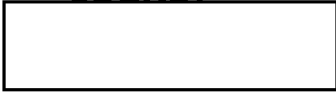


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**ECONOMIC INTELLIGENCE REPORT**

**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JANUARY - 30 JUNE 1961**

**EIC R14-S11**

31 August 1961

**ECONOMIC INTELLIGENCE COMMITTEE**



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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 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 January through 30 June 1961, constitutes the eleventh 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, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries. 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; the National Security Agency; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 15 August 1961.

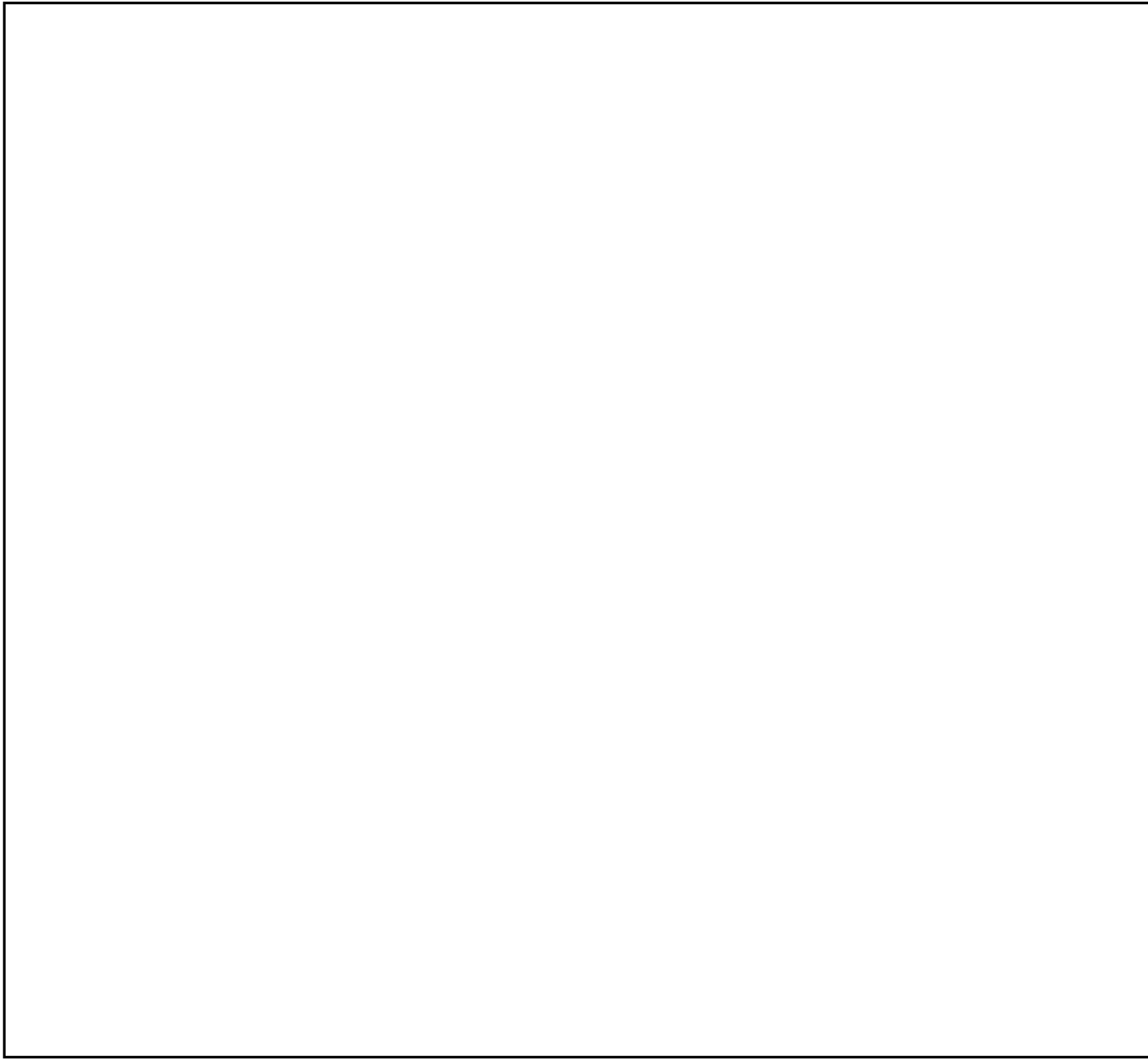
For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, Turkey, and the United Arab Republic (Egypt and Syria); (3) all independent countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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S-E-C-R-E-T

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1 JANUARY - 30 JUNE 1961

Summary

Patterns and Prospects

Efforts to extend Bloc influence in underdeveloped areas continued to grow in scope and magnitude during the first half of 1961. As in the past several years, financial and technical assistance programs were correlated with trade promotion, propaganda, cultural, and political activities. Although relations with underdeveloped countries in Asia and the Middle East received due attention, emphasis was placed on consolidating gains in key African and Latin American states and on expanding contacts with other countries in these areas. Moreover, a number of countries -- in particular Brazil, Pakistan, and Thailand -- that in the past had shown little interest in Bloc aid evidenced a growing inclination to give Bloc offers more serious consideration.

New economic credits and grants during the first 6 months of 1961 were extended at an annual rate above the average for the past 5 years but below the level recorded in 1960. Expenditures under existing economic credits and grants rose sharply during the first half of 1961, reaching an annual rate substantially above that for any previous year. This increase was, in large measure, the result of an acceleration in the implementation of Soviet aid programs in the United Arab Republic (UAR) and India. The progress of preliminary survey work on projects covered by large Soviet lines of credit and the number of countries recently offered extensive economic assistance by the USSR and Czechoslovakia point to a considerable expansion of Bloc economic aid activity in the months ahead.

During the first 6 months of 1961, Peiping employed economic aid agreements as one means of mending its political fences and promoting its influence in Southeast Asia. With the establishment of new lines of credit to Burma and Indonesia, Communist China increased the amount of economic aid that it has extended to countries outside of the Bloc by about 50 percent. Peiping announced early in May that the State Council had established a Bureau for Economic Relations with Foreign Countries. The new agency, which presumably will administer the foreign aid and technical assistance programs of Communist China, apparently will have functions similar to those of the Soviet State Committee for Foreign Economic Relations.

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The USSR has continued the use of arms diplomacy to expand its influence in underdeveloped areas. A major new agreement was signed with Indonesia in January and expanded in June 1961, and deliveries of equipment under existing pacts with the UAR and Cuba were accelerated during the first 6 months of the year. Guinea, Ghana, Morocco, and the Algerian rebels also received arms from the USSR. Moscow sought to use Ghana and Guinea as funnels through which to channel arms to other African countries. In the future, this tactic probably will be tried with greater frequency and in other areas -- especially in Latin America, where Cuba could serve as a relay point.

Bloc trade with underdeveloped countries in 1961 gives every indication of continuing the pace evidenced in 1960, when it increased 20 percent above the year before. In 1961, as in 1960, Latin America -- particularly Cuba -- is likely to account for the major portion of the total growth in Bloc trade with all underdeveloped areas.

On the ideological front, the newly established Soviet agency Novosti (news) appears destined to play an important role. Combining the functions of a press and an information agency, Novosti will open branches in foreign countries to disseminate Soviet propaganda. In addition to its own staff, Novosti will contract with foreign press, radio, and television organizations as well as with private individuals to assist in furthering its mission. Prominent among the officials of the council that will run the new organization is an expert on underdeveloped countries.

#### Economic and Military Aid

The Bloc extended nearly \$465 million\* in economic aid to underdeveloped countries in the first 6 months of 1961, nearly all in the form of credits. Thus, since 1954, approximately \$4 billion in economic aid has been extended to 24 underdeveloped countries, about 95 percent of it in the form of credits and the rest in the form of grants.

Drawings for development projects are estimated to be about \$155 million for the first half of 1961. By midyear, only 22 percent of the \$4 billion extended for economic purposes had been drawn. Thus more than \$3 billion remains to help finance the foreign exchange costs of development projects planned or already underway.

The only major military aid agreement signed during the period was one between the USSR and Indonesia for \$250 million worth of supplies and equipment. The USSR applied a discount on certain items that reduced the selling price to \$187 million, all of which is to be financed

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\* All dollar values in this report are given in terms of US dollars.

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by a long-term credit. A protocol to the basic agreement added \$75 million worth of items, bringing the total value of this agreement as amended to \$325 million.

By midyear 1961 the Bloc had entered into agreements to provide 10 underdeveloped countries with about \$1.9 billion worth of military supplies, equipment, and training. As of 30 June 1961, all except about \$600 million worth of military items had been delivered. Some of the agreements called for partial payments to be made upon delivery, and some provided for discounts. When the down payments are deducted from the estimated value of the items, the amount of financial aid extended for military purposes since September 1955 totals about \$1.8 billion. When the discounts also are deducted, the credit financing provided amounts to approximately \$1.3 billion. Thus by midyear 1961, total aid extended by the Bloc for economic and military purposes was approximately \$5.9 billion.\*

#### Technical Assistance

About 9,700 Bloc technicians -- 8,200 economic and 1,500 military -- were present in underdeveloped countries for 1 month or longer during the first half of 1961. This figure may be compared with 7,900 Bloc technicians -- 6,500 economic and 1,400 military -- present in the last half of 1960.

