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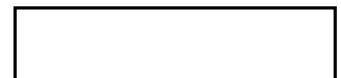
ECONOMIC INTELLIGENCE REPORT

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JULY - 31 DECEMBER 1959**

EIC-R14-S8

February 1960

ECONOMIC INTELLIGENCE COMMITTEE



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S-E-C-R-E-T

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 1959, constitutes the eighth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities to the economic operations of the Sino-Soviet Bloc in the underdeveloped areas in order to place the economic aspects in the perspective of the over-all programs and objectives of the Bloc in these regions. This report 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 15 February 1960.

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, Greece, Afghanistan, and Pakistan; (3) the independent countries of Africa, except the Union of South Africa; (4) all independent countries in Latin America; and (5) Yugoslavia, Iceland, Spain, and Portugal.

S-E-C-R-E-T

CONTENTS

	<u>Page</u>
Summary	i

25X1

S-E-C-R-E-T

25X1

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010009-4

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S-E-C-R-E-T

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JULY - 31 DECEMBER 1959

Summary

The Soviet Bloc, since the death of Stalin, has pursued a policy that seeks to weaken the influence of the Western powers in underdeveloped countries and to expand its own influence into these areas. A major facet of this policy has been the growth of Bloc economic ties with underdeveloped countries. By expanding commercial contacts with these countries and by extending economic and military assistance to them, the Bloc hopes to reduce their economic ties with the West and correspondingly to increase their dependence on the Bloc. The Bloc also hopes that by establishing economic ties it may induce the underdeveloped countries to adopt neutralist, if not pro-Communist, foreign policies. In addition, the Bloc evidently expects that its foreign aid program will help to promote the economic and social changes which it believes will facilitate the emergence of pro-Communist governments.

During the last half of 1959 the Sino-Soviet Bloc continued to press vigorously its economic assistance program in underdeveloped countries. New economic credits amounted to approximately \$600 million,* the largest figure for any 6-month period since the Bloc foreign aid program began and about double the amount of aid extended for all purposes in the first half of 1959. New credits and grants for all purposes for the entire year totaled \$922 million, slightly less than in 1958. Moreover, 1959 emerged as a record year for new economic credits, exceeding by about \$350 million the \$560 million posted in 1958. Although only \$6 million of the \$922 million in new credits and grants extended during 1959 were under military agreements, this appeared to be no more than a temporary interruption. Evidence available late in 1959 indicated that important new military credits may be concluded early in 1960.

During the second half of 1959 the Bloc obligated \$300 million of its outstanding credits and grants. This brought total allocations for specific purchases, projects, and schemes to \$2.4 billion by 31 December 1959.**

* Unless otherwise indicated, all dollar values in this report are in terms of US dollars.

** See Figure 1.

S-E-C-R-E-T

S-E-C-R-E-T

The USSR has been the chief source of Bloc financial assistance, and indications are that it will continue to furnish the major portion of new Bloc foreign aid funds in 1960. In 1959 alone the USSR extended 90 percent of all new credits and grants. Of the cumulative total of \$3.2 billion extended as of 31 December 1959, the USSR provided approximately 73 percent. Although the USSR is more and more assuming the role of financier and prime contractor for the Bloc's major credit agreements, the European Satellites are emerging as final contractors on a growing list of projects financed under these credits.

Utilization of Bloc credits and grants also established a record in 1959, when nearly \$400 million were drawn for developmental, military, and technical assistance projects. Because of the continued high level of new extensions, however, the unutilized portion of credits and grants also reached a peak of \$2.0 billion by 31 December 1959. Nearly all of the Bloc aid outstanding as of that date was for economic credits, military credits having been almost entirely utilized. This situation is a result of (1) the dearth of new military assistance agreements in 1959 and (2) the relatively rapid rate at which military credits have been drawn. During 1959, for example, almost 60 percent of the total drawings were for military goods and services.

Even though economic credits continue to pile up, Bloc projects are going forward steadily, and the rate of utilization of economic assistance can be expected to increase in coming years. Highlighting this progress, the USSR substantially completed the Bhilai steel mill in India and started preliminary construction work on the Aswan High Dam project on the Nile in the closing months of 1959.

The Bloc continued to maintain the brisk pace of its technical assistance program, employing about 6,500 economic and military technicians in underdeveloped countries during the period July-December 1959.* Of this number, more than 5,000 were at work on industrial, engineering, public works, and medical projects. The total number of Bloc technicians present in the last 6 months of the year exceeded the number estimated to be present in the first 6 months by about 550. The largest part of the increase was accounted for by technicians arriving to work on economic development.

Only in the field of trade did the Bloc's economic program appear to lose momentum in 1959. During the first 6 months of the year, the latest period for which complete statistics are available, Bloc trade with underdeveloped areas declined by about 10 percent from the level reached during the last 6 months of 1958. In the preceding 3 years, trade in each first half-year period increased by an average of 15 percent above the previous half-year period. Most of the decrease in total trade is traceable to a decline in Bloc exports, which, in turn,

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S-E-C-R-E-T

S-E-C-R-E-T

reflects the intensified competition in price and conditions of sale among exporters of manufactured goods in world markets.

Not only did the Bloc's economic offensive reach new levels for many of the activities pursued in the last 6 months of 1959, but it expanded into new areas as well. Countries in Africa and Latin America became the focal points of major Bloc efforts to establish beachheads in Western spheres of influence. The more notable results of these efforts were (1) Ethiopia's acceptance of two economic development credits -- one for \$100 million from the USSR and another for \$10 million from Czechoslovakia -- and (2) Brazil's acceptance of a 3-year bilateral trade and payments agreement with the USSR. In the case of both Ethiopia and Brazil the agreements with the USSR represented acceptance of longstanding offers. Pointing up increased Soviet interest in Latin America, First Deputy Premier Anastas Mikoyan made a state visit to Mexico, where he opened the Soviet exhibition in Mexico City.

