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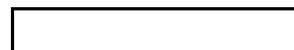
ECONOMIC INTELLIGENCE REPORT

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JANUARY - 30 JUNE 1962

EIC R14-S13

31 August 1962

ECONOMIC INTELLIGENCE COMMITTEE



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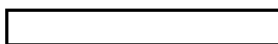
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ECONOMIC INTELLIGENCE REPORT

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IN UNDERDEVELOPED AREAS
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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 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 1962, constitutes the thirteenth 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 Department of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the Agency for International Development; 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 14 August 1962.

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 Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia (including Afghanistan and Pakistan); and (5) Iceland, Portugal, Spain, and Yugoslavia.

S-E-C-R-E-T

S-E-C-R-E-T

CONTENTS

Page

Summary

25X1



- v -

S-E-C-R-E-T

25X1

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010014-8

Next 3 Page(s) In Document Exempt

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010014-8

S-E-C-R-E-T

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1962

Summary

Patterns and Prospects

The growing Bloc presence in the less developed areas has been marked by changes in both the scope and the character of the Bloc politicoeconomic offensive. Over the past year the offensive has evidenced significant shifts in the levels of extensions and drawings and in the concentration of aid. A dramatic expansion in Bloc training of nationals from underdeveloped countries as well as recent technical innovations in the Soviet aid program further suggests the continuing dynamics of the Bloc's thrust into these areas.

A sharp drop in Bloc extensions of economic aid occurred during the first half of 1962, when new extensions totaled \$300 million.* The decline in new extensions by the European Satellites and Communist China was particularly drastic, the latter extending no new aid so far in 1962. Soviet extensions, which ran at about \$800 million a year in 1959 and 1960, in 1961 declined to a little more than \$500 million and in the first half of 1962 continued at about the same rate (\$250 million through June). Drawings against earlier Bloc credits, however, continued to increase, reaching a 6-month total of \$225 million.

This drop in extensions has been accompanied, on the one hand, by a growing number of official Soviet statements emphasizing the limits to Soviet aid capabilities and, on the other, by new Soviet offers, so far unaccepted, of at least \$900 million in economic aid. In recent Soviet pronouncements on foreign aid, greater stress has been laid on the "sacrifices" which economic aid has cost the Soviet economy and on the need for developing countries to rely chiefly on their own internal resources for economic progress. In spite of this apparent shift in the official Soviet position on foreign aid, however, the evidence does not appear to suggest a lessening of interest on the part of the USSR in its foreign aid program.

Almost 80 percent of total Bloc extensions since mid-1961 have been awarded to Cuba, Afghanistan, and a half-dozen countries in Africa. In Cuba, \$457 million in Bloc economic development credits, purchases

* Dollar values in this report are in terms of current US dollars.

S-E-C-R-E-T

S-E-C-R-E-T

of more than 80 percent of the Cuban sugar crop, and possible credits to finance commodity imports on current account indicate the Bloc's willingness to give large-scale support to its "socialist bridgehead" in the Western Hemisphere. In Afghanistan the USSR made available another \$300 million in economic credits, making total Soviet aid to Afghan economic development more than \$500 million. With both economic and military assistance the USSR seeks to preempt all foreign influence on the development of this isolated and strategically located neighbor.

The third major area which has been the recipient of a large share of Bloc economic aid during the past year is Africa, particularly West Africa. In the large number of small African countries, generally unstable politically and with bleak economic prospects, the Bloc can enhance its influence and prestige with smaller foreign aid outlays than are required in such countries as India and the United Arab Republic (UAR).

The continued scrutiny of the aid program which must occur at various levels of the Bloc hierarchy, particularly that of the USSR, has led recently to significant changes in the procedures and techniques of Bloc aid. For the most part, these changes appear to reflect a developing sophistication and flexibility in the conduct of an effective aid program as well as the desire to maximize the politicoeconomic return per ruble of aid extended. The progress of development programs in most underdeveloped countries is often slowed by the inability or unwillingness of the recipient government to allocate sufficient domestic resources to development projects. In some of the countries receiving Soviet assistance the USSR has found it necessary to provide commodities for sale in their domestic markets in order to raise the local currency portions of project development costs. Another recent innovation in the Soviet aid program has appeared in India, where the USSR agreed to train Indian engineers on the job before their departure for further training in the USSR. India and the USSR also agreed to the Soviet-sponsored training of Ceylonese engineers at the Bhilai steel plant in India. In both cases the training costs are reduced for the recipient country, as is the length of time its trainees would have to spend in the Bloc. Another recent feature of the Soviet offensive has been the intensification of the efforts of the USSR to extend its international air routes in Africa and Latin America. Although most of the new routes do not appear to be economically feasible, they undoubtedly are viewed by Soviet leaders as a means for enhancing Soviet prestige in the less developed areas.

Economic and Military Aid

The Bloc extended about \$300 million in economic aid to underdeveloped countries during the first half of 1962, the lowest level of

- 2 -

S-E-C-R-E-T

S-E-C-R-E-T

new extensions for any 6-month period since the first half of 1959. Drawings against earlier lines of credit, however, reached their highest 6-month total. Extensions by the USSR during this period approximated the level of its aid for the first half of 1961. European Satellite extensions, however, amounted to only 40 percent of the volume of aid provided during the comparable period in 1961, and the Chinese Communists extended no new aid during the first half of 1962.

By the end of June 1962 the cumulative total of Bloc economic credits and grants amounted to nearly \$4.9 billion.* Almost three-fourths of this total was extended by the USSR, with the major share of aid (70 percent) being allocated to the Middle East and Asia.

Drawings on Bloc credits and grants during the first half of 1962 totaled about \$225 million, an increase of 45 percent over the preceding 6-month period. By the end of June 1962, about 25 percent of total Bloc economic aid had been drawn. Of the total drawn, the USSR accounted for about 73 percent. Repayments of Bloc economic credits are estimated to total about \$165 million, or about 14 percent of the amount drawn. More than three-fourths of the total repayments were by India, Indonesia, the UAR, and Yugoslavia.