The number of nationals from underdeveloped countries studying in the Bloc also has continued to increase rapidly. New arrivals in 1961 total 3,200 -- 900 academic students, 1,600 technical trainees, and 700 military officers and men. Thus by midyear those persons from underdeveloped countries who had received or were receiving instruction in the Bloc numbered more than 14,800 -- 4,900 at academic, 4,600 at technical, and 5,300 at military training centers.

#### Trade

During 1960, Bloc trade with underdeveloped countries recovered from the 1959 lull to resume its rise at the 20-percent rate which had characterized the average annual growth since 1955. Bloc exports and imports expanded at about the same rate to register a trade turnover of \$2.7 billion. The increase of \$450 million above 1959 resulted primarily from a growth in volume of commodities exchanged rather than from price changes or seasonal variations.

\* In this report an extension of the definition of Bloc military aid has been introduced: the scope of financial aid is no longer limited to credits and grants but now considers discounts as well. For further details, see p. 19, below, and Table 17, p. 113, below.

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Cuba alone accounted for nearly half of the over-all increase, as the volume of exports to the Castro regime mounted rapidly from July through December. The rest of the increase in trade was fairly evenly shared by the Middle East, Africa, and the underdeveloped countries of Europe. Only in Asia did Bloc trade remain at the same level as in 1959.

Commerce with the industrial countries of the Free World continues to account for a preponderant share of the trade of underdeveloped countries. In 1960, however, this commerce grew at a somewhat slower pace than trade with the Bloc. As a result, the share of the Bloc in the trade of underdeveloped countries increased from 7 percent in 1959 to 8 percent in 1960.

#### Latin America

During the first half of 1961 the Bloc concentrated its Latin American efforts in Cuba and Brazil, continuing to consolidate its position in the former and to broaden considerably its relations with Brazil. Chile and Ecuador received more attention than in recent years, while apparently there was a shift of interest away from Argentina and Uruguay.

Cuba's economic relations with the Bloc continued to expand, and the two sides appeared to be adjusting to their new relationship in which the Communist world has assumed the primary burden of supporting the Cuban economy. During the first half of 1961 the Bloc accounted for about two-thirds of Cuba's total trade and by the end of the year may account for three-fourths. The much-vaunted economic assistance program proceeded at a slower pace, although it became more and more evident that Cuba's economic planning assumes extensive Bloc support. The Bloc has extended to Cuba long-term economic credits totaling \$357 million, including \$142 million extended during the first 6 months of 1961. In addition, Cuba has received considerable military equipment under undisclosed arrangements. Bloc military and economic technicians continue to play important roles in Cuba, and the first sizable groups of Cubans have gone to the Bloc for technical training.

Since the inauguration of Brazilian President Quadros in January 1961, the Sino-Soviet Bloc has devoted increasing attention to Brazil. With Quadros' ascent to power the Bloc has tried to exploit further the Brazilian belief that the Communist camp can provide an expanding market for Brazil's exports. Thus, when Brazilian economic delegations visited the Eastern European capitals, the host regimes proved to be extremely cooperative in negotiating trade and payments agreements which sometimes stated unrealistically high trade goals. Quadros, on his part, has given extensive publicity to his every move toward increased

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economic relations with the Bloc. Brazilian trade delegations to Eastern Europe signed trade and payments agreements with Albania, Bulgaria, Rumania, Hungary, and East Germany and trade protocols with Czechoslovakia, the USSR, and Poland. In addition, technical cooperation agreements were signed with Poland, Bulgaria, Rumania, Hungary, and possibly others. Should the trade goals reported in the new agreements be fulfilled, Bloc trade with Brazil will increase to about 15 percent of Brazil's present level of foreign trade. Communist China also has shown considerable interest in increasing its economic relations with Brazil, but no concrete results of the negotiations have been announced.

The Bloc continued to account for about 5 percent of Argentina's total trade, a proportion now considered normal. Uruguay's trade with the Bloc continued its sharp decline, heightened by the rejection of a longstanding Soviet offer to buy substantial quantities of Uruguayan wool only if Uruguay continued to purchase Soviet petroleum. The intense publicity concerning Bloc interest in Bolivia noted in late 1960 and early 1961 recently has subsided. Little progress has been made to date in negotiations on the vague Soviet credit offers to Bolivia, but that country's government has announced that a delegation will visit the USSR to discuss the offer.

The Bloc evinced some interest in extending its economic relations with Ecuador and Chile. In late 1960 and the first half of 1961, trade representatives from most Bloc countries visited Chile, but the Chileans felt that only the Poles had a serious interest in trade expansion. Ecuador assumed somewhat more importance, as it signed a previously negotiated \$1.5 million barter agreement with Czechoslovakia; the USSR reportedly made vague offers of development credits; and Ecuador considered sending an economic mission to Eastern Europe.

#### Middle East

In the Middle East the Bloc continued to maintain strong economic ties with Afghanistan, Iraq, the United Arab Republic (UAR), and Yemen. The Soviet conclusion of an agreement to assist Pakistan in petroleum exploration marked an important advance in a country that had previously avoided such ties with the Bloc. Except for moderate increases in trade with Greece and Cyprus, the Bloc did not expand significantly its economic relations with other Middle Eastern countries during the first half of 1961.

The USSR sought, through a combination of aid, diplomacy, and propaganda, to take advantage of a rise in popular restlessness and of neutralist sentiment in Pakistan. After several months of negotiations, Pakistan concluded its first agreement for economic assistance from the USSR in March 1961. The agreement provides for a \$30 million line of credit to finance the cost of Soviet technicians

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and equipment required for a 5-year petroleum exploration program in Pakistan. Pakistan's exports to the Bloc declined somewhat during the latter half of 1960, but dependence on Communist China as a market for raw cotton exports continued to be large.

Bloc countries were alert to every opportunity to portray satisfaction with the neutralist position of Afghanistan and its government. In addition to cultural and diplomatic initiatives designed to achieve this objective, the USSR continued to give high priority to the implementation of its massive program of economic assistance in Afghanistan. No new major Bloc grants or credits were announced, but agreement in principle for additional Soviet assistance in support of the Afghan Second Five Year Plan (1961-66) appears to have been reached. Afghan officials estimate such future Soviet assistance to be about \$300 million, but the precise magnitude and form remain to be determined. The future role of Soviet assistance in Afghan economic development probably has been strengthened by the major role played by Soviet advisers in the formulation of the Afghan Second Plan. Although Afghanistan's high regard for Bloc economic aid and Soviet political support on the Pushtunistan issue remained unmistakably firm, the Afghans had an almost invariable propensity to balance as best they could all significant foreign policy moves by encouraging closer ties with the Western countries. In line with this policy, the Afghan Government actively sought increased US assistance as well as US participation in the key economic planning function.

Although the Bloc's large aid programs in Iraq continued to have a significant impact on the country's industry, communications, and national defense establishment, some Western influence has survived, and the Iraqi Government has taken further steps to suppress the local Communist Party. No new credit arrangements were negotiated during the review period, but a large number of contracts were executed against existing Bloc credits. Deliveries of military equipment and supplies increased and included 60 T-54 tanks, 16 MIG-19 aircraft, trucks, and torpedo boats. It is estimated that 765 Bloc technicians were in Iraq in early 1961, and it is estimated that about 400 Iraqis initiated training of all types in Bloc countries during the same period. The value of Iraq's imports from the Bloc doubled in 1960 and accounted for 10 percent of total imports. The Bloc's share of Iraq's nonpetroleum exports, however, fell off slightly in 1960 to 14 percent of the total.

Although the Yemeni Government is attempting to maintain some balance between the influence of the Bloc and of the West, the completion of the Soviet-built deep-water port at Al Hudaydah and the near-completion by Communist China of an asphalt-surfaced highway have made a deep and favorable impression on the Yemenis. These projects

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have stimulated foreign and domestic commerce and have caused the business community to attribute its new prosperity to Bloc aid efforts. No new assistance agreements have been concluded, but there have been indications that the USSR and Communist China have offered to construct additional highway facilities. Closer trade ties with the Bloc appear to have developed: Yemen now obtains all of its sugar imports from the Bloc, and the USSR buys 50 percent of Yemen's coffee exports and 100 percent of its hides exports under a barter agreement.

Disparaging remarks about the UAR made by Khrushchev in May 1961 touched off a propaganda war between the UAR and the USSR. Although there has been some tendency toward a reduction of trade between the two areas, the UAR nevertheless has continued to maintain strong economic ties with the Bloc. New credits were extended to the UAR by East Germany and Czechoslovakia, and the USSR delivered a substantial number of MIG-19 jet fighters. In the Egyptian Region, implementation continued on Bloc economic aid projects, including work on the diversion canal and the coffer dams of the Aswan High Dam. Many of the Bloc projects in the Syrian Region are still in the planning stage, but two dams in the Ghab reclamation project and a topographic survey of Syria were completed.

The UAR faces a growing dilemma in its trade relations with the Bloc. Although importers are becoming more reluctant to take Bloc goods, the government is encouraging the importation of Bloc goods to utilize the trade receipts resulting from large Bloc purchases of cotton. Criticism of Bloc trading practices is growing, especially in the cotton-marketing circles. Nevertheless, trade of both regions of the UAR with the Bloc remained at high levels in 1960. About 45 percent of Egypt's exports and 23 percent of Syria's were to the Bloc. The Bloc's share of their imports, however, fell off somewhat, from 30 percent to 25 percent for Egypt and from 11 percent to 9 percent for Syria.