Middle East and Africa

During the last 6 months of 1959 the Sino-Soviet Bloc economic offensive in the Middle East and Africa was focused mainly on Iraq, Afghanistan, the United Arab Republic (UAR), and Ethiopia, although a substantial increase in Bloc activity was reported in Cyprus and Guinea. In Iraq, political factors both abetted and hindered the Soviet Bloc efforts. Whereas the general political orientation of the Kassem regime rendered the country highly receptive to Bloc offers, administrative inefficiency and internal political instability hampered Bloc efforts to capitalize on its strong political position. Soviet activities in Iraq during the period were concerned primarily with survey work on projects planned under the \$137.5 million credit agreement concluded in March 1959.

The latter half of 1959 was a period of great activity on the part of the USSR in Afghanistan, being principally concerned with the implementation of agreements signed previously. Although there were no sizable new credits or offers by Sino-Soviet Bloc countries during the period, work on the major Soviet construction projects continued: two projects were completed, and another neared completion. The number of Bloc technicians working on specific projects increased during the period. These projects related mainly to road and airfield construction, although Soviet technicians continued to be active in the exploration for oil in northern Afghanistan. Soviet Bloc political capabilities in Afghanistan were limited by the fact that there is no Communist Party in the country or any local organization overtly supporting Bloc propaganda, programs, and objectives. Politically, Afghanistan has endeavored to maintain a neutral position on international matters.

- 3 -

S-E-C-R-E-T

S-E-C-R-E-T

The main theme of Bloc propaganda in the country was the familiar one of peace and friendship. Neither Afghan acceptance of US economic assistance nor the implementation of US projects was overtly attacked.

The activities of the Sino-Soviet Bloc in the UAR during the latter half of 1959 were concentrated mainly on the implementation of projects that are being financed by credits under the \$175 million Soviet-Egyptian aid agreement and on the maintenance of its large-scale purchases of Egyptian cotton. Major emphasis in the Egyptian sector has been placed on the expansion of petroleum facilities as well as on textile, chemical, fertilizer, and miscellaneous industries. Performance in the Syrian sector was less apparent than in the Egyptian sector. Recent contractual agreements, however, presage a step-up in Soviet implementation in 1960.

Owing to the continuation of Nasser's anti-Communist campaign, Bloc political capabilities in the UAR were negligible during the period. For the present, at least, Bloc countries appear to be banking on their performance under existing economic agreements with the UAR as a means of strengthening their long-run political position in that country. Notwithstanding increased Soviet participation in the economic development of the UAR, one apparent outgrowth of Nasser's political differences with Soviet leaders has been the substantial improvement in the opportunities of the Western countries to participate in the development programs of the UAR. Furthermore, the UAR's desire to achieve a more balanced trade with the Bloc and the Free World has become intensified. Therefore, although the economic position of the Soviet Bloc remains strong in the UAR, it was relatively weaker at the end of 1959 than in July.

Large-scale economic relations of the Soviet Bloc with Ethiopia during the last half of 1959 were initiated by the visit of Emperor Haile Selassie to the USSR and Czechoslovakia in July. The visit resulted in economic agreements involving credits of \$110 million (\$100 million Soviet and \$10 million Czechoslovak) for economic development. The conclusion of the agreements has been interpreted as an indication of Ethiopia's deep disappointment with the West over the Somali issue. A nine-man Soviet delegation arrived in Ethiopia shortly after the Emperor announced a new and extensive land reform program. The delegation subsequently presented a comprehensive offer of financial and technical assistance for this program. If this offer is accepted, it will afford the USSR an opportunity of exercising influence over the most important sector of the economy.

S-E-C-R-E-T

S-E-C-R-E-T

Elsewhere in Africa and the Middle East, Bloc economic activities were of significance in Guinea and Yemen. Soviet Bloc political capabilities in these two countries appear to be limited, however, inasmuch as both countries are striving to maintain a position of neutrality between the Bloc and the West. In Guinea, Bloc countries have been expending considerable effort to attain an important position in West Africa. During the period under review the USSR and Czechoslovakia signed long-term credit agreements with Guinea involving loans of approximately \$40 million. Guinean President Sekou Toure visited the USSR and Czechoslovakia late in the period. Bloc personnel reportedly are investigating Guinean iron ore deposits, participating in a roadbuilding program, and advising various government agencies. Additional technicians are expected to arrive in the country as Soviet and Czechoslovak economic agreements are implemented. In Yemen, Soviet progress on the Port of Hudaydah appears to be slow. On the other hand, in spite of various obstacles, the performance of Communist China on the Al Hudaydah - San'a road seems to be satisfactory.

South and Southeast Asia

The Sino-Soviet Bloc continued its efforts to increase its influence in South and Southeast Asia during the last 6 months of 1959, but its degree of success varied widely. India's border dispute with Communist China and China's attempts to force Indonesia to abandon its campaign to eliminate Chinese predominance in rural trade caused a sharp deterioration of relations between these countries.

