped countries. Since mid-1957, there has been a general decline in the prices of many primary commodities. Among the major commodities imported by the Bloc from underdeveloped countries which have been affected by falling prices were cotton, wool, rubber, and sugar. In Egypt, for example, although the value of exports to the Bloc declined about 15 percent, the volume of Bloc purchases of Egyptian cotton for the cotton marketing year ending in mid-1958 increased by about 30 percent above the previous marketing year. As a result, the Bloc accounted for about 65 percent of Egypt's total cotton exports.

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Although the Bloc economic offensive continued to mark up new successes, it did experience some reversals. The ideological conflict with Yugoslavia resulted in the cancellation of the unused portion of the Bloc's credit extensions. Icelandic imports of surplus commodities from the US under Public Law 480 and the completion of a US-financed cement plant somewhat reduced Iceland's dependence upon the Bloc. Internal economic difficulties in Burma caused the Burmese government to eliminate certain projects which involved Bloc assistance. Singapore and the Federation of Malaya placed import curbs on Chinese Communist products in order to counter the Chinese Communist trade drive. The Federation also closed the Malayan branches of the Bank of China. These reversals, however, have been more than counter-balanced by the magnitude and scope of the Bloc's successes.

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

Middle East and Africa.

During the last half of 1958 the Sino-Soviet Bloc economic offensive in the Middle East and Africa maintained its emphasis upon the UAR and Yemen but continued to probe for opportunities elsewhere. The Bloc concluded its first major financial agreement with Iraq while it sought to exploit economic and political difficulties in Sudan and other independent African states. The most noteworthy developments of the period were the Soviet-UAR agreement, according to which the USSR will extend a line of credit to the UAR equivalent to \$100 million to help defray the cost of constructing the first stage of the Aswan High Dam, and the Soviet arms credit agreement with Iraq. The former agreement is of substantial propaganda value to the Bloc as it paves the way toward the realization of a longstanding Egyptian economic aspiration and, when completed, will add more than 670,000 acres to perennial irrigation. The Soviet-Iraqi arms agreement is of particular significance because it provides an avenue for Bloc penetration into a country which is of major economic importance to the West. The agreement reportedly involves \$168 million in arms, of which \$118 million are on credit, and unquestionably sets the stage for much closer political and economic relations between the Bloc and Iraq.

On the purely economic side, tangible activity during the period was mainly concerned with the implementation of existing economic assistance agreements between the Bloc and the UAR and Yemen and with strengthening trade relations between the Bloc and the Arab states. In the Syrian sector of the UAR, Soviet technicians were engaged in completing basic surveys on projects listed in the October 1957 agreement. Reasonable progress was made in the petroleum refinery contract

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that was awarded to Czechoslovakia in 1957, and it seems probable that the project will be completed in 1959.

In the Egyptian sector of the UAR, Soviet technicians were engaged in various surveys for geophysical and industrial projects under the Soviet-Egyptian economic aid agreement. Soviet capital goods for some projects included in the agreement are now entering the country. The Soviet credit has been supplemented by a \$21.5-million credit provided by East Germany under an agreement signed in August. Tangible progress under the two aid agreements is likely to be substantial during the first 6 months of 1959.

In Yemen, efforts were made during the period to implement both the Chinese Communist and the Soviet economic assistance agreements concluded in early 1958. Chinese Communist technicians arrived in Yemen and undertook surveys of a number of projects. The final contract for Soviet construction of a new port at Hudaydah was signed in October. During the period, East Germany also made an offer of economic assistance to Yemen. Bloc countries reportedly were encountering difficulty in implementing assistance agreements in Yemen, largely because of the inactivity of the Imam. Local financing costs apparently have caused a serious problem. In spite of these difficulties, however, construction activity is in progress.

Sino-Soviet Bloc countries continued to exploit opportunities for increasing trade relations with Arab states. They have been active in both the Syrian and Egyptian cotton markets. During the cotton marketing year ending 31 August 1958, approximately 65 percent of Egyptian and 50 percent of Syrian cotton exports went to the Bloc. Sudan's critical cotton marketing problems have brought a reversal of traditional policy against barter arrangements. Sudan has now signed barter agreements with several Soviet Bloc countries. Furthermore, Sudanese resistance to a pending Soviet offer of economic assistance presumably in exchange for cotton has weakened, and a Soviet mission is expected in Khartoum shortly to negotiate an agreement.