#### Africa

During the first half of 1961 the Bloc negotiated initial aid and trade agreements with several of the newly independent African states and was busy implementing earlier agreements with a number of others. Similarity of views on developments in the Congo made some of the countries more receptive to economic cooperation with the Bloc, and all seemed interested in balancing their relations between the West and the Bloc as an expression of their neutrality in foreign relations. The latter attitude generally operated to the advantage of the Bloc, since the influence of the West was preponderant in all of the countries except Guinea. Soviet President Leonid I. Brezhnev's 2-week tour of three African countries in February emphasized the importance which the USSR is giving to this area.

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The Somali Republic and Mali joined the growing list of African recipients of Bloc aid, while additional aid was extended to Ghana and Guinea. Prime Minister Abdirascid led an official Somali delegation to the USSR and Czechoslovakia in late May and early June. In the USSR he accepted two credits, one totaling \$44.5 million for industrial and agricultural development and another for \$7.8 million to finance commodity purchases. Somali concluded a \$4.2 million credit agreement and a trade and technical cooperation agreement with Czechoslovakia. An exchange of a series of official missions between Mali and the USSR resulted in a long-term Soviet credit of \$44.4 million and Czechoslovak credits totaling \$12.5 million. Bloc credits totaling \$35 million were extended to Ghana, and the USSR agreed to construct a \$6 million hospital in Guinea. The USSR agreed in principle to construct three dams in Tunisia and to assist in the establishment of an engineering school at the University of Tunis.\*

Implementation of the previous credits as well as technical assistance to Guinea and Ghana proceeded at a growing pace. The number of Bloc technicians in Guinea increased from about 400 at the end of 1960 to 1,215 by June 1961. In Ghana the number rose from 120 to 205. About 250 students and trainees from both countries initiated various types of training programs in the Bloc. In addition, 3,000 Ghanaians were being processed for technical training in the Bloc. The 12 MIG-17 jet fighters and 2 MIG-15 trainer aircraft accepted by Morocco from the USSR last November arrived, along with 40 Soviet technicians. The Bloc appears to have adopted a more cautious attitude in Ethiopia in view of the abortive 1960 coup, and little progress was made in utilizing the \$100 million Soviet credit extended to Ethiopia in 1959.

Trade with the Bloc has continued to grow. Mali arranged in February to sell in 1961 nearly all of its principal crop, peanuts, to the USSR and Czechoslovakia. Bloc trade with Guinea, accounting for 44 percent of Guinea's imports in 1960 and 23 percent of its exports, continued to grow in 1961. Ghana's trade with the Bloc increased but still accounted for only 4 percent of Ghana's imports and 7 percent of total exports. Bloc shipments of military items were at a substantial level as deliveries of arms and ammunition were made to Guinea and Mali and to Morocco for the Algerian rebels.

#### Asia

Bloc economic efforts in Asia continued to be directed primarily toward the major countries of India, Burma, and Indonesia during the first 6 months of 1961. Political and economic instability in some

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\* In early August 1961 the USSR extended a credit of \$28 million to Tunisia, most of it for these projects.

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of the minor countries of the area continues to provide opportunities for Bloc economic advances but at the same time creates obstacles of varying importance that hinder Bloc attempts to exploit those opportunities.

Indonesia continued expanding its military potential with the assistance of the Bloc, signing in January and in June contracts for additional air and ground force equipment and services from the USSR. The January agreement involved goods, services, and training amounting to \$250 million, of which \$187 million was covered by Soviet credits. In addition, \$75 million in military assistance was added to the January agreement when the protocol was signed in June. The amount of credit agreed upon under the June protocol is estimated to be \$50 million. Communist China revived a credit offer of \$30 million -- dormant for 4 years -- and seemed to be enjoying markedly improved relations with Indonesia. Peiping was on the itinerary of President Sukarno when, in the spring of 1961, he traveled extensively throughout the Bloc. Large numbers of Indonesians have been sent to Bloc countries for training, primarily military, but inside Indonesia the Bloc has been unable to move rapidly on its promises of economic assistance. More than 45 percent of economic credit extensions remain unobligated by specific contract, and many of those projects that are already under construction are not being completed in a style that commands respect. Bloc military assistance efforts, however, have encountered no apparent frustrations and, because of the sensitivities of Indonesians in the critical dispute over West New Guinea, provide the Bloc with a strong foundation for influence in Indonesia.

Burma has improved relations with Communist China to such a degree that China is now the prime Bloc influence in Burma. An extremely cordial visit to Burma by Premier Chou En-lai resulted in China's extending in January 1961 a credit of \$84 million for economic and technical assistance. A new payments agreement, which is intended to avoid the pitfalls that made earlier pacts unworkable, also was signed during this visit. Although Soviet and European Satellite countries continued working on the minor but eye-catching projects promised in the past, they entered on no new commitments during the first 6 months of 1961.

In Cambodia the USSR, Communist China, and Czechoslovakia sent technical delegations to negotiate the specific projects to be covered under the more general assistance commitments of 1960. A definite offer was made by the USSR to construct a \$40 million dam in Cambodia, presumably on credit, and further studies were being conducted by Soviet advisers on other potential projects for river development. Negotiations with Czechoslovakia were inconclusive. Arrangements were made for Communist China to assist the Cambodian transportation industry.

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but it appeared likely that a large part of the Chinese grant of 1960 would be used to complete the cement plant already being built. Cambodia's trade with the Bloc more than doubled during 1960, compared with 1959, and appears to be rising additionally in 1961. Persistent deficits in trade, however, have aroused some anxieties among Cambodian officials lest it become necessary to use hard Western currencies to settle clearing accounts.

India's policy of nonalignment continues to be in evidence, in spite of the substantial Bloc assistance already received. No new large credits were extended to India during the 6-month period, but agreements were signed for the utilization of earlier credits. Most significant were agreements which earmark about \$66 million for the development of the public sector's petroleum industry. India signed contracts for delivery of additional aircraft and is expected to increase the rate of utilization of Bloc credits during the year.

In Ceylon, political, social, and economic instability have provided a favorable atmosphere for the Bloc to develop closer inter-governmental ties. Nevertheless, the instability that has provided opportunities also has further entangled the ever-present bureaucratic snarls and has hindered Bloc efforts to make specific inroads. Progress under Soviet assistance commitments has been slow, and few projects have gone beyond the planning stage. Communist China has not yet offered acceptable terms for a contract to carry out its commitment to build a textile mill in Ceylon.

The failure of the neutralist government of King Mahendra in Nepal to act decisively against the active Communist leaders in the country has been matched by an inability to eliminate the obstacles that have hindered the expansion of economic relations with the Bloc. Shortages of local currencies, poor weather, delivery tieups, and governmental lassitude have created obstacles which, in spite of Bloc attempts to produce action, have prevented the USSR and Communist China from advancing as far as the preliminary construction stage of any of their project commitments, with the exception of a 50-bed Soviet hospital. The Bloc continued its active propaganda and cultural programs in Nepal, programs made more effective by conducting them through the local Communist Party.

Although Thailand has few economic contacts with the Bloc, the USSR has placed considerable pressure on the government to alter its past policy. This pressure appears to have had some impact, and the Government of Thailand has indicated that it may seriously consider forthcoming offers of Bloc economic assistance.

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Europe

Economic relations between the Bloc and the underdeveloped countries of Europe showed few important changes during the first 6 months of 1961. Yugoslav trade with the Bloc appeared to be at about the same level as in 1960 and appeared to account for 25 to 30 percent of total trade. Long-term (1961-65) trade agreements have now been signed by Yugoslavia with most of the important Bloc countries. As to the others, negotiations have been underway for several months with Hungary, but long-term agreements are not contemplated with Albania and Communist China.

Iceland has continued to diminish its dependence on trade with the Bloc. In 1960 this trade was less than 25 percent of total trade in contrast to about 30 percent in 1959. This trend probably has continued during 1961. A key part of the effort to reduce this dependence has been a price stabilization program, whose success, however, has been placed in jeopardy by a series of Communist-inspired strikes and wage disputes. Should the stabilization program break down because of the crippling effects of excessive wage hikes, the Icelandic Government may be unable to avoid a return to import restrictions. Such an eventuality would open opportunities for Bloc trade offers and probably also make the Icelandic Government more receptive to offers of loans or grants.

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# SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JANUARY - 30 JUNE 1961

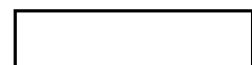
### SUMMARY

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

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\* For details, see the summary table, p. 13, below.

\*\* See Figure 1, following p. 12, below.

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The USSR has continued the use of arms diplomacy to expand its influence in underdeveloped areas. A major new agreement was signed with Indonesia in January and expanded in June 1961, and deliveries of equipment under existing pacts with the UAR and Cuba were accelerated during the first 6 months of the year. Guinea, Ghana, Morocco, and the Algerian rebels also received arms from the USSR. Moscow sought to use Ghana and Guinea as funnels through which to channel arms to other African countries. In the future, this tactic probably will be tried with greater frequency and in other areas -- especially in Latin America, where Cuba could serve as a relay point.