The USSR concluded new military aid agreements with Indonesia, Morocco, and Syria during the first half of 1962. The Indonesian agreement alone amounts to about \$70 million. The size of the Syrian agreement is not known, but it may be as high as \$40 million. The Soviet-Moroccan military agreement totals about \$4 million.

The aggregate value of military supplies and equipment which has been and will be provided under Bloc agreements with 12 underdeveloped countries now totals more than \$2.5 billion. Indonesia is the major recipient, accounting for about \$1 billion. About \$1.8 billion of total Bloc military aid is being financed under credit. About \$655 million is estimated to have been repaid on Bloc military credits. Indonesia and the UAR provided about three-fourths of total repayments.

Technical Assistance

During the first half of 1962, about 12,000 Bloc technicians of all types were present in underdeveloped countries. The number of military technicians increased by more than 40 percent above the previous half-year, compared with a rise of only 14 percent in economic technicians.

* All figures concerning the Bloc's aid program through 1961 have been audited. The result of the audit plus subsequent receipt of additional information have necessitated a revision of some of the figures presented in previous issues of this report.

S-E-C-R-E-T

S-E-C-R-E-T

Of about 9,600 economic technicians present in 28 underdeveloped countries, nearly half were employed in Afghanistan, Cuba, and Guinea.

More than 2,500 Bloc military technicians were present in 11 underdeveloped countries during the first 6 months of 1962. More than three-fourths of the total were located in Cuba, Indonesia, Iraq, and the UAR. Indonesia and the UAR accounted for about 85 percent of the increase during the 6-month period, reflecting a large-scale implementation of military agreements concluded earlier.

During the period under review, about 5,300 nationals from underdeveloped countries undertook training at academic, technical, or military training centers in the Bloc. Of the total, more than 2,860 students undertook academic and technical training programs. That 2,460 military personnel undertook training programs in the Bloc during this period is a reflection of the rapid implementation of military aid agreements concluded during the past year.

This large increase in the number of students and trainees raises to almost 27,000 the number who have had some training in the Bloc since 1955. More than 17,000 were engaged in academic and technical training courses. The total of 10,000 personnel who have undertaken military training approximates the number of academic students for the first time.

Trade

The trend of Bloc trade with the underdeveloped countries was characterized by the large increase in trade with Cuba and the declining level of commodity prices. The value of trade between the two areas during 1961 amounted to \$3.4 billion, an increase of about 20 percent above the 1960 level. The rise was almost entirely due to an increase of \$600 million in Bloc-Cuban trade. If Cuban trade is excluded, Bloc trade with the underdeveloped countries for 1961 would register a small decline.

To some extent the decline in the value of trade between the two areas was due to a declining trend in commodity prices. These declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, rubber, and tobacco. Whereas the value of Bloc imports from Indonesia and Malaya declined somewhat, the volume of rubber imported from these countries rose about 30 percent. The value of Bloc imports of cocoa from Ghana declined about 55 percent, but the volume of these imports fell only 40 percent.

Trade between the Bloc and Africa and the Far East rose about 8 percent and 4 percent, respectively. Trade with the Middle East declined slightly as a result of a 10-percent drop in the Bloc's total trade with

S-E-C-R-E-T

S-E-C-R-E-T

Greece, Turkey, and the UAR. Trade with the underdeveloped countries of Europe declined almost 15 percent owing to a sharp drop in trade with Yugoslavia.

Latin America

Economic relations between the countries of the Sino-Soviet Bloc and Latin America did not expand greatly during the first 6 months of 1962. Except for Cuba, where the Communist countries found it necessary to shore up the sagging Cuban economy, the Bloc was content to await the development of the Alliance for Progress. Moscow concentrated on propaganda efforts designed to discredit the Alliance as a "Yankee tool of neocolonialism," and Latin American countries, for their part, were reluctant to move toward closer economic ties with the Bloc at a time when the Alliance is at a critical proving stage. In two South American countries, however, there were important breakthroughs by the Bloc which could lead to an increase in its influence in those areas.

In Bolivia the issue of whether or not to accept previous offers of Soviet Bloc aid continued to be hotly debated. In general, the government of President Paz favored postponing acceptance of such aid in the hope that Bolivia's aspirations might be realized through the Alliance for Progress. Pressure on the government from leftist labor groups, however, finally brought about the signing of a contract for Bolivia's first Bloc aid project. Czechoslovakia was awarded a contract to construct an anti-mony smelter in the city of Oruro. A credit of \$1.9 million was extended to cover the foreign exchange costs of the project. Although the Soviet Ambassador to Mexico in a visit to La Paz urged closer Bolivian economic and diplomatic ties with the USSR, no further moves were made in the direction of accepting the \$150 million offer of developmental aid made by the USSR more than a year ago.

Brazil's resumption of diplomatic relations with the USSR late in 1961 opened the way to a significant increase in economic contracts between those two countries. A trade protocol was signed at the end of April which set a goal for trade during 1962 at \$80 million, twice the amount of their total trade in 1961. To stimulate interest in buying from the USSR as well as to depict the technical advances and improved living standards of the Communist countries, a large trade and industrial fair was held in Rio during the month of May and was visited by about one-half million Brazilians. Czechoslovakia continued its commercial activity in the Brazilian Northeast, assigning a commercial attaché to the city of Recife, where a special effort is being made to sell Czechoslovak commodities. There were discussions of possible Bloc credits held with several state and local government officials, but apparently no agreements were concluded during the first 6 months of 1962.