Although agreements of major significance were not concluded with any countries of Africa, deteriorating political conditions, economic difficulties, and the economic aspirations of newly independent African countries continue to offer opportunities for future Bloc activity. Ethiopia and Libya received renewed offers of aid from the Bloc, and both accepted help in expanding their medical facilities. Guinea received offers of economic aid immediately after attaining independence and has already signed several trade agreements with Bloc countries. Bloc economic relations with many African countries can be expected to increase significantly during 1959.

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South Asia.

Afghanistan, India, and Ceylon remained the focal points of the Sino-Soviet Bloc economic offensive in South Asia during the second half of 1958. Pakistan and Nepal continued to be reluctant to accept further Bloc offers. Afghanistan's implementation of projects under the Bloc credit program has encountered difficulties mainly as a result of the shortage of local currency and the high cost estimates of some Soviet projects. Bloc economic activity in Afghanistan, however, continued to have an important impact on the country, and a significant portion of the Afghan economy has now become dependent upon the Bloc.

Highlights of the Bloc's economic program in India during the latter half of 1958 included the acceptance of a new Rumanian credit, the extension of new offers, and the satisfactory completion of various stages of major Bloc projects under construction. Bloc credits extended to India now total approximately \$305 million, including the new Rumanian credit of \$10.7 million for a petroleum refinery. The discovery of oil in Bombay state -- although the extent of the find is not yet known -- produced major gains in the form of Indian respect for Soviet technicians. Although the Indian government has had evidence of susceptibility to Soviet propaganda on the part of some workers who had undergone training in the USSR, there was no major change in India's receptive attitude toward Bloc overtures, nor is any expected as long as the Indian economy is so dependent upon foreign aid.

Ceylon's economic relations with the Bloc continued to expand during this period with the acceptance of a new \$10.5-million credit from Communist China. Total Bloc assistance to Ceylon now approximates \$58 million. Implementation of the Soviet \$30-million credit program signed in February has been slow, with only one contract thus far signed. This delay has been the result of Soviet and Ceylonese inability to reach an agreement on projects.

Southeast Asia.

Southeast Asia did not accept significant additional Bloc economic assistance during the second half of 1958. Trade promotion activity, particularly on the part of Communist China, was intensified, however, and was successful in promoting sales of certain Bloc textile and consumer goods items. Deliveries of Bloc military equipment to Indonesia under previous arms credit agreements continued, and negotiations covering projects to be financed under the \$100-million Soviet loan made further progress. Other developments included arrangements with the USSR and Communist China for the purchase of Bloc rice and a Chinese Communist offer to extend to Indonesia additional economic aid.

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As a result of Burma's decision to seek grant aid only and to cut back expenditures for technical assistance, the USSR is placing a part of its aid to Burma on a grant basis. Three of the "gift" projects are to be continued as genuine grants, but about \$13.7 million in credits proffered by the USSR for agricultural projects have been canceled. Cambodia accepted an additional grant from Communist China valued at \$5.6 million but turned down a Chinese Communist offer of military assistance. Implementation of the basic aid agreement with Communist China was far behind schedule, but this lag was less apparent to the public than the progress made on the Soviet hospital in Phnom Penh. A Soviet loan offer of \$12.5 million was not accepted but remains open for future consideration.

Malaya and Singapore reacted against the Chinese Communist trade drive by placing import curbs on several mainland products. Malaya went further and passed legislation which will close the Malayan branches of the Communist Bank of China, and Communist China retaliated by informing traders in Malaya that they will receive no more direct shipments of Chinese Communist goods.

Latin America.

The Soviet Bloc economic offensive in Latin America during the second half of 1958 continued at the high rate of activity evident in the first half of the year, with emphasis focused on Argentina, Brazil, Uruguay, and, to a lesser extent, Chile. Elsewhere in Latin America, Bloc overtures met with limited response, and purchases of Cuban sugar, sizable in recent years, declined sharply. Increased receptivity to Bloc offers appears likely as economic difficulties persist. Argentina's need for fuel and capital goods, Brazil's search for new coffee markets, and Uruguay's lagging wool sales in Western markets increased their susceptibility to Bloc economic overtures. Soviet shipments of crude oil to petroleum-short Argentina and Uruguay were welcomed as a means of easing their balance-of-payments problems. Moreover, in a number of countries Soviet and Satellite declarations of willingness to supply petroleum industry equipment have great appeal to strongly nationalist elements opposed to foreign private exploitation of local petroleum resources. The economic offensive in Latin America extended to Bolivia with Soviet offers of petroleum to the Bolivian state petroleum agency.