Bloc trade with underdeveloped countries in 1961 gives every indication of continuing the pace evidenced in 1960, when it increased 20 percent above the year before. In 1961, as in 1960, Latin America -- particularly Cuba -- is likely to account for the major portion of the total growth in Bloc trade with all underdeveloped areas.

On the ideological front, the newly established Soviet agency Novosti (news) appears destined to play an important role. Combining the functions of a press and an information agency, Novosti will open branches in foreign countries to disseminate Soviet propaganda. In addition to its own staff, Novosti will contract with foreign press, radio, and television organizations as well as with private individuals to assist in furthering its mission. Prominent among the officials of the council that will run the new organization is an expert on underdeveloped countries.

#### Economic and Military Aid

The Bloc extended nearly \$465 million\* in economic aid to underdeveloped countries in the first 6 months of 1961, nearly all in the form of credits. Thus, since 1954, approximately \$4 billion in economic aid has been extended to 24 underdeveloped countries, about 95 percent of it in the form of credits and the rest in the form of grants.

Drawings for development projects are estimated to be about \$155 million for the first half of 1961. By midyear, only 22 percent of the \$4 billion extended for economic purposes had been drawn. Thus more than \$3 billion remains to help finance the foreign exchange costs of development projects planned or already underway.

The only major military aid agreement signed during the period was one between the USSR and Indonesia for \$250 million worth of supplies and equipment. The USSR applied a discount on certain items that reduced the selling price to \$187 million, all of which is to be financed

\* All dollar values in this report are given in terms of US dollars.

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by a long-term credit. A protocol to the basic agreement added \$75 million worth of items, bringing the total value of this agreement as amended to \$325 million.

By midyear 1961 the Bloc had entered into agreements to provide nine underdeveloped countries with about \$1.9 billion worth of military supplies, equipment, and training. As of 30 June 1961, all except about \$600 million worth of military items had been delivered. Some of the agreements called for partial payments to be made upon delivery, and some provided for discounts. When the down payments are deducted from the estimated value of the items, the amount of financial aid extended for military purposes since September 1955 totals about \$1.8 billion. When the discounts also are deducted, the credit financing provided amounts to approximately \$1.3 billion. Thus by midyear 1961, total aid extended by the Bloc for economic and military purposes was approximately \$5.9 billion.\*

#### Technical Assistance\*\*

About 9,700 Bloc technicians -- 8,200 economic and 1,500 military -- were present in underdeveloped countries for 1 month or longer during the first half of 1961. This figure may be compared with 7,700 Bloc technicians -- 6,500 economic and 1,400 military -- present in the last half of 1960.

The number of nationals from underdeveloped countries studying in the Bloc also has continued to increase rapidly. New arrivals in 1961 total 3,200 -- 900 academic students, 1,600 technical trainees, and 700 military officers and men. Thus by midyear those persons from underdeveloped countries who had received or were receiving instruction in the Bloc numbered more than 14,800 -- 4,900 at academic, 4,000 at technical, and 5,300 at military training centers.

#### Trade\*\*

During 1960, Bloc trade with underdeveloped countries recovered from the 1959 lull to resume its rise at the 20-percent rate which had characterized the average annual growth since 1955. Bloc exports and imports expanded at about the same rate to register a trade turnover of \$2.7 billion. The increase of \$450 million above 1959 resulted primarily from a growth in volume of commodities exchanged rather than from price changes or seasonal variations.

\* In this report an extension of the definition of Bloc military aid has been introduced: the scope of financial aid is no longer limited to credits and grants but now considers discounts as well.

\*\* For details, see the summary table, p. 13, below.

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Cuba alone accounted for nearly half of the over-all increase, as the volume of exports to the Castro regime mounted rapidly from July through December. The rest of the increase in trade was fairly evenly shared by the Middle East, Africa, and the underdeveloped countries of Europe. Only in Asia did Bloc trade remain at the same level as in 1959.

Commerce with the industrial countries of the Free World continues to account for a preponderant share of the trade of underdeveloped countries. In 1960, however, this commerce grew at a somewhat slower pace than trade with the Bloc. As a result, the share of the Bloc in the trade of underdeveloped countries increased from 7 percent in 1959 to 8 percent in 1960.

#### Latin America

During the first half of 1961 the Bloc concentrated its Latin American efforts in Cuba and Brazil, continuing to consolidate its position in the former and to broaden considerably its relations with Brazil. Chile and Ecuador received more attention than in recent years, while apparently there was a shift of interest away from Argentina and Uruguay.

Cuba's economic relations with the Bloc continued to expand, and the two sides appeared to be adjusting to their new relationship in which the Communist world has assumed the primary burden of supporting the Cuban economy. During the first half of 1961 the Bloc accounted for about two-thirds of Cuba's total trade and by the end of the year may account for three-fourths. The much-vaunted economic assistance program proceeded at a slower pace, although it became more and more evident that Cuba's economic planning assumes extensive Bloc support. The Bloc has extended to Cuba long-term economic credits totaling \$357 million, including \$142 million extended during the first 6 months of 1961. In addition, Cuba has received considerable military equipment under undisclosed arrangements. Bloc military and economic technicians continue to play important roles in Cuba, and the first sizable groups of Cubans have gone to the Bloc for technical training.

Since the inauguration of Brazilian President Quadros in January 1961, the Sino-Soviet Bloc has devoted increasing attention to Brazil. With Quadros' ascent to power the Bloc has tried to exploit further the Brazilian belief that the Communist camp can provide an expanding market for Brazil's exports. Thus, when Brazilian economic delegations visited the Eastern European capitals, the host regimes proved to be extremely cooperative in negotiating trade and payments agreements which sometimes stated unrealistically high trade goals. Quadros, on his part, has given extensive publicity to his every move toward increased

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economic relations with the Bloc. Brazilian trade delegations to Eastern Europe signed trade and payments agreements with Albania, Bulgaria, Rumania, Hungary, and East Germany and trade protocols with Czechoslovakia, the USSR, and Poland. In addition, technical cooperation agreements were signed with Poland, Bulgaria, Rumania, Hungary, and possibly others. Should the trade goals reported in the new agreements be fulfilled, Bloc trade with Brazil will increase to about 15 percent of Brazil's present level of foreign trade. Communist China also has shown considerable interest in increasing its economic relations with Brazil, but no concrete results of the negotiations have been announced.

The Bloc continued to account for about 5 percent of Argentina's total trade, a proportion now considered normal. Uruguay's trade with the Bloc continued its sharp decline, heightened by the rejection of a longstanding Soviet offer to buy substantial quantities of Uruguayan wool only if Uruguay continued to purchase Soviet petroleum. The intense publicity concerning Bloc interest in Bolivia noted in late 1960 and early 1961 recently has subsided. Little progress has been made to date in negotiations on the vague Soviet credit offers to Bolivia, but that country's government has announced that a delegation will visit the USSR to discuss the offer.

The Bloc evinced some interest in extending its economic relations with Ecuador and Chile. In late 1960 and the first half of 1961, trade representatives from most Bloc countries visited Chile, but the Chileans felt that only the Poles had a serious interest in trade expansion. Ecuador assumed somewhat more importance, as it signed a previously negotiated \$1.5 million barter agreement with Czechoslovakia; the USSR reportedly made vague offers of development credits; and Ecuador considered sending an economic mission to Eastern Europe.

#### Middle East

In the Middle East the Bloc continued to maintain strong economic ties with Afghanistan, Iraq, the United Arab Republic (UAR), and Yemen. The Soviet conclusion of an agreement to assist Pakistan in petroleum exploration marked an important advance in a country that had previously avoided such ties with the Bloc. Except for moderate increases in trade with Greece and Cyprus, the Bloc did not expand significantly its economic relations with other Middle Eastern countries during the first half of 1961.

The USSR sought, through a combination of aid, diplomacy, and propaganda, to take advantage of a rise in popular restlessness and of neutralist sentiment in Pakistan. After several months of negotiations, Pakistan concluded its first agreement for economic assistance from the USSR in March 1961. The agreement provides for a \$30 million line of credit to finance the cost of Soviet technicians

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and equipment required for a 5-year petroleum exploration program in Pakistan. Pakistan's exports to the Bloc declined somewhat during the latter half of 1960, but dependence on Communist China as a market for raw cotton exports continued to be large.

Bloc countries were alert to every opportunity to portray satisfaction with the neutralist position of Afghanistan and its government. In addition to cultural and diplomatic initiatives designed to achieve this objective, the USSR continued to give high priority to the implementation of its massive program of economic assistance in Afghanistan. No new major Bloc grants or credits were announced, but agreement in principle for additional Soviet assistance in support of the Afghan Second Five Year Plan (1961-66) appears to have been reached. Afghan officials estimate such future Soviet assistance to be about \$300 million, but the precise magnitude and form remain to be determined. The future role of Soviet assistance in Afghan economic development probably has been strengthened by the major role played by Soviet advisers in the formulation of the Afghan Second Plan. Although Afghanistan's high regard for Bloc economic aid and Soviet political support on the Pushtunistan issue remained unmistakably firm, the Afghans had an almost invariable propensity to balance as best they could all significant foreign policy moves by encouraging closer ties with the Western countries. In line with this policy, the Afghan Government actively sought increased US assistance as well as US participation in the key economic planning function.