The USSR appeared to be attempting with considerable success, however, to disassociate itself from Communist China's unpopularity. India continued to be receptive to Soviet Bloc trade and aid offers, and Nehru remained firmly attached to a policy of nonalignment. India also accepted almost \$450 million in additional credits from the Soviet Bloc, more than in all previous periods combined. The Soviet Bloc scored propaganda successes in Indonesia but was unable to convert them to political advantage during the period. Indonesia shifted most of its military purchases to the West, the strong indigenous Communist Party made little progress toward its tactical goals, the Bloc's credit program slowed markedly, and Indonesia's trade with the Bloc diminished somewhat. The change of government in Ceylon appeared, on balance, to have reduced Communist influence there; Burma reoriented its traditional neutralist foreign policy a bit in the direction of the West; and Cambodia's neutralism assumed less of a pro-Communist aspect than in previous periods. Nevertheless, Bloc technicians were actively engaged in carrying out aid projects in all these countries.

S-E-C-R-E-T

S-E-C-R-E-T

India accepted two Soviet credits totaling \$400 million and, in addition, \$48.5 million from Czechoslovakia for projects under its Third Five Year Plan. The USSR also offered to train 500 more technicians in the USSR, but the Indian government procrastinated in accepting the offer. Progress was slow on projects under the \$126 million Soviet line of credit extended to India in 1956.

During the second half of 1959, no new Bloc credit agreements were signed by Indonesia. The number of Bloc technicians employed in Indonesia fell sharply, about 40 remaining in one large concentration and a scattering of others being employed in survey work or in the administration of remaining Bloc projects.

There were no new credit agreements elsewhere in the area. In Nepal, implementation began on three of five projects scheduled under the Nepalese-Soviet \$7.5 million aid agreement of last April.

In Burma, factors that continued to operate against an increase in Bloc economic activity included Burmese insistence on grants rather than loans, dissatisfaction with earlier barter trading arrangements with Bloc countries, and disappointment with the utility of projects already underway.

Progress under an earlier \$30 million Soviet credit program in Ceylon was slow, no new projects having been agreed to under this program since early 1959. Progress on four others that had been contracted for remained at planning levels. There was even less progress on agreements with Communist China.

Although there was no increase in Bloc aid commitments to Cambodia, progress on factories financed by Communist China was steady. Three of these factories are expected to be in operation by early 1961. Reaction to these projects has been favorable.

Trade with the Bloc for South and Southeast Asia as a whole appeared likely to represent about the same proportion of the area's total trade in 1959 as in 1958, although developments varied from country to country. Among the more important trade developments in 1959 were the entry of the USSR into the Thai rubber market and heavy Soviet purchases in the rubber markets of the Federation of Malaya and Singapore. These purchases were largely responsible for a steep rise in rubber prices. Indonesian trade with the Bloc diminished somewhat in volume and relative importance during the first half of 1959. Communist China, Indonesia's principal trading partner, fell well behind schedule in rice deliveries. There was no evidence of a renewal of the Chinese Communist trade offensive in Southeast Asia.

- 6 -

S-E-C-R-E-T

S-E-C-R-E-T

Although Indian-Bloc trade agreements for 1959 envisioned, in most cases, sharply increased trade, actual performance in several cases was substantially below agreed levels. On balance, however, Indian trade with the Bloc probably increased in volume and importance in 1959 as a result of increased economic aid. The signing of a new trade pact with Poland and the reaching of a new rice-rubber pact with Communist China in January 1960 highlighted Ceylonese-Bloc trade developments. Burma's difficulties in liquidating Bloc balances under earlier trade and payments agreements continued to be a deterrent in concluding trade and clearing agreements with Bloc countries.

Latin America

During 1959, receptivity to Soviet Bloc approaches increased markedly in a number of Latin American countries. The USSR began a large-scale campaign to increase ties with countries in the area following Khrushchev's visit to the US. Soviet overtures were aided by increased Soviet prestige as a result of various scientific achievements and by the increased number of US-Soviet exchanges, which were interpreted as removing the stigma on the development of relations with the Communist countries. In this atmosphere, there was mounting pressure for the expansion of diplomatic and trade relations with the Bloc, and there was a definite increase in travel to Bloc capitals.

During 1959, anti-US groups in Latin America stepped up their attacks on the US. The flood of anti-US propaganda and some blunt or only thinly veiled threats of defection to the side of the Soviet Bloc in the absence of massive US economic aid can be partly discounted as a blowoff of repressions. The reactions took their most serious form in revolutionary Cuba, where the Castro regime came increasingly under Communist influence during the year. In Brazil, which is seeking foreign aid to avoid a politically dangerous slowdown in economic development, there was a significantly keener interest in trade and possible resumption of diplomatic relations with the USSR.

Latin American trade with the Soviet Bloc appears to have continued its upward trend during 1959. Trade with Brazil, Uruguay, and Cuba registered definite increases, and Argentine trade remained at about the same level as in 1958.

The increase in Brazilian trade with the Bloc was accompanied by serious consideration of the potential of the Communist countries as markets for surplus agricultural products, especially coffee, and as nondollar sources of petroleum and capital equipment. Trends in Brazilian-Bloc trade and the negotiation of a 3-year Soviet-Brazilian trade agreement, signed in Moscow near the year's end, suggested the establishment of a firm basis for further trade increases as well as the reestablishment of diplomatic relations.

- 7 -

S-E-C-R-E-T

S-E-C-R-E-T

The River Plate countries appeared cooler toward the development of economic relations with the Bloc during 1959, particularly Argentina, where diplomatic relations with the USSR and other Bloc countries were noticeably strained. As part of its commitment to the International Monetary Fund, Argentina gave notice in December of the abrogation of many of its bilateral trade and payments agreements, including those with the European Satellites. Although the buildup of Bloc-Argentine economic relations that took place in 1958 did not continue during 1959, Argentina nevertheless agreed to purchase Soviet petroleum equipment worth \$32 million under a \$100 million Soviet credit negotiated in 1958. In Uruguay, in spite of government reluctance, trade with Bloc countries increased again in 1959, primarily as a result of large-scale Soviet Bloc purchases of wool and sizable Uruguayan imports of Soviet petroleum.