The second half of the year brought the first important Bloc credit extension to Latin America when Argentina accepted a Soviet line of credit of \$100 million for petroleum development. Nothing has materialized from Bloc offers of developmental and technical assistance to Bolivia, Brazil, and Uruguay. A Czechoslovak contract with Argentina for electric generating equipment called for supervision of

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installation by Czechoslovak technicians. Argentina concluded important contracts for Bloc capital goods under the terms of existing trade and payments agreements. Uruguayan-Bloc trade continued on a barter basis with the USSR emerging as the largest single purchaser from the 1957-58 wool clip. The Bloc countries may make similar purchases during the current wool year. If traditional Western markets and sources of financial assistance continue to prove inadequate to satisfy mounting popular demands for rapid economic development, further Bloc offers of assistance will be attractive to the Bloc's Latin American trade partners.

Argentina, Brazil, and Uruguay indicated increased interest in the Bloc as a source of capital goods and essential raw materials by signing new payments agreements with Bloc countries, by extending or initialing protocols to existing trade arrangements, and by ratifying pending commercial accords. Uruguay continued to grant trade concessions to the Bloc but did not complete ratification of previously signed trade accords. Soviet overtures to Brazil, linking trade with resumption of commercial and diplomatic relations, evoked sharp and extensive public discussion of the issue, but the present administration appears reluctant to enter into formal commercial relations with the USSR.

The level of Latin American trade with the Bloc probably will continue to form only an insignificant share of the area's total world trade. As a result of trade agreements made during 1958, however, the Bloc may become increasingly important as a supplier of key developmental goods and essential fuels, especially if these items are offered on a credit basis.

Europe.

During the last 6 months of 1958, Yugoslavia and Iceland continued as the focal points of Bloc economic activity in underdeveloped countries of Europe. Bloc economic relations with Yugoslavia reflected the consequences of political differences between the two areas. In August, Yugoslavia charged the USSR with deliberately withholding deliveries of wheat, coking coal, and other commodities. Deliveries of wheat and certain raw materials were resumed later in the year but continued to be irregular and uncertain, confirming previous evidence that the Bloc was carrying out a policy of economic harassment rather than resorting to an economic blockade such as was the case in 1948. Communist China began a boycott of Yugoslav ports and shipping in August, and the Yugoslav Foreign Minister accused the USSR of trying to force Yugoslavia out of foreign markets, especially in the Middle East.

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In spite of this harassment, Yugoslav trade with the Bloc for the first 9 months of 1958 was 40 percent higher than in the same period of 1957. This increase was due to an expansion in trade with the European Satellites which more than offset a decline in total trade with the USSR.

In December the Yugoslavs announced that they had been able to utilize only \$18 million of the total of \$75 million in Czechoslovak credits which were due to expire at the end of 1958 because of Czechoslovak obstructionism. Thus, of a total of \$464 million in Bloc credits, Yugoslavia apparently has been able to utilize only about \$135 million, or less than 30 percent, and it is doubtful whether there will be any further drawings on the credits still outstanding.

For the first time since 1952, Iceland's share of trade with the Soviet Bloc countries declined during the first 9 months of 1958. Iceland accepted, however, a \$3.1-million Soviet loan to be repaid by Icelandic exports over a 12-year period. Icelandic Communist pressure to turn to the USSR for additional credits has increased with the failure of the government to negotiate loans for trawler construction in western Europe. Icelandic dependence on Soviet Bloc products was reduced somewhat by imports of surplus agricultural products from the US (under Public Law 480) and through the operation of a US-financed cement plant.

The only new economic agreement established between Portugal and the Soviet Bloc was an unofficial barter arrangement under which Portugal is to receive 47,000 tons of crude petroleum valued at \$800,000 in return for exports to the USSR of an equivalent value of cork and cork products.