Although the Bloc's large aid programs in Iraq continued to have a significant impact on the country's industry, communications, and national defense establishment, some Western influence has survived, and the Iraqi Government has taken further steps to suppress the local Communist Party. No new credit arrangements were negotiated during the review period, but a large number of contracts were executed against existing Bloc credits. Deliveries of military equipment and supplies increased and included 60 T-54 tanks, 16 MIG-19 aircraft, trucks, and torpedo boats. It is estimated that 765 Bloc technicians were in Iraq in early 1961, and it is estimated that about 400 Iraqis initiated training of all types in Bloc countries during the same period. The value of Iraq's imports from the Bloc doubled in 1960 and accounted for 10 percent of total imports. The Bloc's share of Iraq's nonpetroleum exports, however, fell off slightly in 1960 to 14 percent of the total.

Although the Yemeni Government is attempting to maintain some balance between the influence of the Bloc and of the West, the completion of the Soviet-built deep-water port at Al Hudaydah and the near-completion by Communist China of an asphalt-surfaced highway have made a deep and favorable impression on the Yemenis. These projects

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have stimulated foreign and domestic commerce and have caused the business community to attribute its new prosperity to Bloc aid efforts. No new assistance agreements have been concluded, but there have been indications that the USSR and Communist China have offered to construct additional highway facilities. Closer trade ties with the Bloc appear to have developed: Yemen now obtains all of its sugar imports from the Bloc, and the USSR buys 50 percent of Yemen's coffee exports and 100 percent of its hides exports under a barter agreement.

Disparaging remarks about the UAR made by Khrushchev in May 1961 touched off a propaganda war between the UAR and the USSR. Although there has been some tendency toward a reduction of trade between the two areas, the UAR nevertheless has continued to maintain strong economic ties with the Bloc. New credits were extended to the UAR by East Germany and Czechoslovakia, and the USSR delivered a substantial number of MIG-19 jet fighters. In the Egyptian Region, implementation continued on Bloc economic aid projects, including work on the diversion canal and the coffer dams of the Aswan High Dam. Many of the Bloc projects in the Syrian Region are still in the planning stage, but two dams in the Ghab reclamation project and a topographic survey of Syria were completed.

The UAR faces a growing dilemma in its trade relations with the Bloc. Although importers are becoming more reluctant to take Bloc goods, the government is encouraging the importation of Bloc goods to utilize the trade receipts resulting from large Bloc purchases of cotton. Criticism of Bloc trading practices is growing, especially in the cotton-marketing circles. Nevertheless, trade of both regions of the UAR with the Bloc remained at high levels in 1960. About 45 percent of Egypt's exports and 23 percent of Syria's were to the Bloc. The Bloc's share of their imports, however, fell off somewhat, from 30 percent to 25 percent for Egypt and from 11 percent to 9 percent for Syria.

#### Africa

During the first half of 1961 the Bloc negotiated initial aid and trade agreements with several of the newly independent African states and was busy implementing earlier agreements with a number of others. Similarity of views on developments in the Congo made some of the countries more receptive to economic cooperation with the Bloc, and all seemed interested in balancing their relations between the West and the Bloc as an expression of their neutrality in foreign relations. The latter attitude generally operated to the advantage of the Bloc, since the influence of the West was preponderant in all of the countries except Guinea. Soviet President Leonid I. Brezhnev's 2-week tour of three African countries in February emphasized the importance which the USSR is giving to this area.

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The Somali Republic and Mali joined the growing list of African recipients of Bloc aid, while additional aid was extended to Ghana and Guinea. Prime Minister Abdirasid led an official Somali delegation to the USSR and Czechoslovakia in late May and early June. In the USSR he accepted two credits, one totaling \$44.5 million for industrial and agricultural development and another for \$7.8 million to finance commodity purchases. Somali concluded a \$4.2 million credit agreement and a trade and technical cooperation agreement with Czechoslovakia. An exchange of a series of official missions between Mali and the USSR resulted in a long-term Soviet credit of \$44.4 million and Czechoslovak credits totaling \$12.5 million. Bloc credits totaling \$35 million were extended to Ghana, and the USSR agreed to construct a \$6 million hospital in Guinea. The USSR agreed in principle to construct three dams in Tunisia and to assist in the establishment of an engineering school at the University of Tunis.\*

Implementation of the previous credits as well as technical assistance to Guinea and Ghana proceeded at a growing pace. The number of Bloc technicians in Guinea increased from about 400 at the end of 1960 to 1,215 by June 1961. In Ghana the number rose from 120 to 205. About 250 students and trainees from both countries initiated various types of training programs in the Bloc. In addition, 3,000 Ghanaians were being processed for technical training in the Bloc. The 12 MIG-17 jet fighters and 2 MIG-15 trainer aircraft accepted by Morocco from the USSR last November arrived, along with 40 Soviet technicians. The Bloc appears to have adopted a more cautious attitude in Ethiopia in view of the abortive 1960 coup, and little progress was made in utilizing the \$100 million Soviet credit extended to Ethiopia in 1959.

Trade with the Bloc has continued to grow. Mali arranged in February to sell in 1961 nearly all of its principal crop, peanuts, to the USSR and Czechoslovakia. Bloc trade with Guinea, accounting for 44 percent of Guinea's imports in 1960 and 23 percent of its exports, continued to grow in 1961. Ghana's trade with the Bloc increased but still accounted for only 4 percent of Ghana's imports and 7 percent of total exports. Bloc shipments of military items were at a substantial level as deliveries of arms and ammunition were made to Guinea and Mali and to Morocco for the Algerian rebels.

#### Asia

Bloc economic efforts in Asia continued to be directed primarily toward the major countries of India, Burma, and Indonesia during the first 6 months of 1961. Political and economic instability in some

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\* In early August 1961 the USSR extended a credit of \$28 million to Tunisia, most of it for these projects.

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of the minor countries of the area continues to provide opportunities for Bloc economic advances but at the same time creates obstacles of varying importance that hinder Bloc attempts to exploit those opportunities.

Indonesia continued expanding its military potential with the assistance of the Bloc, signing in January and in June contracts for additional air and ground force equipment and services from the USSR. The January agreement involved goods, services, and training amounting to \$250 million, of which \$187 million was covered by Soviet credits. In addition, \$75 million in military assistance was added to the January agreement when the protocol was signed in June. The amount of credit agreed upon under the June protocol is estimated to be \$50 million. Communist China revived a credit offer of \$30 million -- dormant for 4 years -- and seemed to be enjoying markedly improved relations with Indonesia. Peiping was on the itinerary of President Sukarno when, in the spring of 1961, he traveled extensively throughout the Bloc. Large numbers of Indonesians have been sent to Bloc countries for training, primarily military, but inside Indonesia the Bloc has been unable to move rapidly on its promises of economic assistance. More than 45 percent of economic credit extensions remain unobligated by specific contract, and many of those projects that are already under construction are not being completed in a style that commands respect. Bloc military assistance efforts, however, have encountered no apparent frustrations and, because of the sensitivities of Indonesians in the critical dispute over West New Guinea, provide the Bloc with a strong foundation for influence in Indonesia.

Burma has improved relations with Communist China to such a degree that China is now the prime Bloc influence in Burma. An extremely cordial visit to Burma by Premier Chou En-lai resulted in China's extending in January 1961 a credit of \$84 million for economic and technical assistance. A new payments agreement, which is intended to avoid the pitfalls that made earlier pacts unworkable, also was signed during this visit. Although Soviet and European Satellite countries continued working on the minor but eye-catching projects promised in the past, they entered on no new commitments during the first 6 months of 1961.

In Cambodia the USSR, Communist China, and Czechoslovakia sent technical delegations to negotiate the specific projects to be covered under the more general assistance commitments of 1960. A definite offer was made by the USSR to construct a \$40 million dam in Cambodia, presumably on credit, and further studies were being conducted by Soviet advisers on other potential projects for river development. Negotiations with Czechoslovakia were inconclusive. Arrangements were made for Communist China to assist the Cambodian transportation industry.

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but it appeared likely that a large part of the Chinese grant of 1960 would be used to complete the cement plant already being built. Cambodia's trade with the Bloc more than doubled during 1960, compared with 1959, and appears to be rising additionally in 1961. Persistent deficits in trade, however, have aroused some anxieties among Cambodian officials lest it become necessary to use hard Western currencies to settle clearing accounts.

India's policy of nonalignment continues to be in evidence, in spite of the substantial Bloc assistance already received. No new large credits were extended to India during the 6-month period, but agreements were signed for the utilization of earlier credits. Most significant were agreements which earmark about \$66 million for the development of the public sector's petroleum industry. India signed contracts for delivery of additional aircraft and is expected to increase the rate of utilization of Bloc credits during the year.

In Ceylon, political, social, and economic instability have provided a favorable atmosphere for the Bloc to develop closer inter-governmental ties. Nevertheless, the instability that has provided opportunities also has further entangled the ever-present bureaucratic snarls and has hindered Bloc efforts to make specific inroads. Progress under Soviet assistance commitments has been slow, and few projects have gone beyond the planning stage. Communist China has not yet offered acceptable terms for a contract to carry out its commitment to build a textile mill in Ceylon.