S-E-C-R-E-T

S-E-C-R-E-T

In the case of Cuba, an extremely disappointing sugar harvest left that country largely dependent on the Soviet Bloc. The Castro regime had expected a rising level of sugar sales in 1962 to bring some improvement in an increasingly bleak economic picture. The program of industrialization, to be accomplished with Bloc help in the amount of nearly one-half billion dollars in credits, had not progressed very far. Moreover, the efforts of Bloc technicians to aid the Cubans in operating the various nationalized industries had not been sufficient to prevent the gradual deterioration resulting from the lack of spare parts and inept managerial coordination by the regime. Thus Cuba continued to be dependent on foreign trade earnings for most of its industrial goods and a great part of its foodstuffs. The decrease in potential foreign exchange earnings resulting from the low sugar yield, added to the decline in domestic output in nearly every sector, threatened Cuba with even greater shortages of consumer goods and raw materials and compelled it to seek additional help from Moscow.

Accordingly, in March the Cubans began to seek adjustments in their trade protocols with Bloc countries. The original agreements with the Bloc had set total trade for 1962 at more than \$1 billion, an increase of about \$200 million above 1961. In spite of Cuba's inability even to meet its sugar commitments to the Bloc, the revised protocols showed no diminution in the total volume of Cuban imports from those countries and even showed a rise in the case of the USSR. Thus it would appear that the USSR has agreed to carry some Cuban purchases on credit during Cuba's present economic difficulties. Early in 1962 the USSR also extended an additional credit of \$100 million for Cuba's industrial development, bringing the total Bloc commitment to \$457 million. There were indications, however, that Moscow might have imposed sterner conditions on the Cubans in exchange for aid. Soviet and European Satellite officials complained of Cuban inefficiency and bungled attempts at socialist planning. At least two technical delegations traveled to Cuba, apparently to impose some reforms on the Cuban administrative mechanism.

Early in the year, Cuba received 6 submarine chasers and 12 motor torpedo boats. Around the end of the period under review, there were indications that increased deliveries of military equipment were to begin.

Although there were at least two substantial sales of Argentine wheat to Communist China during the period of this report, trade with the Bloc continued at a low level. Construction equipment and machinery under the Soviet line of credit were delivered. Argentina's trade agreement with the USSR -- the last of its bilateral agreements with Bloc countries -- was denounced shortly after the ouster of President Frondizi by anti-Communist military groups, with Argentina still in a creditor position. Uruguay, another Latin American country whose trade with the Bloc has fallen off considerably in recent years, succeeded in obtaining an order

- 6 -

S-E-C-R-E-T

S-E-C-R-E-T

for 15,000 tons* of beef from the USSR (valued at about \$7 million) and another from East Germany for 2,000 tons, at a time when Uruguay's meat industry is suffering from reduced sales to Western European markets. Czechoslovakia also purchased 800 tons of Uruguayan beef, paying for it with industrial alcohol transshipped from Cuba.

Soviet interest in purchasing 60,000 tons of copper and semifabricated copper products from Chile was revived in February, but agreement appeared to stall over the list of goods which the USSR would send to Chile in exchange for the copper, as well as the type of copper products acceptable to the USSR. The possibility of Soviet assistance for construction of a copper smelter or a petroleum refinery in Chile was injected into the negotiations. Poland was more successful in arranging a barter agreement with the Chileans, concluding an agreement for the exchange of 2 million liters of Chilean wine for 1,500 tons of Polish butter and 5,000 tons of fish meal.

A number of overtures were made by both sides toward the development of economic relations between British Guiana and the Bloc. Czechoslovakia contracted to purchase from British Guiana 3,000 tons of rice valued at \$1 million. Czechoslovakia and East Germany offered to construct a large number of small manufacturing enterprises.

Middle East

The over-all position of the Sino-Soviet Bloc in the Middle East during the first 6 months of 1962 remained relatively unchanged in spite of an upsurge in military aid activities and the signing of a number of new commercial agreements with Cyprus. Only in Iraq was the Bloc successful in significantly expanding its political and economic influence in a Middle Eastern country.

A new military agreement was concluded with Syria, and deliveries of military equipment under earlier agreements with Iraq and the UAR were increased. Iraq's dependence on the USSR was marked by a definite upswing in the implementation of various economic projects and in deliveries of military equipment, by an increase in the number of economic and military technicians, and by a series of commercial agreements which further pre-empted markets formerly held by Western firms. By continuing to support Kassem on the Kuwait issue, the USSR secured such political dividends as fewer restrictions on the Iraqi Communist Party and the appointment of more Communists and fellow travelers to positions in the Kassem government.

* Unless otherwise indicated, tonnages are given in metric tons throughout this report.

S-E-C-R-E-T

S-E-C-R-E-T

Continued instability in the Syrian Government following a military coup early in 1962 acted to limit increases in Bloc economic activity in the Syrian Arab Republic, although work on several projects continued. The weakness in the government, however, did give the local Communist Party some opportunity to reassert itself after a period of severe repression which it had undergone during previous months. A Syrian military mission which had visited Moscow in February apparently obtained Soviet agreement to provide more military aid. The details of the agreement are not known, but it may be as high as \$40 million.

In the UAR, Nasser's determination to maintain a balanced course between East and West prompted him to continue seeking economic assistance from both sides. Czechoslovakia extended a new credit of about \$57 million for the UAR's development program. Progress continued on various Bloc aid projects in Egypt. The USSR pressed forward with the implementation of the Aswan Dam. UAR press announcements expressed confidence that the High Dam would be completed as scheduled in 1964. The USSR stepped up the pace of deliveries of military equipment to the UAR. Deliveries are expected to include MIG-21's and guided missiles. Early in 1962 the USSR delivered two destroyers and a submarine. UAR-Bloc trade in 1961 experienced a sharp decline as a result of the UAR's poor cotton harvest.

In Yemen, Bloc economic activity remained at a virtual standstill. The primary Bloc objective continued to be to obtain some kind of foothold so as to be able to exert political and economic influence in this strategic area near the Red Sea when the time seems propitious. The first half of 1962 was marked by the absence of any new Bloc credits, by Chinese Communist delay in the building of a textile plant, and by criticism of the quality of the Soviet-constructed port facilities at Al Hudaydah. Probably the most significant Bloc activity in Yemen was the increased influence over the local press and certain trade circles through bribery.