Spain's trade with the Soviet Bloc, although small, is growing rapidly as a result of the unofficial trade agreement negotiated during the year with the European Satellites. A total annual trade of \$25 million both ways is envisaged under existing trade agreements. There is no trade agreement with the USSR, but Spain imported \$1.7 million of Soviet wood pulp during the first 7 months of 1958.

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ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JULY - 31 DECEMBER 1958**

SUMMARY

(The complete text of this report has been published separately.)

EIC-R14-S6

27 February 1959

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W A R N I N G

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Recent information indicates that a new pattern has been developed for coordinating the Bloc's economic offensive in underdeveloped countries. The precise form is not yet clear, but it appears that a number of projects listed in Soviet economic aid agreements will be distributed to other Bloc countries. This form of cooperation emerged in the Middle East as the USSR began to implement its economic aid agreements with Egypt and Syria. Apparently the USSR will arrange or provide the credit to cover the foreign-exchange costs for a number of the projects and the European Satellites will undertake the construction work. This technique will provide the USSR with the means of exercising more control over Satellite activities in the underdeveloped countries and at the same time bring to bear substantial Soviet influence on economic development within the recipient countries.

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The cumulative total of Bloc credits and grants extended since the beginning of the economic offensive now amounts to about \$2.4 billion, of which about \$1.6 billion is economic aid and about \$780 million is military aid (see Table 1). The extension of approximately \$490 million in new credits during the last 6 months of 1958 (see Table 2*) raised the total extensions in 1958 to more than \$1 billion. The USSR accounted for more than 85 percent of new credit

Table 1

Utilization of Sino-Soviet Bloc Economic and Military Credits and Grants
Extended to Underdeveloped Countries of the Free World
1 January 1954 - 31 December 1958

	Million US \$		
	<u>Extended</u>	<u>Obligated</u>	<u>Drawn</u>
Economic credits and grants	1,600.0	995.6	399.2
Military credits	779.6	779.6	500.1
Total	<u>2,379.6</u>	<u>1,775.2</u>	<u>899.3</u>

extensions in the last 6 months of 1958. Total Bloc credits extended for the purchase of arms account for more than 45 percent of the new credit extensions in the latter half of 1958 and for about one-third of total credits extended by the Bloc since the beginning of the Bloc's economic offensive.

Although the Bloc succeeded in broadening the scope of its aid program, a relatively small number of underdeveloped countries still accounts for the bulk of Bloc credit extensions. The United Arab Republic received about \$950 million, almost 40 percent of total

* Table 2 follows on p. 3.

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The services of at least 4,000 Bloc technicians were utilized in underdeveloped countries during the last 6 months of 1958. About 70 percent of these technicians were engaged in economic activities. The distribution of these technicians closely parallels the distribution of Bloc credits. Almost 30 percent served in the UAR; and Afghanistan, India, Indonesia, and Yemen accounted for most of the remainder. The largest influx of Bloc technicians during the last half of 1958 was noted in the UAR, Yemen, Afghanistan, and India. In the UAR, large numbers of Bloc technicians were engaged in geographical surveys. A number of technicians from Communist China arrived in Yemen to implement the Chinese Communist - Yemeni aid agreement. More Soviet technicians arrived to work on the Bhilai steel mill in India and to undertake petroleum surveys in Afghanistan. Additional groups of military technicians entered the UAR, Yemen, Afghanistan, and Indonesia under existing military aid agreements. During the time these agreements have been in effect, Bloc advisers have assisted in reorganizing the military establishments of the UAR, Yemen, and Afghanistan and have engaged in teaching Bloc military doctrine to indigenous military personnel.

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Sino-Soviet Bloc trade with underdeveloped countries of the Free World during the first half of 1958 (latest data available) totaled about \$965 million, an increase of about 4 percent, in terms of value, above the comparable period in 1957. This rate of increase declined sharply from an average rate of about 25 percent annually for the earlier years of the Bloc's economic offensive. Whereas Bloc exports increased from about \$415 million to \$480 million, imports declined from \$515 million to about \$485 million. This apparent leveling off of trade reflects, to a great extent, a decline in the value of Bloc imports from underdeveloped countries. Since mid-1957, there has been a general decline in the prices of many primary commodities. Among the major commodities imported by the Bloc from underdeveloped countries which have been affected by falling prices were cotton, wool, rubber, and sugar. In Egypt, for example, although the value of exports to the Bloc declined about 15 percent, the volume of Bloc purchases of Egyptian cotton for the cotton marketing year ending in mid-1958 increased by about 30 percent above the previous marketing year. As a result, the Bloc accounted for about 65 percent of Egypt's total cotton exports.