Cuba, the only other significant Bloc trading partner in Latin America, exported large quantities of sugar to the USSR during the last 6 months of 1959, and it appears probable that Cuban trade with the Bloc for all of 1959 exceeded 1958 levels. As has been noted, the political climate in Cuba appeared especially favorable to Bloc overtures. There were reports throughout the period that the Castro government was actively considering Soviet and Czechoslovak offers for capital goods credits, and it was announced late in 1959 that the Soviet exhibition that had been staged in New York and Mexico City would open in Havana in February.

In November the broadened scope of Soviet efforts to expand relations with Latin America was highlighted by an event in Mexico, a country that for a long time has had diplomatic ties but only nominal economic and cultural relations with the USSR. The 10-day visit to Mexico of Soviet First Deputy Premier Mikoyan, ostensibly to open the Soviet exhibition in Mexico City, included Soviet offers of large credits and increased trade; a number of important cultural exchanges; and an invitation to President Lopez Mateos to visit Moscow, implying other high-level Soviet - Latin American interchanges in future months. The first visit to Latin America ever to be made by a member of the top Soviet leadership, Mikoyan's trip provided dramatic evidence of increased Soviet attention to that area. As the year closed, Soviet propaganda and official statements implied that the rapid increase of cultural, economic, and political ties between the Bloc and Latin America was a growing and inevitable trend. Developments in Cuba; the conclusion by Colombia of quasi-official trade agreements with the USSR, Hungary, and Rumania; and the announcement that a Chilean trade delegation would leave for Moscow early in 1960 further indicated a growing campaign to increase Soviet influence in Latin America on all fronts -- political, economic, and cultural -- during the next few years.

- 8 -

S-E-C-R-E-T

S-E-C-R-E-T

Europe

Sino-Soviet Bloc economic activity in underdeveloped countries of Europe during the second half of 1959 continued to be limited primarily to trade. Yugoslav imports from the Bloc declined during the first three quarters of 1959 compared with the same period of 1958, partly because of the expiration or postponement of most Bloc credits and partly because of increased difficulties involved in reaching agreement with Bloc countries on specific imports. Exports to the Bloc, on the other hand, increased, so that total Yugoslav trade with the Bloc during this period was only slightly below the 1958 level. Trade agreements for 1960, as well as the new, longer range 3-year trade accords (1960-62) concluded with Hungary, East Germany, and Bulgaria, called for only moderate rises in trade. The slower projected rates of increase in trade in part reflected Belgrade's desire to limit Bloc trade to not more than 25 to 30 percent of Yugoslavia's total trade in order to avoid excessive economic dependence on the Bloc.

The Bloc continues to play a major role in Iceland by providing markets for products that Iceland would have great difficulty in marketing elsewhere. The Bloc uses this economic advantage, where it can, to achieve political objectives. Twice during 1959, in an effort to influence parliamentary elections, the USSR implied that it might reduce its purchases from Iceland. Nevertheless, trade between Iceland and the Soviet Bloc through September 1959, accounting for approximately one-third of Iceland's total trade, showed no significant change from the comparable period in 1958.

There was a sharp increase in Spanish trade with the Bloc during the first 6 months of 1959 compared with the same period of 1958, but it accounted for less than 4 percent of Spain's total foreign trade. In spite of rising levels of trade with the Bloc, actual increases during this period lagged far behind the rates of increase that would be required if trade goals anticipated in 1959 agreements with Bloc countries are to be met.

Similarly, Portuguese trade with the Bloc increased sharply during the opening 6 months of 1959 compared with 1958, but, in spite of this increase, it still represented but a small proportion of Portugal's total foreign trade.

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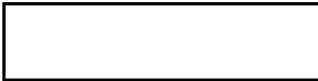
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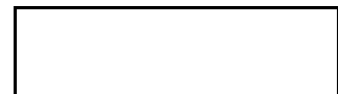
SUMMARY

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

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S-E-C-R-E-T

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Summary

The Soviet Bloc, since the death of Stalin, has pursued a policy that seeks to weaken the influence of the Western powers in underdeveloped countries and to expand its own influence into these areas. A major facet of this policy has been the growth of Bloc economic ties with underdeveloped countries. By expanding commercial contacts with these countries and by extending economic and military assistance to them, the Bloc hopes to reduce their economic ties with the West and correspondingly to increase their dependence on the Bloc. The Bloc also hopes that by establishing economic ties it may induce the underdeveloped countries to adopt neutralist, if not pro-Communist, foreign policies. In addition, the Bloc evidently expects that its foreign aid program will help to promote the economic and social changes which it believes will facilitate the emergence of pro-Communist governments.

During the last half of 1959 the Sino-Soviet Bloc continued to press vigorously its economic assistance program in underdeveloped countries. New economic credits amounted to approximately \$600 million,* the largest figure for any 6-month period since the Bloc foreign aid program began and about double the amount of aid extended for all purposes in the first half of 1959. New credits and grants for all purposes for the entire year totaled \$922 million, slightly less than in 1958. Moreover, 1959 emerged as a record year for new economic credits, exceeding by about \$350 million the \$560 million posted in 1958. Although only \$6 million of the \$922 million in new credits and grants extended during 1959 were under military agreements, this appeared to be no more than a temporary interruption. Evidence available late in 1959 indicated that important new military credits may be concluded early in 1960.