The failure of the neutralist government of King Mahendra in Nepal to act decisively against the active Communist leaders in the country has been matched by an inability to eliminate the obstacles that have hindered the expansion of economic relations with the Bloc. Shortages of local currencies, poor weather, delivery tieups, and governmental lassitude have created obstacles which, in spite of Bloc attempts to produce action, have prevented the USSR and Communist China from advancing as far as the preliminary construction stage of any of their project commitments, with the exception of a 50-bed Soviet hospital. The Bloc continued its active propaganda and cultural programs in Nepal, programs made more effective by conducting them through the local Communist Party.

Although Thailand has few economic contacts with the Bloc, the USSR has placed considerable pressure on the government to alter its past policy. This pressure appears to have had some impact, and the Government of Thailand has indicated that it may seriously consider forthcoming offers of Bloc economic assistance.

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Europe

Economic relations between the Bloc and the underdeveloped countries of Europe showed few important changes during the first 6 months of 1961. Yugoslav trade with the Bloc appeared to be at about the same level as in 1960 and appeared to account for 25 to 30 percent of total trade. Long-term (1961-65) trade agreements have now been signed by Yugoslavia with most of the important Bloc countries. As to the others, negotiations have been underway for several months with Hungary, but long-term agreements are not contemplated with Albania and Communist China.

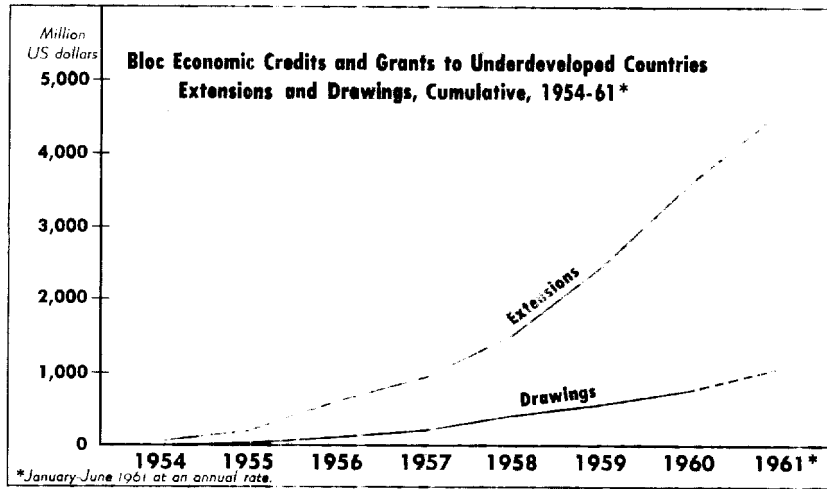
Iceland has continued to diminish its dependence on trade with the Bloc. In 1960 this trade was less than 25 percent of total trade in contrast to about 30 percent in 1959. This trend probably has continued during 1961. A key part of the effort to reduce this dependence has been a price stabilization program, whose success, however, has been placed in jeopardy by a series of Communist-inspired strikes and wage disputes. Should the stabilization program break down because of the crippling effects of excessive wage hikes, the Icelandic Government may be unable to avoid a return to import restrictions. Such an eventuality would open opportunities for Bloc trade offers and probably also make the Icelandic Government more receptive to offers of loans or grants.

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**BLOC ECONOMIC CREDITS AND GRANTS TO UNDERDEVELOPED COUNTRIES  
 EXTENSIONS AND DRAWINGS, BY YEAR, 1954-61\***

**SECRET**



Million US dollars

1,200 —

1,000 —

800 —

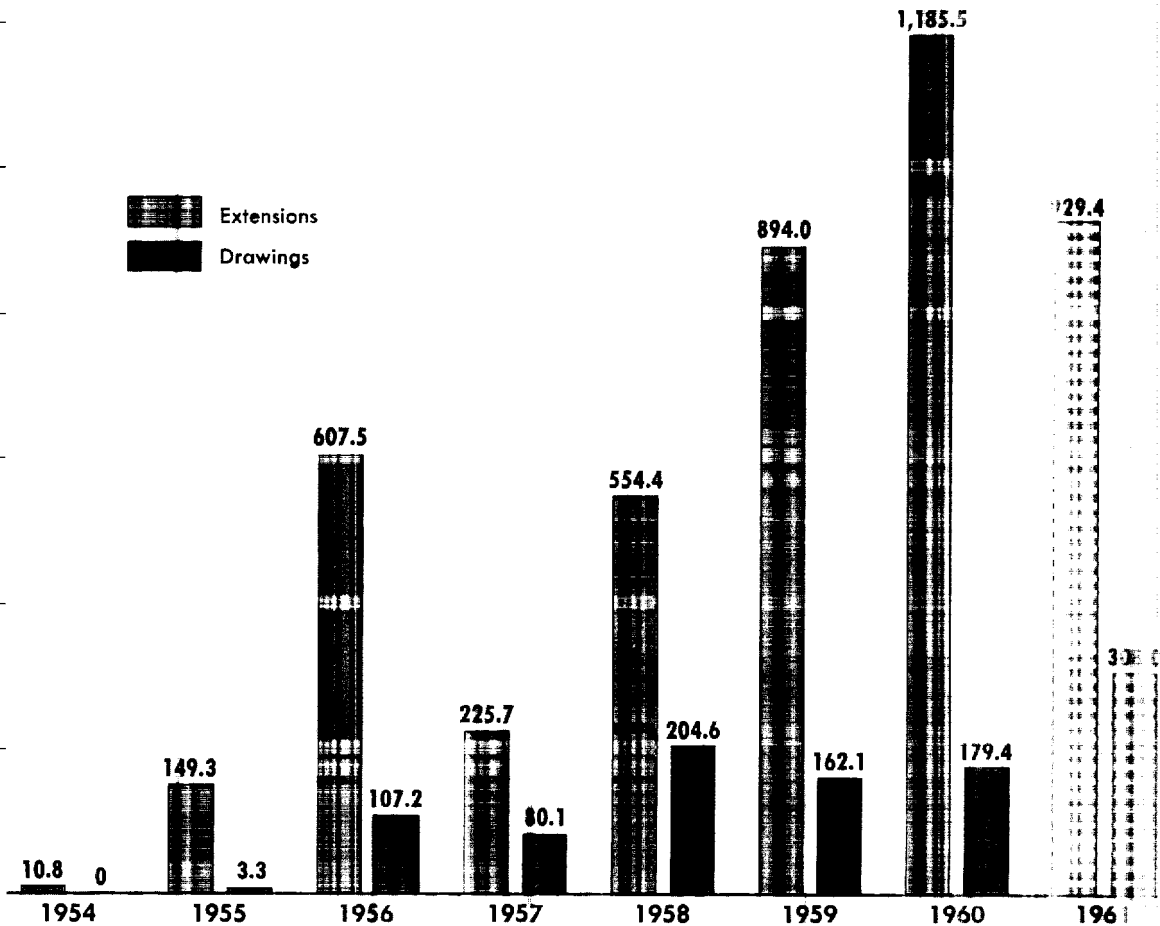
600 —

400 —

200 —

0

Extensions  
 Drawings



\*January-June 1961 at an annual rate.

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JANUARY - 30 JUNE 1961**

**August 1961**

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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in this series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports under the same title.

This report, covering the 6 months from 1 January through 30 June 1961, constitutes the eleventh periodic supplement to the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, Turkey, and the United Arab Republic (Egypt and Syria); (3) all independent countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS  
1 JANUARY - 30 JUNE 1961

Summary

Patterns and Prospects

Efforts to extend Bloc influence in underdeveloped areas continued to grow in scope and magnitude during the first half of 1961. As in the past several years, financial and technical assistance programs were correlated with trade promotion, propaganda, cultural, and political activities. Although relations with underdeveloped countries in Asia and the Middle East received due attention, emphasis was placed on consolidating gains in key African and Latin American states and on expanding contacts with other countries in these areas. Moreover, a number of countries that in the past had shown little interest in Bloc aid evidenced a growing inclination to give Bloc offers more serious consideration.

New economic credits and grants during the first 6 months of 1961 were extended at an annual rate above the average for the past 5 years but below the level recorded in 1960. Expenditures under existing economic credits and grants rose sharply during the first half of 1961, reaching an annual rate substantially above that for any previous year. This increase was, in large measure, the result of an acceleration in the implementation of Soviet aid programs in the United Arab Republic (UAR) and India. The progress of preliminary survey work on projects covered by large Soviet lines of credit and the number of countries recently offered extensive economic assistance by the USSR and Czechoslovakia point to a considerable expansion of Bloc economic aid activity in the months ahead.

During the first 6 months of 1961, Peiping employed economic aid agreements as one means of mending its political fences and promoting its influence in Southeast Asia. With the establishment of new lines of credit to Burma and Indonesia, Communist China increased the amount of economic aid that it has extended to countries outside of the Bloc by about 50 percent. Peiping announced early in May that the State Council had established a Bureau for Economic Relations with Foreign Countries. The new agency, which presumably will administer the foreign aid and technical assistance programs of Communist China, apparently will have functions similar to those of the Soviet State Committee for Foreign Economic Relations.