Elsewhere in the Middle East, Moscow continued to be unsuccessful in its efforts, begun more than 2 years ago, to persuade Turkey to accept an offer of about \$500 million in aid credits. In Iran, Moscow continued, also unsuccessfully, to press for a nonaggression treaty. In Cyprus, however, Cypriot apprehensions regarding the Common Market enabled the Bloc to negotiate a number of bilateral trade agreements which, together with an agreement concluded with Moscow in 1961, involved potential trade of about \$14 million, double the value of Cypriot-Bloc trade in 1961. Greek trade with the Bloc in 1961 continued its upward trend, with the Bloc accounting for 20 percent of Greece's exports and 10 percent of its imports.

- 8 -

S-E-C-R-E-T

S-E-C-R-E-T

Africa

Bloc influence in Africa, although marked by a variety of conflicting trends, continued to expand. The solid front presented by the African countries associated with the French community was broken as several countries in this group signed their first trade, cultural, and technical assistance agreements with the Bloc. New economic credits were extended to Guinea, Mali, and Morocco. The new Soviet aid to Guinea offset somewhat the strained relations which existed between the two countries early in 1962.

Toward the end of 1961, Guinea began to move to limit additional Bloc involvement in the country and to try, cautiously and tentatively, to develop countervailing relations with the West. Economic assistance was received from several Western countries, but new credits totaling about \$15 million were extended by the USSR and Bulgaria. Guinea's trade with the Bloc continued to expand and in 1961 accounted for about one-third of Guinea's total trade.

Ghanaian and Malian relations with the Bloc, already intimate and extensive, progressed further. Bloc penetration of vital sectors of the economy offered possibilities for influencing the course of economic development in these countries. Bloc influence proceeded rapidly in Mali because of Malian preoccupation with curtailing French influence and eliminating internal opposition to the regime. The USSR extended a credit of \$11 million to Mali. In Ghana, in spite of continued indications that military aid might be accepted from the Bloc, the internal security forces remained free of Bloc influence, although in the field of mass organizations and economic cooperation the Bloc role expanded.

There were no significant developments in Ethiopia's relations with the Bloc. About \$2 million has been drawn on the \$100 million Soviet credit extended in 1959. Delays continued to prevent initiation of construction of the oil refinery at Assab.

In Morocco the Bloc apparently gained entry into the army, following the signing of a \$4 million military aid agreement. Morocco received an economic credit from Poland totaling about \$5 million. The USSR completed a survey of a shipyard at Tangier and reportedly offered to undertake the project.

In Tunisia, Sudan, and the Somali Republic, limited progress was made by the Bloc in implementing economic aid programs already negotiated. The Bloc for the first time established cooperative relations with some of the relatively pro-Western states belonging to the UAM (Union of African and Malagasy States). Trade, cultural, and technical assistance agreements were concluded with Niger, Dahomey, and Senegal. The two latter countries also agreed to exchange ambassadors with Bloc countries.

S-E-C-R-E-T

S-E-C-R-E-T

Limited Bloc advances were made in Nigeria, where Soviet and Czechoslovak embassies were established. Czechoslovakia extended a credit of undetermined size for construction of industrial plants. No significant Bloc effort was made in newly independent Tanganyika, however, nor were standing Soviet military and economic aid offers taken up by the Congo Republic (Leopoldville).

The USSR made rapid strides in the civil aviation field and concluded agreements to establish Aeroflot routes in the East (Cairo-Khartoum) and in the West (Rabat-Conakry-Bamako-Accra), although it has not yet succeeded in negotiating a transverse link across middle Africa. The Czechoslovak airline increased its service on its existing West African run.

Although the Bloc continued to expand its training of Africans, some student dissatisfaction and defections occurred, primarily in Soviet institutions. However, even if only a small proportion of African students are converted in the Bloc, a substantial working nucleus of loyal Communist agents probably is being created for future use in African countries, including present Western dependencies.

On the international political scene as it concerned Africa, the Bloc took extreme demagogic positions demanding precipitate and unconditional independence for African populations in such controversial or sensitive areas as Rwanda, Burundi, the Federation of Rhodesia and Nyasaland, South-West Africa, Angola, Mozambique, and the Republic of South Africa, sometimes outdistancing even the most radical African states in the simplicity and vehemence of its demands.

Asia

The Sino-Soviet Bloc made substantial gains in its economic and military aid program to several different Asian countries during the first 6 months of 1962. In most instances, skillful Bloc exploitation of domestic difficulties or political frictions with neighboring countries increased the receptivity of local governments to Bloc overtures. Soviet economic and military ties with Afghanistan and Indonesia increased markedly during the review period.

Strong Soviet support for Afghanistan in its dispute with Pakistan and a new Soviet credit of \$89 million increased Afghanistan's dependence on the Bloc. The USSR gained entrance into new fields, such as education, geological survey, and housing -- areas where it had previously had little influence. The new Soviet credit increased the total of Soviet Bloc credits and grants to Afghanistan to more than one-half billion dollars, much of it on extremely favorable terms. Work continued on a number of different projects, and a new cultural agreement, an agreement on cooperation and training in meteorology, and the institution of Russian-language

S-E-C-R-E-T

S-E-C-R-E-T

training in Afghanistan typified the continued increase of the Bloc's presence in this strategic country connecting the USSR with the Indian subcontinent.