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Middle East and Africa

During the last 6 months of 1959 the Sino-Soviet Bloc economic offensive in the Middle East and Africa was focused mainly on Iraq, Afghanistan, the United Arab Republic (UAR), and Ethiopia, although a substantial increase in Bloc activity was reported in Cyprus and Guinea. In Iraq, political factors both abetted and hindered the Soviet Bloc efforts. Whereas the general political orientation of the Kassem regime rendered the country highly receptive to Bloc offers, administrative inefficiency and internal political instability hampered Bloc efforts to capitalize on its strong political position. Soviet activities in Iraq during the period were concerned primarily with survey work on projects planned under the \$137.5 million credit agreement concluded in March 1959.

The latter half of 1959 was a period of great activity on the part of the USSR in Afghanistan, being principally concerned with the implementation of agreements signed previously. Although there were no sizeable new credits or offers by Sino-Soviet Bloc countries during the period, work on the major Soviet construction projects continued: two projects were completed, and another neared completion. The number of Bloc technicians working on specific projects increased during the period. These projects related mainly to road and airfield construction, although Soviet technicians continued to be active in the exploration for oil in northern Afghanistan. Soviet Bloc political capabilities in Afghanistan were limited by the fact that there is no Communist Party in the country or any local organization overtly supporting Bloc propaganda, programs, and objectives. Politically, Afghanistan has endeavored to maintain a neutral position on international matters.

S-E-C-R-E-T

S-E-C-R-E-T

The main theme of Bloc propaganda in the country was the familiar one of peace and friendship. Neither Afghan acceptance of US economic assistance nor the implementation of US projects was overtly attacked.

The activities of the Sino-Soviet Bloc in the UAR during the latter half of 1959 were concentrated mainly on the implementation of projects that are being financed by credits under the \$175 million Soviet-Egyptian aid agreement and on the maintenance of its large-scale purchases of Egyptian cotton. Major emphasis in the Egyptian sector has been placed on the expansion of petroleum facilities as well as on textile, chemical, fertilizer, and miscellaneous industries. Performance in the Syrian sector was less apparent than in the Egyptian sector. Recent contractual agreements, however, presage a step-up in Soviet implementation in 1960.

Owing to the continuation of Nasser's anti-Communist campaign, Bloc political capabilities in the UAR were negligible during the period. For the present, at least, Bloc countries appear to be banking on their performance under existing economic agreements with the UAR as a means of strengthening their long-run political position in that country. Notwithstanding increased Soviet participation in the economic development of the UAR, one apparent outgrowth of Nasser's political differences with Soviet leaders has been the substantial improvement in the opportunities of the Western countries to participate in the development programs of the UAR. Furthermore, the UAR's desire to achieve a more balanced trade with the Bloc and the Free World has become intensified. Therefore, although the economic position of the Soviet Bloc remains strong in the UAR, it was relatively weaker at the end of 1959 than in July.

Large-scale economic relations of the Soviet Bloc with Ethiopia during the last half of 1959 were initiated by the visit of Emperor Haile Selassie to the USSR and Czechoslovakia in July. The visit resulted in economic agreements involving credits of \$110 million (\$100 million Soviet and \$10 million Czechoslovak) for economic development. The conclusion of the agreements has been interpreted as an indication of Ethiopia's deep disappointment with the West over the Somali issue. A nine-man Soviet delegation arrived in Ethiopia shortly after the Emperor announced a new and extensive land reform program. The delegation subsequently presented a comprehensive offer of financial and technical assistance for this program. If this offer is accepted, it will afford the USSR an opportunity of exercising influence over the most important sector of the economy.

S-E-C-R-E-T

Elsewhere in Africa and the Middle East, Bloc economic activities were of significance in Guinea and Yemen. Soviet Bloc political capabilities in these two countries appear to be limited, however, inasmuch as both countries are striving to maintain a position of neutrality between the Bloc and the West. In Guinea, Bloc countries have been expending considerable effort to attain an important position in West Africa. During the period under review the USSR and Czechoslovakia signed long-term credit agreements with Guinea involving loans of approximately \$40 million. Guinean President Sekou Toure visited the USSR and Czechoslovakia late in the period. Bloc personnel reportedly are investigating Guinean iron ore deposits, participating in a roadbuilding program, and advising various government agencies. Additional technicians are expected to arrive in the country as Soviet and Czechoslovak economic agreements are implemented. In Yemen, Soviet progress on the Port of Hudaydah appears to be slow. On the other hand, in spite of various obstacles, the performance of Communist China on the Al Hudaydah - San'a road seems to be satisfactory.

South and Southeast Asia

The Sino-Soviet Bloc continued its efforts to increase its influence in South and Southeast Asia during the last 6 months of 1959, but its degree of success varied widely. India's border dispute with Communist China and China's attempts to force Indonesia to abandon its campaign to eliminate Chinese predominance in rural trade caused a sharp deterioration of relations between these countries.

The USSR appeared to be attempting with considerable success, however, to disassociate itself from Communist China's unpopularity. India continued to be receptive to Soviet Bloc trade and aid offers, and Nehru remained firmly attached to a policy of nonalignment. India also accepted almost \$450 million in additional credits from the Soviet Bloc, more than in all previous periods combined. The Soviet Bloc scored propaganda successes in Indonesia but was unable to convert them to political advantage during the period. Indonesia shifted most of its military purchases to the West, the strong indigenous Communist Party made little progress toward its tactical goals, the Bloc's credit program slowed markedly, and Indonesia's trade with the Bloc diminished somewhat. The change of government in Ceylon appeared, on balance, to have reduced Communist influence there; Burma reoriented its traditional neutralist foreign policy a bit in the direction of the West; and Cambodia's neutralism assumed less of a pro-Communist aspect than in previous periods. Nevertheless, Bloc technicians were actively engaged in carrying out aid projects in all these countries.