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The USSR has continued the use of arms diplomacy to expand its influence in underdeveloped areas. A major new agreement was signed with Indonesia, and deliveries of equipment under existing pacts with the UAR and Cuba were accelerated during the first 6 months of the year. Guinea, Ghana, Morocco, and the Algerian rebels also received arms from the USSR. Moscow sought to use Ghana and Guinea as funnels through which to channel arms to other African countries. In the future, this tactic probably will be tried with greater frequency and in other areas -- especially in Latin America, where Cuba could serve as a relay point.

Bloc trade with underdeveloped countries in 1961 gives every indication of continuing the pace evidenced in 1960, when it increased 20 percent above the year before. In 1961, as in 1960, Latin America -- particularly Cuba -- is likely to account for the major portion of the total growth in Bloc trade with all underdeveloped areas.

On the ideological front, the newly established Soviet agency Novosti (news) appears destined to play an important role. Combining the functions of a press and an information agency, Novosti will open branches in foreign countries to disseminate Soviet propaganda. In addition to its own staff, Novosti will contract with foreign press, radio, and television organizations as well as with private individuals to assist in furthering its mission. Prominent among the officials of the council that will run the new organization is an expert on underdeveloped countries.

#### Economic and Military Aid

The Bloc extended nearly \$465 million\* in economic aid to underdeveloped countries in the first 6 months of 1961, nearly all in the form of credits. Thus, since 1954, approximately \$4 billion in economic aid has been extended to 24 underdeveloped countries, about 95 percent of it in the form of credits and the rest in the form of grants.

Drawings for development projects are estimated to be about \$155 million for the first half of 1961. By midyear, only 22 percent of the \$4 billion extended for economic purposes had been drawn. Thus more than \$3 billion remains to help finance the foreign exchange costs of development projects planned or already underway.

The only major military aid agreement signed during the period was one between the USSR and Indonesia for more than \$300 million worth of supplies and equipment. An agreement also was signed with Mali, but the amount is not known.

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By midyear 1961 the Bloc had entered into agreements to provide 10 underdeveloped countries with about \$1.9 billion worth of military supplies, equipment, and training. As of 30 June 1961, all except about \$600 million worth of military items had been delivered. Some of the agreements called for partial payments to be made upon delivery, and some provided for discounts. When the down payments are deducted from the estimated value of the items, the amount of financial aid extended for military purposes since September 1955 totals about \$1.8 billion. When the discounts also are deducted, the credit financing provided amounts to approximately \$1.3 billion. Thus by midyear 1961, total aid extended by the Bloc for economic and military purposes was approximately \$5.9 billion.\*

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The number of nationals from underdeveloped countries studying in the Bloc also has continued to increase rapidly. New arrivals in 1961 total 3,200 -- 900 academic students, 1,600 technical trainees, and 700 military officers and men. Thus by midyear those persons from underdeveloped countries who had received or were receiving instruction in the Bloc numbered more than 14,800 -- 4,900 at academic, 4,600 at technical, and 5,300 at military training centers.

#### Trade

During 1960, Bloc trade with underdeveloped countries recovered from the 1959 lull to resume its rise at the 20-percent rate which had characterized the average annual growth since 1955. Bloc exports and imports expanded at about the same rate to register a trade turnover of \$2.7 billion. The increase of \$450 million above 1959 resulted primarily from a growth in volume of commodities exchanged rather than from price changes or seasonal variations.

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#### Latin America

During the first half of 1961 the Bloc concentrated its Latin American efforts in Cuba and Brazil, continuing to consolidate its position in the former and to broaden considerably its relations with Brazil. Chile and Ecuador received more attention than in recent years, while apparently there was a shift of interest away from Argentina and Uruguay.

Cuba's economic relations with the Bloc continued to expand, and the two sides appeared to be adjusting to their new relationship in which the Communist world has assumed the primary burden of supporting the Cuban economy. During the first half of 1961 the Bloc accounted for about two-thirds of Cuba's total trade and by the end of the year may account for three-fourths. The much-vaunted economic assistance program proceeded at a slower pace, although it became more and more evident that Cuba's economic planning assumes extensive Bloc support. The Bloc has extended to Cuba long-term economic credits totaling \$357 million, including \$142 million extended during the first 6 months of 1961. In addition, Cuba has received considerable military equipment under undisclosed arrangements. Bloc military and economic technicians continue to play important roles in Cuba, and the first sizable groups of Cubans have gone to the Bloc for technical training.

Since the inauguration of Brazilian President Quadros in January 1961, the Sino-Soviet Bloc has devoted increasing attention to Brazil. With Quadros' ascent to power the Bloc has tried to exploit further the Brazilian belief that the Communist camp can provide an expanding market for Brazil's exports. Thus, when Brazilian economic delegations visited the Eastern European capitals, the host regimes proved to be extremely cooperative in negotiating trade and payments agreements which sometimes stated unrealistically high trade goals. Quadros, on his part, has given extensive publicity to his every move toward increased

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economic relations with the Bloc. Brazilian trade delegations to Eastern Europe signed trade and payments agreements with Albania, Bulgaria, Rumania, Hungary, and East Germany and trade protocols with Czechoslovakia, the USSR, and Poland. In addition, technical cooperation agreements were signed with Poland, Bulgaria, Rumania, Hungary, and possibly others. Should the trade goals reported in the new agreements be fulfilled, Bloc trade with Brazil will increase to about 15 percent of Brazil's present level of foreign trade. Communist China also has shown considerable interest in increasing its economic relations with Brazil, but no concrete results of the negotiations have been announced.

The Bloc continued to account for about 5 percent of Argentina's total trade, a proportion now considered normal. Uruguay's trade with the Bloc continued its sharp decline, heightened by the rejection of a longstanding Soviet offer to buy substantial quantities of Uruguayan wool only if Uruguay continued to purchase Soviet petroleum. The intense publicity concerning Bloc interest in Bolivia noted in late 1960 and early 1961 recently has subsided. Little progress has been made to date in negotiations on the vague Soviet credit offers to Bolivia, but that country's government has announced that a delegation will visit the USSR to discuss the offer.

The Bloc evinced some interest in extending its economic relations with Ecuador and Chile. In late 1960 and the first half of 1961, trade representatives from most Bloc countries visited Chile, but the Chileans felt that only the Poles had a serious interest in trade expansion. Ecuador assumed somewhat more importance, as it signed a previously negotiated \$1.5 million barter agreement with Czechoslovakia; the USSR reportedly made vague offers of development credits; and Ecuador considered sending an economic mission to Eastern Europe.

#### Middle East

In the Middle East the Bloc continued to maintain strong economic ties with Afghanistan, Iraq, the United Arab Republic (UAR), and Yemen. The Soviet conclusion of an agreement to assist Pakistan in petroleum exploration marked an important advance in a country that had previously avoided such ties with the Bloc. Except for moderate increases in trade with Greece and Cyprus, the Bloc did not expand significantly its economic relations with other Middle Eastern countries during the first half of 1961.

The USSR sought, through a combination of aid, diplomacy, and propaganda, to take advantage of a rise in popular restlessness and of neutralist sentiment in Pakistan. After several months of negotiations, Pakistan concluded its first agreement for economic assistance from the USSR in March 1961. The agreement provides for a \$30 million line of credit to finance the cost of Soviet technicians

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and equipment required for a 5-year petroleum exploration program in Pakistan. Pakistan's exports to the Bloc declined somewhat during the latter half of 1960, but dependence on Communist China as a market for raw cotton exports continued to be large.

Bloc countries were alert to every opportunity to portray satisfaction with the neutralist position of Afghanistan and its government. In addition to cultural and diplomatic initiatives designed to achieve this objective, the USSR continued to give high priority to the implementation of its massive program of economic assistance in Afghanistan. No new major Bloc grants or credits were announced, but agreement in principle for additional Soviet assistance in support of the Afghan Second Five Year Plan (1961-66) appears to have been reached. Afghan officials estimate such future Soviet assistance to be about \$300 million, but the precise magnitude and form remain to be determined. The future role of Soviet assistance in Afghan economic development probably has been strengthened by the major role played by Soviet advisers in the formulation of the Afghan Second Plan. Although Afghanistan's high regard for Bloc economic aid and Soviet political support on the Pushtunistan issue remained unmistakably firm, the Afghans had an almost invariable propensity to balance as best they could all significant foreign policy moves by encouraging closer ties with the Western countries. In line with this policy, the Afghan Government actively sought increased US assistance as well as US participation in the key economic planning function.

Although the Bloc's large aid programs in Iraq continued to have a significant impact on the country's industry, communications, and national defense establishment, some Western influence has survived, and the Iraqi Government has taken further steps to suppress the local Communist Party. No new credit arrangements were negotiated during the review period, but a large number of contracts were executed against existing Bloc credits. It is estimated that 765 Bloc technicians were in Iraq in early 1961, and it is estimated that about 400 Iraqis initiated training of all types in Bloc countries during the same period. The value of Iraq's imports from the Bloc doubled in 1960 and accounted for 10 percent of total imports. The Bloc's share of Iraq's nonpetroleum exports, however, fell off slightly in 1960 to 14 percent of the total.