India's relations with the Soviet Bloc were characterized by a continued guarded expansion on the part of the Indian Government. Relations with Communist China experienced a precipitous decline as a result of continued military clashes with Peiping along India's northern frontier. Among the more important developments during the period were the purchase of helicopters and transport planes from the USSR, a Soviet contract to provide India with jet aircraft engines, and a Soviet offer to supply India with two squadrons of MIG-21 jet fighters together with the manufacturing facilities to produce more of these aircraft. The Soviet-constructed Bhilai steel mill and the Rumanian-constructed Gauhati oil refinery both went into production, although the latter was forced to close down shortly afterward because of a change in the grade of crude oil produced in the Gauhati fields. India's trade with the Bloc increased by about 30 percent in 1961, although trade with Communist China fell off sharply and was expected to fall further during 1962.

Although the implementation of Soviet Bloc projects in Ceylon continued at a slow pace, Moscow was in a position to expand its influence in that country as a result of Ceylon's political instability, domestic financial problems, and balance-of-payments difficulties. A number of key Ceylonese leaders stated their belief that the techniques of economic development followed in the Bloc might be adopted advantageously in Ceylon. Several state corporations have been created to expand the functions of the public sector. Ceylon's trade with the Bloc declined sharply in 1961 but is expected to increase rapidly during 1962 as a result of contracts which call for the USSR and the European Satellites to take about 50 percent of Ceylon's output of raw rubber and almost all of its sheet rubber. The Bloc also will provide about one-fourth of Ceylon's petroleum requirements, with Bloc POL products being distributed through a newly formed government-owned corporation.

Developments in Nepal saw a leveling off in Soviet activity and increased ties with Communist China. Although the Soviet hospital near Katmandu was nearing completion, the USSR announced that work on all projects would be suspended if Nepal failed to meet local currency costs. Toward this end the USSR extended a credit of \$3 million to Nepal to purchase Soviet commodities to be sold in Nepal. The USSR completed the survey of the part of the east-west highway for which it was responsible but refused to agree to undertake a survey of the rest of the highway. On the other hand, work continued on all Chinese Communist projects during the period, and the number of Chinese Communist technicians increased. Peiping also delivered the first of three gift aircraft to the Nepalese Government.

- 11 -

S-E-C-R-E-T

S-E-C-R-E-T

A new Soviet military aid agreement with Indonesia highlighted the accelerating tempo of Soviet military aid to that country. In the wake of increasing tension between Djakarta and The Hague over West New Guinea, Soviet deliveries included Tu-16 jet medium bombers, MIG-21 jet fighters, submarines, ground-to-air and air-to-ground missiles, and a wide range of other equipment. These weapons were accompanied by increased numbers of Soviet military technicians and an expanded military training program for Indonesian personnel. By 30 June the value of Bloc military aid to Indonesia was estimated to be more than \$1 billion. In the economic field, efforts were made to speed up implementation of a number of Bloc projects, and contracts were concluded for several new projects, including a Czechoslovak mineral survey and Rumanian oil exploration. The completion, late in June, of a Soviet-constructed stadium in Djakarta, to be used for the Asian Games beginning in August, was regarded as an important achievement.

Although no new Bloc credits were extended to Burma during the first half of 1962, a military takeover of that country's government and subsequent developments resulted in a number of anti-Western and pro-Bloc statements and actions by the Burmese leadership and indications that Bloc rather than Western aid will henceforth be considered preferable. Implementation of projects under the Chinese Communist credit of \$84 million continued, and it seemed likely that Communist China would dominate future foreign aid programs in Burma. Burma's trade with the Bloc rose sharply in 1961 and is expected to increase further in 1962.

In Cambodia, work continued on implementation of Bloc projects, along with public official statements which described aid from the Bloc as more disinterested than aid from the West. Although there were no new Bloc credits, Czechoslovakia conducted a trade fair, and the USSR made rapid progress in constructing a technological institute.

Soviet Bloc economic activity in Pakistan during the first half of 1962 continued to be minimal. The arrival of additional technicians for the Soviet oil exploration project increased the total number there to about 80, but adverse reaction to reports of planned Soviet military aid to India largely negated any pressures for further economic ties with Moscow.

Europe

Economic relations between Yugoslavia and the Soviet Bloc during the first 6 months of 1962 reflected the expanding cooperation which developed in political relations between Belgrade and Moscow. This increased cordiality did not characterize relations with Albania and Communist China, whose inimical ideological stance toward the Belgrade "revisionists" was reflected in a continued absence of large-scale trade with them. Although

S-E-C-R-E-T

S-E-C-R-E-T

trade between Yugoslavia and the Bloc in 1961 declined about 12 percent, agreements signed in 1962 presage an increase in trade between the two areas. Annual protocols to existing long-term trade agreements were signed with all the European members of the Bloc plus Communist China, with most of these countries (Communist China and Albania being exceptions) calling for some increase in exchange levels. A 3-year agreement concluded with the USSR envisages a "considerable increase" in trade for 1963-65. Negotiations also were initiated for limited Yugoslav membership in the Council for Mutual Economic Assistance (CEMA), for reinstatement of the Soviet credits originally extended in 1956 but subsequently canceled by the USSR, and for deferment of installments due on Yugoslavia's debt to the USSR.

Tito made some purchases of military hardware from the USSR, including tanks and artillery, for the first time since the 1948 break. Yugoslav sources denied, however, that these purchases represented any change in Belgrade's policy of independence from the Bloc, claiming that they were designed to help Yugoslavia conserve its severely limited supply of hard currency.

Agreements were signed by Yugoslavia with Rumania and Bulgaria for the construction of a major hydroelectric combine at the Danube's Iron Gates and for a long-discussed highway linking Belgrade and Sofia via Dimitrograd. A major rail link with Hungary was opened with the finishing of reconstruction of a Danube River bridge in May. Yugoslav shipyards were working on 9 small tankers and 12 freighters for the USSR, to be delivered by 1965.

No Bloc technicians were known to be active in Yugoslavia during the reporting period. There was, however, a series of exchanges of observers with several Bloc countries, including parliamentary delegations, trade union officials, and journalists. Belgrade granted the USSR landing rights at the new Surcin airfield near the capital for the Soviet civil air carrier Aeroflot on its newly established Moscow-Accra run beginning in August.