S-E-C-R-E-T

India accepted two Soviet credits totaling \$400 million and, in addition, \$48.5 million from Czechoslovakia for projects under its Third Five Year Plan. The USSR also offered to train 500 more technicians in the USSR, but the Indian government procrastinated in accepting the offer. Progress was slow on projects under the \$126 million Soviet line of credit extended to India in 1956.

During the second half of 1959, no new Bloc credit agreements were signed by Indonesia. The number of Bloc technicians employed in Indonesia fell sharply, about 40 remaining in one large concentration and a scattering of others being employed in survey work or in the administration of remaining Bloc projects.

There were no new credit agreements elsewhere in the area. In Nepal, implementation began on three of five projects scheduled under the Nepalese-Soviet \$7.5 million aid agreement of last April.

In Burma, factors that continued to operate against an increase in Bloc economic activity included Burmese insistence on grants rather than loans, dissatisfaction with earlier barter trading arrangements with Bloc countries, and disappointment with the utility of projects already underway.

Progress under an earlier \$30 million Soviet credit program in Ceylon was slow, no new projects having been agreed to under this program since early 1959. Progress on four others that had been contracted for remained at planning levels. There was even less progress on agreements with Communist China.

Although there was no increase in Bloc aid commitments to Cambodia, progress on factories financed by Communist China was steady. Three of these factories are expected to be in operation by early 1961. Reaction to these projects has been favorable.

Trade with the Bloc for South and Southeast Asia as a whole appeared likely to represent about the same proportion of the area's total trade in 1959 as in 1958, although developments varied from country to country. Among the more important trade developments in 1959 were the entry of the USSR into the Thai rubber market and heavy Soviet purchases in the rubber markets of the Federation of Malaya and Singapore. These purchases were largely responsible for a steep rise in rubber prices. Indonesian trade with the Bloc diminished somewhat in volume and relative importance during the first half of 1959. Communist China, Indonesia's principal trading partner, fell well behind schedule in rice deliveries. There was no evidence of a renewal of the Chinese Communist trade offensive in Southeast Asia.

S-E-C-R-E-T

S-E-C-R-E-T

Although Indian-Bloc trade agreements for 1959 envisioned, in most cases, sharply increased trade, actual performance in several cases was substantially below agreed levels. On balance, however, Indian trade with the Bloc probably increased in volume and importance in 1959 as a result of increased economic aid. The signing of a new trade pact with Poland and the reaching of a new rice-rubber pact with Communist China in January 1960 highlighted Ceylonese-Bloc trade developments. Burma's difficulties in liquidating Bloc balances under earlier trade and payments agreements continued to be a deterrent in concluding trade and clearing agreements with Bloc countries.

Latin America

During 1959, receptivity to Soviet Bloc approaches increased markedly in a number of Latin American countries. The USSR began a large-scale campaign to increase ties with countries in the area following Khrushchev's visit to the US. Soviet overtures were aided by increased Soviet prestige as a result of various scientific achievements and by the increased number of US-Soviet exchanges, which were interpreted as removing the stigma on the development of relations with the Communist countries. In this atmosphere, there was mounting pressure for the expansion of diplomatic and trade relations with the Bloc, and there was a definite increase in travel to Bloc capitals.

During 1959, anti-US groups in Latin America stepped up their attacks on the US. The flood of anti-US propaganda and some blunt or only thinly veiled threats of defection to the side of the Soviet Bloc in the absence of massive US economic aid can be partly discounted as a blowoff of repressions. The reactions took their most serious form in revolutionary Cuba, where the Castro regime came increasingly under Communist influence during the year. In Brazil, which is seeking foreign aid to avoid a politically dangerous slowdown in economic development, there was a significantly keener interest in trade and possible resumption of diplomatic relations with the USSR.

Latin American trade with the Soviet Bloc appears to have continued its upward trend during 1959. Trade with Brazil, Uruguay, and Cuba registered definite increases, and Argentine trade remained at about the same level as in 1958.

The increase in Brazilian trade with the Bloc was accompanied by serious consideration of the potential of the Communist countries as markets for surplus agricultural products, especially coffee, and as nondollar sources of petroleum and capital equipment. Trends in Brazilian-Bloc trade and the negotiation of a 3-year Soviet-Brazilian trade agreement, signed in Moscow near the year's end, suggested the establishment of a firm basis for further trade increases as well as the reestablishment of diplomatic relations.

- 7 -

S-E-C-R-E-T

S-E-C-R-E-T

The River Plate countries appeared cooler toward the development of economic relations with the Bloc during 1959, particularly Argentina, where diplomatic relations with the USSR and other Bloc countries were noticeably strained. As part of its commitment to the International Monetary Fund, Argentina gave notice in December of the abrogation of many of its bilateral trade and payments agreements, including those with the European Satellites. Although the buildup of Bloc-Argentine economic relations that took place in 1958 did not continue during 1959, Argentina nevertheless agreed to purchase Soviet petroleum equipment worth \$32 million under a \$100 million Soviet credit negotiated in 1958. In Uruguay, in spite of government reluctance, trade with Bloc countries increased again in 1959, primarily as a result of large-scale Soviet Bloc purchases of wool and sizable Uruguayan imports of Soviet petroleum.

Cuba, the only other significant Bloc trading partner in Latin America, exported large quantities of sugar to the USSR during the last 6 months of 1959, and it appears probable that Cuban trade with the Bloc for all of 1959 exceeded 1958 levels. As has been noted, the political climate in Cuba appeared especially favorable to Bloc overtures. There were reports throughout the period that the Castro government was actively considering Soviet and Czechoslovak offers for capital goods credits, and it was announced late in 1959 that the Soviet exhibition that had been staged in New York and Mexico City would open in Havana in February.