Although the Bloc economic offensive continued to mark up new successes, it did experience some reversals. The ideological conflict with Yugoslavia resulted in the cancellation of the unused portion of the Bloc's credit extensions. Icelandic imports of surplus commodities from the US under Public Law 480 and the completion of a US-financed cement plant somewhat reduced Iceland's dependence upon the Bloc. Internal economic difficulties in Burma caused the Burmese government to eliminate certain projects which involved Bloc assistance. Singapore and the Federation of Malaya placed import curbs on Chinese Communist products in order to counter the Chinese Communist trade drive. The Federation also closed the Malayan branches of the Bank of China. These reversals, however, have been more than counterbalanced by the magnitude and scope of the Bloc's successes.

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

Middle East and Africa.

During the last half of 1958 the Sino-Soviet Bloc economic offensive in the Middle East and Africa maintained its emphasis upon the UAR and Yemen but continued to probe for opportunities elsewhere. The Bloc concluded its first major financial agreement with Iraq while it sought to exploit economic and political difficulties in Sudan and other independent African states. The most noteworthy developments of the period were the Soviet-UAR agreement, according

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to which the USSR will extend a line of credit to the UAR equivalent to \$100 million to help defray the cost of constructing the first stage of the Aswan High Dam, and the Soviet arms credit agreement with Iraq. The former agreement is of substantial propaganda value to the Bloc as it paves the way toward the realization of a long-standing Egyptian economic aspiration and, when completed, will add more than 670,000 acres to perennial irrigation. The Soviet-Iraqi arms agreement is of particular significance because it provides an avenue for Bloc penetration into a country which is of major economic importance to the West. The agreement reportedly involves \$168 million in arms, of which \$118 million are on credit, and unquestionably sets the stage for much closer political and economic relations between the Bloc and Iraq.

On the purely economic side, tangible activity during the period was mainly concerned with the implementation of existing economic assistance agreements between the Bloc and the UAR and Yemen and with strengthening trade relations between the Bloc and the Arab states. In the Syrian sector of the UAR, Soviet technicians were engaged in completing basic surveys on projects listed in the October 1957 agreement. Reasonable progress was made in the petroleum refinery contract that was awarded to Czechoslovakia in 1957, and it seems probable that the project will be completed in 1959.

In the Egyptian sector of the UAR, Soviet technicians were engaged in various surveys for geophysical and industrial projects under the Soviet-Egyptian economic aid agreement. Soviet capital goods for some projects included in the agreement are now entering the country. The Soviet credit has been supplemented by a \$21.5-million credit provided by East Germany under an agreement signed in August. Tangible progress under the two aid agreements is likely to be substantial during the first 6 months of 1959.

In Yemen, efforts were made during the period to implement both the Chinese Communist and the Soviet economic assistance agreements concluded in early 1958. Chinese Communist technicians arrived in Yemen and undertook surveys of a number of projects. The final contract for Soviet construction of a new port at Hudaydah was signed in October. During the period, East Germany also made an offer of economic assistance to Yemen. Bloc countries reportedly were encountering difficulty in implementing assistance agreements in Yemen, largely because of the inactivity of the Imam. Local financing costs apparently have caused a serious problem. In spite of these difficulties, however, construction activity is in progress.

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Sino-Soviet Bloc countries continued to exploit opportunities for increasing trade relations with Arab states. They have been active in both the Syrian and Egyptian cotton markets. During the cotton marketing year ending 31 August 1958, approximately 65 percent of Egyptian and 50 percent of Syrian cotton exports went to the Bloc. Sudan's critical cotton marketing problems have brought a reversal of traditional policy against barter arrangements. Sudan has now signed barter agreements with several Soviet Bloc countries. Furthermore, Sudanese resistance to a pending Soviet offer of economic assistance presumably in exchange for cotton has weakened, and a Soviet mission is expected in Khartoum shortly to negotiate an agreement.