There was no change in Bloc relations with Iceland, Spain, and Portugal. The trade of all three countries with the Bloc in 1961 experienced a small decline from the levels achieved in 1960.

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ECONOMIC INTELLIGENCE REPORT

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JANUARY - 30 JUNE 1962

SUMMARY

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

EIC R14-S13

31 August 1962

ECONOMIC INTELLIGENCE COMMITTEE

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1962

Summary*

Patterns and Prospects

The growing Bloc presence in the less developed areas has been marked by changes in both the scope and the character of the Bloc politico-economic offensive. Over the past year the offensive has evidenced significant shifts in the levels of extensions and drawings and in the concentration of aid.** A dramatic expansion in Bloc training of nationals from underdeveloped countries as well as recent technical innovations in the Soviet aid program further suggests the continuing dynamics of the Bloc's thrust into these areas.

A sharp drop in Bloc extensions of economic aid occurred during the first half of 1962, when new extensions totaled \$300 million.*** The decline in new extensions by the European Satellites and Communist China was particularly drastic, the latter extending no new aid so far in 1962. Soviet extensions, which ran at about \$800 million a year in 1959 and 1960, in 1961 declined to a little more than \$500 million and in the first half of 1962 continued at about the same rate (\$250 million through June). Drawings against earlier Bloc credits, however, continued to increase, reaching a 6-month total of \$225 million.

This drop in extensions has been accompanied, on the one hand, by a growing number of official Soviet statements emphasizing the limits to Soviet aid capabilities and, on the other, by new Soviet offers, so far unaccepted, of at least \$900 million in economic aid. In recent Soviet pronouncements on foreign aid, greater stress has been laid on the "sacrifices" which economic aid has cost the Soviet economy and on the need for developing countries to rely chiefly on their own internal resources for economic progress. In spite of this apparent shift in the official Soviet position on foreign aid, however, the evidence does not appear to suggest a lessening of interest on the part of the USSR in its foreign aid program.

Almost 80 percent of total Bloc extensions since mid-1961 have been awarded to Cuba, Afghanistan, and a half-dozen countries in Africa. In Cuba, \$457 million in Bloc economic development credits, purchases

* Figures 1, 2, and 3 from the full text of the report are included in this summary following p. 15.

** For details, see the summary table, p. 14, below.

*** Dollar values in this report are in terms of current US dollars.

S-E-C-R-E-T

of more than 80 percent of the Cuban sugar crop, and possible credits to finance commodity imports on current account indicate the Bloc's willingness to give large-scale support to its "socialist bridgehead" in the Western Hemisphere. In Afghanistan the USSR made available another \$300 million in economic credits, making total Soviet aid to Afghan economic development more than \$500 million. With both economic and military assistance the USSR seeks to preempt all foreign influence on the development of this isolated and strategically located neighbor.

The third major area which has been the recipient of a large share of Bloc economic aid during the past year is Africa, particularly West Africa. In the large number of small African countries, generally unstable politically and with bleak economic prospects, the Bloc can enhance its influence and prestige with smaller foreign aid outlays than are required in such countries as India and the United Arab Republic (UAR).

The continued scrutiny of the aid program which must occur at various levels of the Bloc hierarchy, particularly that of the USSR, has led recently to significant changes in the procedures and techniques of Bloc aid. For the most part, these changes appear to reflect a developing sophistication and flexibility in the conduct of an effective aid program as well as the desire to maximize the politicoeconomic return per ruble of aid extended. The progress of development programs in most underdeveloped countries is often slowed by the inability or unwillingness of the recipient government to allocate sufficient domestic resources to development projects. In some of the countries receiving Soviet assistance the USSR has found it necessary to provide commodities for sale in their domestic markets in order to raise the local currency portions of project development costs. Another recent innovation in the Soviet aid program has appeared in India, where the USSR agreed to train Indian engineers on the job before their departure for further training in the USSR. India and the USSR also agreed to the Soviet-sponsored training of Ceylonese engineers at the Bhilai steel plant in India. In both cases the training costs are reduced for the recipient country, as is the length of time its trainees would have to spend in the Bloc. Another recent feature of the Soviet offensive has been the intensification of the efforts of the USSR to extend its international air routes in Africa and Latin America. Although most of the new routes do not appear to be economically feasible, they undoubtedly are viewed by Soviet leaders as a means for enhancing Soviet prestige in the less developed areas.

Economic and Military Aid

The Bloc extended about \$300 million in economic aid to underdeveloped countries during the first half of 1962, the lowest level of

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S-E-C-R-E-T

new extensions for any 6-month period since the first half of 1959. Drawings against earlier lines of credit, however, reached their highest 6-month total. Extensions by the USSR during this period approximated the level of its aid for the first half of 1961. European Satellite extensions, however, amounted to only 40 percent of the volume of aid provided during the comparable period in 1961, and the Chinese Communists extended no new aid during the first half of 1962.

By the end of June 1962 the cumulative total of Bloc economic credits and grants amounted to nearly \$4.9 billion.* Almost three-fourths of this total was extended by the USSR, with the major share of aid (70 percent) being allocated to the Middle East and Asia.

Drawings on Bloc credits and grants during the first half of 1962 totaled about \$225 million, an increase of 45 percent over the preceding 6-month period. By the end of June 1962, about 25 percent of total Bloc economic aid had been drawn. Of the total drawn, the USSR accounted for about 73 percent. Repayments of Bloc economic credits are estimated to total about \$165 million, or about 14 percent of the amount drawn. More than three-fourths of the total repayments were by India, Indonesia, the UAR, and Yugoslavia.

The USSR concluded new military aid agreements with Indonesia, Morocco, and Syria during the first half of 1962. The Indonesian agreement alone amounts to about \$70 million. The size of the Syrian agreement is not known, but it may be as high as \$40 million. The Soviet-Moroccan military agreement totals about \$4 million.