In November the broadened scope of Soviet efforts to expand relations with Latin America was highlighted by an event in Mexico, a country that for a long time has had diplomatic ties but only nominal economic and cultural relations with the USSR. The 10-day visit to Mexico of Soviet First Deputy Premier Mikoyan, ostensibly to open the Soviet exhibition in Mexico City, included Soviet offers of large credits and increased trade; a number of important cultural exchanges; and an invitation to President Lopez Mateos to visit Moscow, implying other high-level Soviet - Latin American interchanges in future months. The first visit to Latin America ever to be made by a member of the top Soviet leadership, Mikoyan's trip provided dramatic evidence of increased Soviet attention to that area. As the year closed, Soviet propaganda and official statements implied that the rapid increase of cultural, economic, and political ties between the Bloc and Latin America was a growing and inevitable trend. Developments in Cuba; the conclusion by Colombia of quasi-official trade agreements with the USSR, Hungary, and Rumania; and the announcement that a Chilean trade delegation would leave for Moscow early in 1960 further indicated a growing campaign to increase Soviet influence in Latin America on all fronts -- political, economic, and cultural -- during the next few years.

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Europe

Sino-Soviet Bloc economic activity in underdeveloped countries of Europe during the second half of 1959 continued to be limited primarily to trade. Yugoslav imports from the Bloc declined during the first three quarters of 1959 compared with the same period of 1958, partly because of the expiration or postponement of most Bloc credits and partly because of increased difficulties involved in reaching agreement with Bloc countries on specific imports. Exports to the Bloc, on the other hand, increased, so that total Yugoslav trade with the Bloc during this period was only slightly below the 1958 level. Trade agreements for 1960, as well as the new, longer range 3-year trade accords (1960-62) concluded with Hungary, East Germany, and Bulgaria, called for only moderate rises in trade. The slower projected rates of increase in trade in part reflected Belgrade's desire to limit Bloc trade to not more than 25 to 30 percent of Yugoslavia's total trade in order to avoid excessive economic dependence on the Bloc.

The Bloc continues to play a major role in Iceland by providing markets for products that Iceland would have great difficulty in marketing elsewhere. The Bloc uses this economic advantage, where it can, to achieve political objectives. Twice during 1959, in an effort to influence parliamentary elections, the USSR implied that it might reduce its purchases from Iceland. Nevertheless, trade between Iceland and the Soviet Bloc through September 1959, accounting for approximately one-third of Iceland's total trade, showed no significant change from the comparable period in 1958.

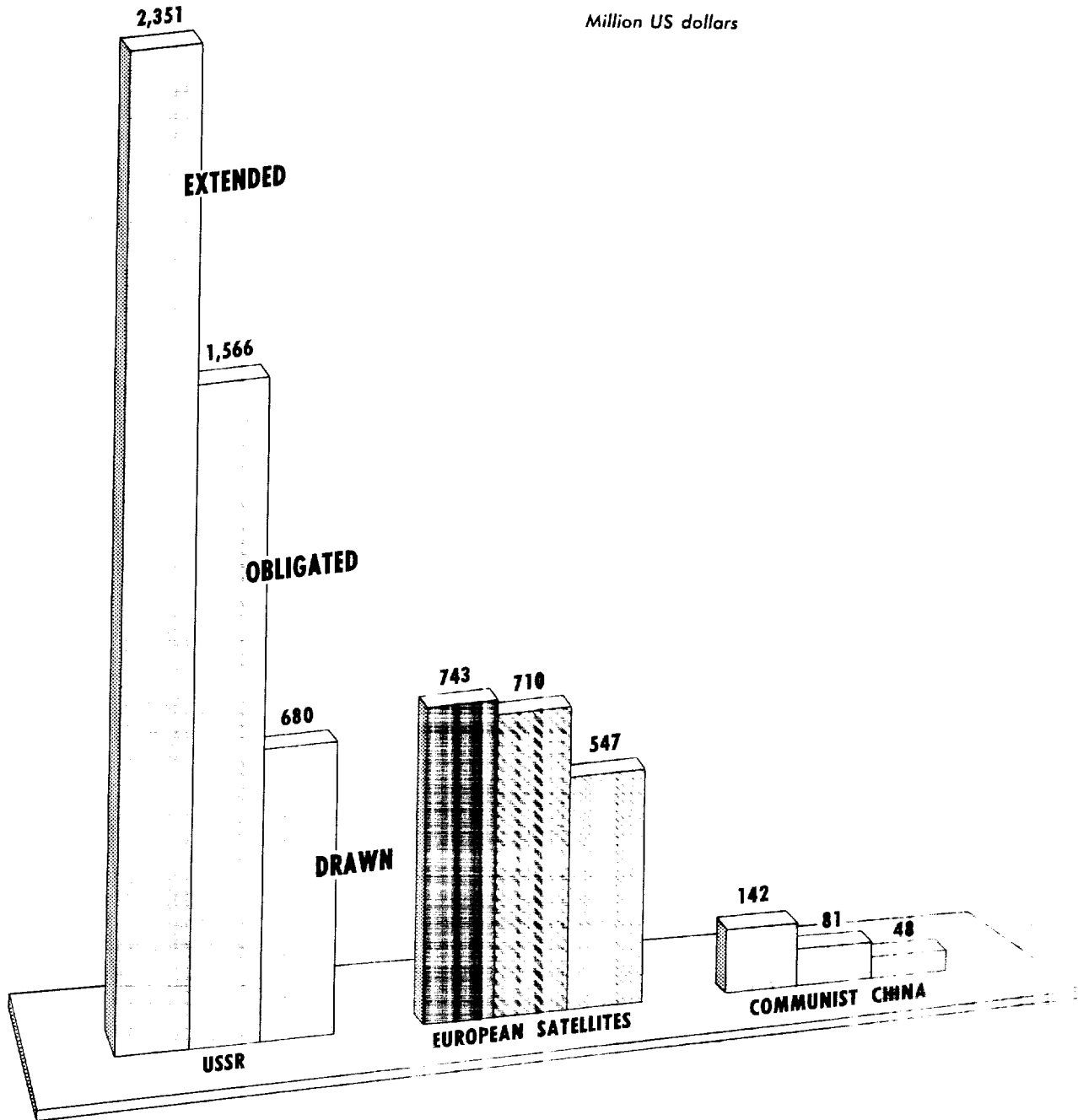
There was a sharp increase in Spanish trade with the Bloc during the first 6 months of 1959 compared with the same period of 1958, but it accounted for less than 4 percent of Spain's total foreign trade. In spite of rising levels of trade with the Bloc, actual increases during this period lagged far behind the rates of increase that would be required if trade goals anticipated in 1959 agreements with Bloc countries are to be met.