Although the Yemeni Government is attempting to maintain some balance between the influence of the Bloc and of the West, the completion of the Soviet-built deep-water port at Al Hudaydah and the near-completion by Communist China of an asphalt-surfaced highway have made a deep and favorable impression on the Yemenis. These projects

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have stimulated foreign and domestic commerce and have caused the business community to attribute its new prosperity to Bloc aid efforts. No new assistance agreements have been concluded, but there have been indications that the USSR and Communist China have offered to construct additional highway facilities. Closer trade ties with the Bloc appear to have developed: Yemen now obtains all of its sugar imports from the Bloc, and the USSR buys 50 percent of Yemen's coffee exports and 100 percent of its hides exports under a barter agreement.

Disparaging remarks about the UAR made by Khrushchev in May 1961 touched off a propaganda war between the UAR and the USSR. Although there has been some tendency toward a reduction of trade between the two areas, the UAR nevertheless has continued to maintain strong economic ties with the Bloc. In the Egyptian Region, implementation continued on Bloc economic aid projects, including work on the diversion canal and the coffer dams of the Aswan High Dam. Many of the Bloc projects in the Syrian Region are still in the planning stage, but two dams in the Ghab reclamation project and a topographic survey of Syria were completed.

The UAR faces a growing dilemma in its trade relations with the Bloc. Although importers are becoming more reluctant to take Bloc goods, the government is encouraging the importation of Bloc goods to utilize the trade receipts resulting from large Bloc purchases of cotton. Criticism of Bloc trading practices is growing, especially in the cotton-marketing circles. Nevertheless, trade of both regions of the UAR with the Bloc remained at high levels in 1960. About 45 percent of Egypt's exports and 23 percent of Syria's were to the Bloc. The Bloc's share of their imports, however, fell off somewhat, from 30 percent to 25 percent for Egypt and from 11 percent to 9 percent for Syria.

#### Africa

During the first half of 1961 the Bloc negotiated initial aid and trade agreements with several of the newly independent African states and was busy implementing earlier agreements with a number of others. Similarity of views on developments in the Congo made some of the countries more receptive to economic cooperation with the Bloc, and all seemed interested in balancing their relations between the West and the Bloc as an expression of their neutrality in foreign relations. The latter attitude generally operated to the advantage of the Bloc, since the influence of the West was preponderant in all of the countries except Guinea. Soviet President Leonid I. Brezhnev's 2-week tour of three African countries in February emphasized the importance which the USSR is giving to this area.

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The Somali Republic and Mali joined the growing list of African recipients of Bloc aid, while additional aid was extended to Ghana and Guinea. Prime Minister Abdirascid led an official Somali delegation to the USSR and Czechoslovakia in late May and early June. In the USSR he accepted two credits, one totaling \$44.5 million for industrial and agricultural development and another for \$7.8 million to finance commodity purchases. Somali concluded a \$4.2 million credit agreement and a trade and technical cooperation agreement with Czechoslovakia. An exchange of a series of official missions between Mali and the USSR resulted in a long-term Soviet credit of \$44.4 million and Czechoslovak credits totaling \$12.5 million. Bloc credits totaling \$35 million were extended to Ghana, and the USSR agreed to construct a \$6 million hospital in Guinea. The USSR agreed in principle to construct three dams in Tunisia and to assist in the establishment of an engineering school at the University of Tunis.\*

Implementation of the previous credits as well as technical assistance to Guinea and Ghana proceeded at a growing pace. The number of Bloc technicians in Guinea increased from about 400 at the end of 1960 to 1,215 by June 1961. In Ghana the number rose from 120 to 205. About 250 students and trainees from both countries initiated various types of training programs in the Bloc. In addition, 3,000 Ghanaians were being processed for technical training in the Bloc. The 12 MIG-17 jet fighters and 2 MIG-15 trainer aircraft accepted by Morocco from the USSR last November arrived, along with 40 Soviet technicians. The Bloc appears to have adopted a more cautious attitude in Ethiopia in view of the abortive 1960 coup, and little progress was made in utilizing the \$100 million Soviet credit extended to Ethiopia in 1959.

Trade with the Bloc has continued to grow. Mali arranged in February to sell in 1961 nearly all of its principal crop, peanuts, to the USSR and Czechoslovakia. Bloc trade with Guinea, accounting for 44 percent of Guinea's imports in 1960 and 23 percent of its exports, continued to grow in 1961. Ghana's trade with the Bloc increased but still accounted for only 4 percent of Ghana's imports and 7 percent of total exports. Bloc shipments of military items were at a substantial level as deliveries of arms and ammunition were made to Guinea and Mali and to Morocco for the Algerian rebels.

#### Asia

Bloc economic efforts in Asia continued to be directed primarily toward the major countries of India, Burma, and Indonesia during the first 6 months of 1961. Political and economic instability in some

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\* In early August 1961 the USSR extended a credit of \$28 million to Tunisia, most of it for these projects.

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of the minor countries of the area continues to provide opportunities for Bloc economic advances but at the same time creates obstacles of varying importance that hinder Bloc attempts to exploit those opportunities.

Indonesia continued expanding its military potential with the assistance of the Bloc, signing agreements for more than \$300 million worth of supplies and equipment. Communist China revived a credit offer of \$30 million -- dormant for 4 years -- and seemed to be enjoying markedly improved relations with Indonesia. Peiping was on the itinerary of President Sukarno when, in the spring of 1961, he traveled extensively throughout the Bloc. Large numbers of Indonesians have been sent to Bloc countries for training, primarily military, but inside Indonesia the Bloc has been unable to move rapidly on its promises of economic assistance. More than 45 percent of economic credit extensions remain unobligated by specific contract, and many of those projects that are already under construction are not being completed in a style that commands respect. Bloc military assistance efforts, however, have encountered no apparent frustrations and, because of the sensitivities of Indonesians in the critical dispute over West New Guinea, provide the Bloc with a strong foundation for influence in Indonesia.

Burma has improved relations with Communist China to such a degree that China is now the prime Bloc influence in Burma. An extremely cordial visit to Burma by Premier Chou En-lai resulted in China's extending in January 1961 a credit of \$84 million for economic and technical assistance. A new payments agreement, which is intended to avoid the pitfalls that made earlier pacts unworkable, also was signed during this visit. Although Soviet and European Satellite countries continued working on the minor but eye-catching projects promised in the past, they entered on no new commitments during the first 6 months of 1961.

In Cambodia the USSR, Communist China, and Czechoslovakia sent technical delegations to negotiate the specific projects to be covered under the more general assistance commitments of 1960. A definite offer was made by the USSR to construct a \$40 million dam in Cambodia, presumably on credit, and further studies were being conducted by Soviet advisers on other potential projects for river development. Negotiations with Czechoslovakia were inconclusive. Arrangements were made for Communist China to assist the Cambodian transportation industry, but it appeared likely that a large part of the Chinese grant of 1960 would be used to complete the cement plant already being built. Cambodia's trade with the Bloc more than doubled during 1960, compared with 1959, and appears to be rising additionally in 1961. Persistent deficits in trade, however, have aroused some anxieties among Cambodian officials lest it become necessary to use hard Western currencies to settle clearing accounts.

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India's policy of nonalignment continues to be in evidence, in spite of the substantial Bloc assistance already received. No new large credits were extended to India during the 6-month period, but agreements were signed for the utilization of earlier credits. Most significant were agreements which earmark about \$66 million for the development of the public sector's petroleum industry. India signed contracts for delivery of additional aircraft and is expected to increase the rate of utilization of Bloc credits during the year.

In Ceylon, political, social, and economic instability have provided a favorable atmosphere for the Bloc to develop closer inter-governmental ties. Nevertheless, the instability that has provided opportunities also has further entangled the ever-present bureaucratic snarls and has hindered Bloc efforts to make specific inroads. Progress under Soviet assistance commitments has been slow, and few projects have gone beyond the planning stage. Communist China has not yet offered acceptable terms for a contract to carry out its commitment to build a textile mill in Ceylon.

The failure of the neutralist government of King Mahendra in Nepal to act decisively against the active Communist leaders in the country has been matched by an inability to eliminate the obstacles that have hindered the expansion of economic relations with the Bloc. Shortages of local currencies, poor weather, delivery tieups, and governmental lassitude have created obstacles which, in spite of Bloc attempts to produce action, have prevented the USSR and Communist China from advancing as far as the preliminary construction stage of any of their project commitments, with the exception of a 50-bed Soviet hospital. The Bloc continued its active propaganda and cultural programs in Nepal, programs made more effective by conducting them through the local Communist Party.

Although Thailand has few economic contacts with the Bloc, the USSR has placed considerable pressure on the government to alter its past policy. This pressure appears to have had some impact, and the Government of Thailand has indicated that it may seriously consider forthcoming offers of Bloc economic assistance.

### Europe

Economic relations between the Bloc and the underdeveloped countries of Europe showed few important changes during the first 6 months of 1961. Yugoslav trade with the Bloc appeared to be at about the same level as in 1960 and appeared to account for 25 to 30 percent of total trade. Long-term (1961-65) trade agreements have now been signed by Yugoslavia with most of the important Bloc countries. As to the

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others, negotiations have been underway for several months with Hungary, but long-term agreements are not contemplated with Albania and Communist China.

Iceland has continued to diminish its dependence on trade with the Bloc. In 1960 this trade was less than 25 percent of total trade in contrast to about 30 percent in 1959. This trend probably has continued during 1961.

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