The aggregate value of military supplies and equipment which has been and will be provided under Bloc agreements with 12 underdeveloped countries now totals more than \$2.5 billion. Indonesia is the major recipient, accounting for about \$1 billion. About \$1.8 billion of total Bloc military aid is being financed under credit. About \$655 million is estimated to have been repaid on Bloc military credits. Indonesia and the UAR provided about three-fourths of total repayments.

Technical Assistance

During the first half of 1962, about 12,000 Bloc technicians of all types were present in underdeveloped countries. The number of military technicians increased by more than 40 percent above the previous half-year, compared with a rise of only 14 percent in economic technicians.

* All figures concerning the Bloc's aid program through 1961 have been audited. The result of the audit plus subsequent receipt of additional information have necessitated a revision of some of the figures presented in previous issues of this report.

S-E-C-R-E-T

S-E-C-R-E-T

Of about 9,600 economic technicians present in 28 underdeveloped countries, nearly half were employed in Afghanistan, Cuba, and Guinea.

More than 2,500 Bloc military technicians were present in 11 underdeveloped countries during the first 6 months of 1962. More than three-fourths of the total were located in Cuba, Indonesia, Iraq, and the UAR. Indonesia and the UAR accounted for about 85 percent of the increase during the 6-month period, reflecting a large-scale implementation of military agreements concluded earlier.

During the period under review, about 5,300 nationals from underdeveloped countries undertook training at academic, technical, or military training centers in the Bloc. Of the total, more than 2,860 students undertook academic and technical training programs. That 2,460 military personnel undertook training programs in the Bloc during this period is a reflection of the rapid implementation of military aid agreements concluded during the past year.

This large increase in the number of students and trainees raises to almost 27,000 the number who have had some training in the Bloc since 1955. More than 17,000 were engaged in academic and technical training courses. The total of 10,000 personnel who have undertaken military training approximates the number of academic students for the first time.

Trade

The trend of Bloc trade with the underdeveloped countries was characterized by the large increase in trade with Cuba and the declining level of commodity prices. The value of trade between the two areas during 1961 amounted to \$3.4 billion, an increase of about 20 percent above the 1960 level. The rise was almost entirely due to an increase of \$600 million in Bloc-Cuban trade. If Cuban trade is excluded, Bloc trade with the underdeveloped countries for 1961 would register a small decline.

To some extent the decline in the value of trade between the two areas was due to a declining trend in commodity prices. These declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, rubber, and tobacco. Whereas the value of Bloc imports from Indonesia and Malaya declined somewhat, the volume of rubber imported from these countries rose about 30 percent. The value of Bloc imports of cocoa from Ghana declined about 55 percent, but the volume of these imports fell only 40 percent.

Trade between the Bloc and Africa and the Far East rose about 8 percent and 4 percent, respectively. Trade with the Middle East declined slightly as a result of a 10-percent drop in the Bloc's total trade with

S-E-C-R-E-T

S-E-C-R-E-T

Greece, Turkey, and the UAR. Trade with the underdeveloped countries of Europe declined almost 15 percent owing to a sharp drop in trade with Yugoslavia.

Latin America

Economic relations between the countries of the Sino-Soviet Bloc and Latin America did not expand greatly during the first 6 months of 1962. Except for Cuba, where the Communist countries found it necessary to shore up the sagging Cuban economy, the Bloc was content to await the development of the Alliance for Progress. Moscow concentrated on propaganda efforts designed to discredit the Alliance as a "Yankee tool of neocolonialism," and Latin American countries, for their part, were reluctant to move toward closer economic ties with the Bloc at a time when the Alliance is at a critical proving stage. In two South American countries, however, there were important breakthroughs by the Bloc which could lead to an increase in its influence in those areas.

In Bolivia the issue of whether or not to accept previous offers of Soviet Bloc aid continued to be hotly debated. In general, the government of President Paz favored postponing acceptance of such aid in the hope that Bolivia's aspirations might be realized through the Alliance for Progress. Pressure on the government from leftist labor groups, however, finally brought about the signing of a contract for Bolivia's first Bloc aid project. Czechoslovakia was awarded a contract to construct an anti-mony smelter in the city of Oruro. A credit of \$1.9 million was extended to cover the foreign exchange costs of the project. Although the Soviet Ambassador to Mexico in a visit to La Paz urged closer Bolivian economic and diplomatic ties with the USSR, no further moves were made in the direction of accepting the \$150 million offer of developmental aid made by the USSR more than a year ago.

Brazil's resumption of diplomatic relations with the USSR late in 1961 opened the way to a significant increase in economic contracts between those two countries. A trade protocol was signed at the end of April which set a goal for trade during 1962 at \$80 million, twice the amount of their total trade in 1961. To stimulate interest in buying from the USSR as well as to depict the technical advances and improved living standards of the Communist countries, a large trade and industrial fair was held in Rio during the month of May and was visited by about one-half million Brazilians. Czechoslovakia continued its commercial activity in the Brazilian Northeast, assigning a commercial attaché to the city of Recife, where a special effort is being made to sell Czechoslovak commodities. There were discussions of possible Bloc credits held with several state and local government officials, but apparently no agreements were concluded during the first 6 months of 1962.

- 5 -

S-E-C-R-E-T

S-E-C-R-E-T

In the case of Cuba, an extremely disappointing sugar harvest left that country largely dependent on the Soviet Bloc. The Castro regime had expected a rising level of sugar sales in 1962 to bring some improvement in an increasingly bleak economic picture. The program of industrialization, to be accomplished with Bloc help in the amount of nearly one-half billion dollars in credits, had not progressed very far. Moreover, the efforts of Bloc technicians to aid the Cubans in operating the various nationalized industries had not been sufficient to prevent the gradual deterioration resulting from the lack of spare parts and inept managerial coordination by the regime. Thus Cuba continued to be dependent on foreign trade earnings for most of its industrial goods and a great part of its foodstuffs. The decrease in potential foreign exchange earnings resulting from the low sugar yield, added to the decline in domestic output in nearly every sector, threatened Cuba with even greater shortages of consumer goods and raw materials and compelled it to seek additional help from Moscow.