Similarly, Portuguese trade with the Bloc increased sharply during the opening 6 months of 1959 compared with 1958, but, in spite of this increase, it still represented but a small proportion of Portugal's total foreign trade.

S-E-C-R-E-T

SINO-SOVIET BLOC CREDITS AND GRANTS TO UNDERDEVELOPED COUNTRIES OF THE FREE WORLD

1 January 1954 - 31 December 1959



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Figure 1

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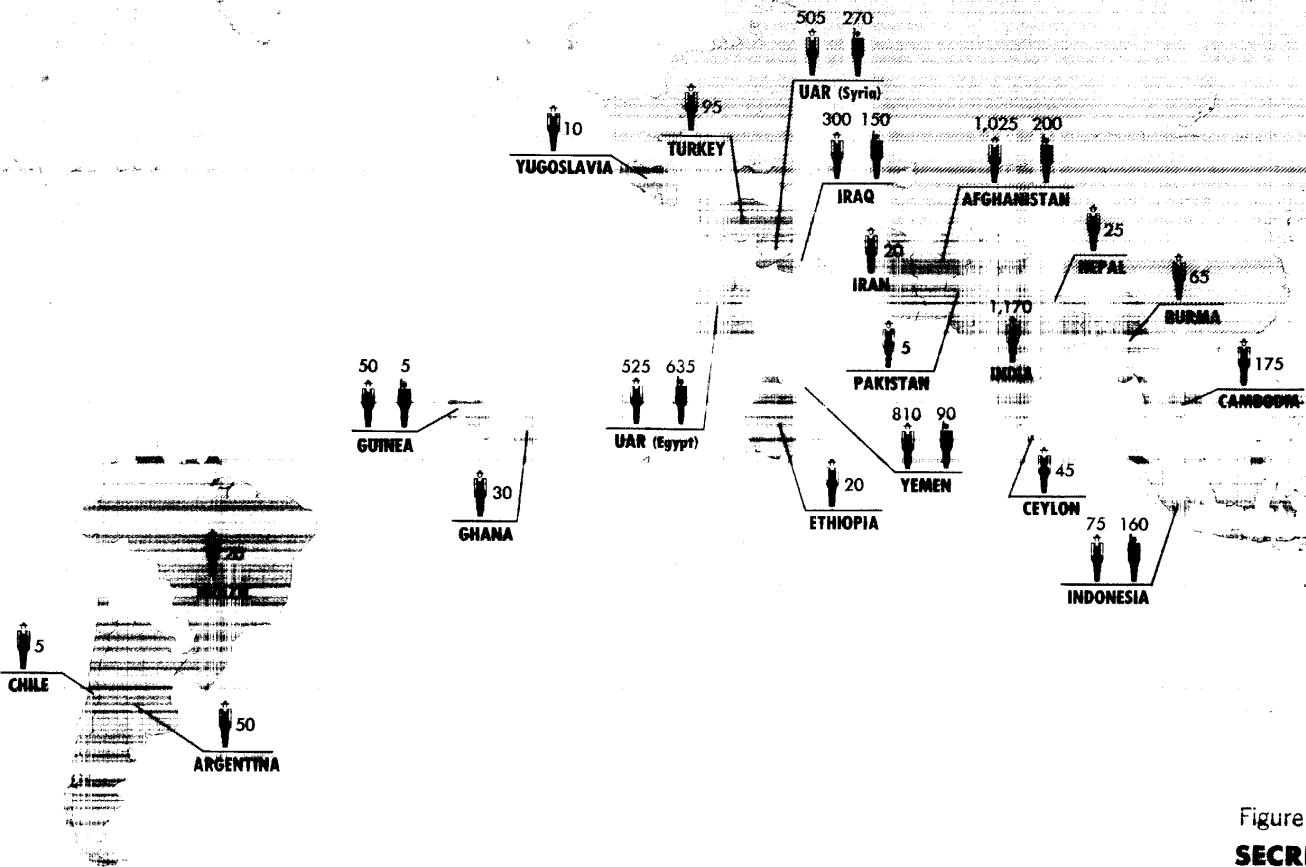


Figure 2



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SINO-SOVIET BLOC ECONOMIC AND MILITARY SPECIALISTS

IN UNDERDEVELOPED COUNTRIES OF THE FREE WORLD

1 July - 31 December 1959

 Economic specialist
 Military specialist

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