Although agreements of major significance were not concluded with any countries of Africa, deteriorating political conditions, economic difficulties, and the economic aspirations of newly independent African countries continue to offer opportunities for future Bloc activity. Ethiopia and Libya received renewed offers of aid from the Bloc, and both accepted help in expanding their medical facilities. Guinea received offers of economic aid immediately after attaining independence and has already signed several trade agreements with Bloc countries. Bloc economic relations with many African countries can be expected to increase significantly during 1959.

South Asia.

Afghanistan, India, and Ceylon remained the focal points of the Sino-Soviet Bloc economic offensive in South Asia during the second half of 1958. Pakistan and Nepal continued to be reluctant to accept further Bloc offers. Afghanistan's implementation of projects under the Bloc credit program has encountered difficulties mainly as a result of the shortage of local currency and the high cost estimates of some Soviet projects. Bloc economic activity in Afghanistan, however, continued to have an important impact on the country, and a significant portion of the Afghan economy has now become dependent upon the Bloc.

Highlights of the Bloc's economic program in India during the latter half of 1958 included the acceptance of a new Rumanian credit, the extension of new offers, and the satisfactory completion of various stages of major Bloc projects under construction. Bloc credits extended to India now total approximately \$305 million, including the new Rumanian credit of \$10.7 million for a petroleum refinery. The discovery of oil in Bombay state -- although the extent of the find is not yet known -- produced major gains in the form of Indian respect for Soviet technicians. Although the Indian government has had evidence of susceptibility to Soviet propaganda on the

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part of some workers who had undergone training in the USSR, there was no major change in India's receptive attitude toward Bloc overtures, nor is any expected as long as the Indian economy is so dependent upon foreign aid.

Ceylon's economic relations with the Bloc continued to expand during this period with the acceptance of a new \$10.5-million credit from Communist China. Total Bloc assistance to Ceylon now approximates \$58 million. Implementation of the Soviet \$30-million credit program signed in February has been slow with only one contract thus far signed. This delay has been the result of Soviet and Ceylonese inability to reach an agreement on projects.

Southeast Asia.

Southeast Asia did not accept significant additional Bloc economic assistance during the second half of 1958. Trade promotion activity, particularly on the part of Communist China, was intensified, however, and was successful in promoting sales of certain Bloc textile and consumer goods items. Deliveries of Bloc military equipment to Indonesia under previous arms credit agreements continued, and negotiations covering projects to be financed under the \$100-million Soviet loan made further progress. Other developments included arrangements with the USSR and Communist China for the purchase of Bloc rice and a Chinese Communist offer to extend to Indonesia additional economic aid.

As a result of Burma's decision to seek grant aid only and to cut back expenditures for technical assistance, the USSR is placing a part of its aid to Burma on a grant basis. Three of the "gift" projects are to be continued as genuine grants, but about \$13.7 million in credits proffered by the USSR for agricultural projects have been canceled. Cambodia accepted an additional grant from Communist China valued at \$5.6 million but turned down a Chinese Communist offer of military assistance. Implementation of the basic aid agreement with Communist China was far behind schedule, but this lag was less apparent to the public than the progress made on the Soviet hospital in Phnom Penh. A Soviet loan offer of \$12.5 million was not accepted but remains open for future consideration.

Malaya and Singapore reacted against the Chinese Communist trade drive by placing import curbs on several mainland products. Malaya went further and passed legislation which will close the Malayan branches of the Communist Bank of China, and Communist China retaliated by informing traders in Malaya that they will receive no more direct shipments of Chinese Communist goods.

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Latin America.

The Soviet Bloc economic offensive in Latin America during the second half of 1958 continued at the high rate of activity evident in the first half of the year, with emphasis focused on Argentina, Brazil, Uruguay, and, to a lesser extent, Chile. Elsewhere in Latin America, Bloc overtures met with limited response, and purchases of Cuban sugar, sizable in recent years, declined sharply. Increased receptivity to Bloc offers appears likely as economic difficulties persist. Argentina's need for fuel and capital goods, Brazil's search for new coffee markets, and Uruguay's lagging wool sales in Western markets increased their susceptibility to Bloc economic overtures. Soviet shipments of crude oil to petroleum-short Argentina and Uruguay were welcomed as a means of easing their balance-of-payments problems. Moreover, in a number of countries Soviet and Satellite declarations of willingness to supply petroleum industry equipment have great appeal to strongly nationalist elements opposed to foreign private exploitation of local petroleum resources. The economic offensive in Latin America extended to Bolivia with Soviet offers of petroleum to the Bolivian state petroleum agency.

The second half of the year brought the first important Bloc credit extension to Latin America when Argentina accepted a Soviet line of credit of \$100 million for petroleum development. Nothing has materialized from Bloc offers of developmental and technical assistance to Bolivia, Brazil, and Uruguay. A Czechoslovak contract with Argentina for electric generating equipment called for supervision of installation by Czechoslovak technicians. Argentina concluded important contracts for Bloc capital goods under the terms of existing trade and payments agreements. Uruguayan-Bloc trade continued on a barter basis with the USSR emerging as the largest single purchaser from the 1957-58 wool clip. The Bloc countries may make similar purchases during the current wool year. If traditional Western markets and sources of financial assistance continue to prove inadequate to satisfy mounting popular demands for rapid economic development, further Bloc offers of assistance will be attractive to the Bloc's Latin American trade partners.

Argentina, Brazil, and Uruguay indicated increased interest in the Bloc as a source of capital goods and essential raw materials by signing new payments agreements with Bloc countries, by extending or initialing protocols to existing trade arrangements, and by ratifying pending commercial accords. Uruguay continued to grant trade concessions to the Bloc but did not complete ratification of previously signed trade accords. Soviet overtures to Brazil, linking trade with resumption of commercial and diplomatic relations, evoked sharp and extensive public discussion of the issue, but the present

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administration appears reluctant to enter into formal commercial relations with the USSR.

The level of Latin American trade with the Bloc probably will continue to form only an insignificant share of the area's total world trade. As a result of trade agreements made during 1958, however, the Bloc may become increasingly important as a supplier of key developmental goods and essential fuels, especially if these items are offered on a credit basis.

Europe.

During the last 6 months of 1958, Yugoslavia and Iceland continued as the focal points of Bloc economic activity in underdeveloped countries of Europe. Bloc economic relations with Yugoslavia reflected the consequences of political differences between the two areas. In August, Yugoslavia charged the USSR with deliberately withholding deliveries of wheat, coking coal, and other commodities. Deliveries of wheat and certain raw materials were resumed later in the year but continued to be irregular and uncertain, confirming previous evidence that the Bloc was carrying out a policy of economic harassment rather than resorting to an economic blockade such as was the case in 1948. Communist China began a boycott of Yugoslav ports and shipping in August, and the Yugoslav Foreign Minister accused the USSR of trying to force Yugoslavia out of foreign markets, especially in the Middle East.

In spite of this harassment, Yugoslav trade with the Bloc for the first 9 months of 1958 was 40 percent higher than in the same period of 1957. This increase was due to an expansion in trade with the European Satellites which more than offset a decline in total trade with the USSR.

In December the Yugoslavs announced that they had been able to utilize only \$18 million of the total of \$75 million in Czechoslovak credits which were due to expire at the end of 1958 because of Czechoslovak obstructionism. Thus, of a total of \$464 million in Bloc credits, Yugoslavia apparently has been able to utilize only about \$135 million, or less than 30 percent, and it is doubtful whether there will be any further drawings on the credits still outstanding.

For the first time since 1952, Iceland's share of trade with the Soviet Bloc countries declined during the first 9 months of 1958. Iceland accepted, however, a \$3.1-million Soviet loan to be repaid by Icelandic exports over a 12-year period. Icelandic Communist

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pressure to turn to the USSR for additional credits has increased with the failure of the government to negotiate loans for trawler construction in western Europe. Icelandic dependence on Soviet Bloc products was reduced somewhat by imports of surplus agricultural products from the US (under Public Law 480) and through the operation of a US-financed cement plant.

The only new economic agreement established between Portugal and the Soviet Bloc was an unofficial barter arrangement under which Portugal is to receive 47,000 tons of crude petroleum valued at \$800,000 in return for exports to the USSR of an equivalent value of cork and cork products.

Spain's trade with the Soviet Bloc, although small, is growing rapidly as a result of the unofficial trade agreement negotiated during the year with the European Satellites. A total annual trade of \$25 million both ways is envisaged under existing trade agreements. There is no trade agreement with the USSR, but Spain imported \$1.7 million of Soviet wood pulp during the first 7 months of 1958.

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