Accordingly, in March the Cubans began to seek adjustments in their trade protocols with Bloc countries. The original agreements with the Bloc had set total trade for 1962 at more than \$1 billion, an increase of about \$200 million above 1961. In spite of Cuba's inability even to meet its sugar commitments to the Bloc, the revised protocols showed no diminution in the total volume of Cuban imports from those countries and even showed a rise in the case of the USSR. Thus it would appear that the USSR has agreed to carry some Cuban purchases on credit during Cuba's present economic difficulties. Early in 1962 the USSR also extended an additional credit of \$100 million for Cuba's industrial development, bringing the total Bloc commitment to \$457 million. There were indications, however, that Moscow might have imposed sterner conditions on the Cubans in exchange for aid. Soviet and European Satellite officials complained of Cuban inefficiency and bungled attempts at socialist planning. At least two technical delegations traveled to Cuba, apparently to impose some reforms on the Cuban administrative mechanism.

Early in the year, Cuba received 6 submarine chasers and 12 motor torpedo boats. Around the end of the period under review, there were indications that increased deliveries of military equipment were to begin.

Although there were at least two substantial sales of Argentine wheat to Communist China during the period of this report, trade with the Bloc continued at a low level. Construction equipment and machinery under the Soviet line of credit were delivered. Argentina's trade agreement with the USSR -- the last of its bilateral agreements with Bloc countries -- was denounced shortly after the ouster of President Frondizi by anti-Communist military groups, with Argentina still in a creditor position. Uruguay, another Latin American country whose trade with the Bloc has fallen off considerably in recent years, succeeded in obtaining an order

- 6 -

S-E-C-R-E-T

S-E-C-R-E-T

for 15,000 tons* of beef from the USSR (valued at about \$7 million) and another from East Germany for 2,000 tons, at a time when Uruguay's meat industry is suffering from reduced sales to Western European markets. Czechoslovakia also purchased 800 tons of Uruguayan beef, paying for it with industrial alcohol transshipped from Cuba.

Soviet interest in purchasing 60,000 tons of copper and semifabricated copper products from Chile was revived in February, but agreement appeared to stall over the list of goods which the USSR would send to Chile in exchange for the copper, as well as the type of copper products acceptable to the USSR. The possibility of Soviet assistance for construction of a copper smelter or a petroleum refinery in Chile was injected into the negotiations. Poland was more successful in arranging a barter agreement with the Chileans, concluding an agreement for the exchange of 2 million liters of Chilean wine for 1,500 tons of Polish butter and 5,000 tons of fish meal.

A number of overtures were made by both sides toward the development of economic relations between British Guiana and the Bloc. Czechoslovakia contracted to purchase from British Guiana 3,000 tons of rice valued at \$1 million. Czechoslovakia and East Germany offered to construct a large number of small manufacturing enterprises.

Middle East

The over-all position of the Sino-Soviet Bloc in the Middle East during the first 6 months of 1962 remained relatively unchanged in spite of an upsurge in military aid activities and the signing of a number of new commercial agreements with Cyprus. Only in Iraq was the Bloc successful in significantly expanding its political and economic influence in a Middle Eastern country.

A new military agreement was concluded with Syria, and deliveries of military equipment under earlier agreements with Iraq and the UAR were increased. Iraq's dependence on the USSR was marked by a definite upswing in the implementation of various economic projects and in deliveries of military equipment, by an increase in the number of economic and military technicians, and by a series of commercial agreements which further pre-empted markets formerly held by Western firms. By continuing to support Kassem on the Kuwait issue, the USSR secured such political dividends as fewer restrictions on the Iraqi Communist Party and the appointment of more Communists and fellow travelers to positions in the Kassem government.

* Unless otherwise indicated, tonnages are given in metric tons throughout this report.

S-E-C-R-E-T

S-E-C-R-E-T

Continued instability in the Syrian Government following a military coup early in 1962 acted to limit increases in Bloc economic activity in the Syrian Arab Republic, although work on several projects continued. The weakness in the government, however, did give the local Communist Party some opportunity to reassert itself after a period of severe repression which it had undergone during previous months. A Syrian military mission which had visited Moscow in February apparently obtained Soviet agreement to provide more military aid. The details of the agreement are not known, but it may be as high as \$40 million.

In the UAR, Nasser's determination to maintain a balanced course between East and West prompted him to continue seeking economic assistance from both sides. Czechoslovakia extended a new credit of about \$57 million for the UAR's development program. Progress continued on various Bloc aid projects in Egypt. The USSR pressed forward with the implementation of the Aswan Dam. UAR press announcements expressed confidence that the High Dam would be completed as scheduled in 1964. The USSR stepped up the pace of deliveries of military equipment to the UAR. Deliveries are expected to include MIG-21's and guided missiles. Early in 1962 the USSR delivered two destroyers and a submarine. UAR-Bloc trade in 1961 experienced a sharp decline as a result of the UAR's poor cotton harvest.

In Yemen, Bloc economic activity remained at a virtual standstill. The primary Bloc objective continued to be to obtain some kind of foothold so as to be able to exert political and economic influence in this strategic area near the Red Sea when the time seems propitious. The first half of 1962 was marked by the absence of any new Bloc credits, by Chinese Communist delay in the building of a textile plant, and by criticism of the quality of the Soviet-constructed port facilities at Al Hudaydah. Probably the most significant Bloc activity in Yemen was the increased influence over the local press and certain trade circles through bribery.

Elsewhere in the Middle East, Moscow continued to be unsuccessful in its efforts, begun more than 2 years ago, to persuade Turkey to accept an offer of about \$500 million in aid credits. In Iran, Moscow continued, also unsuccessfully, to press for a nonaggression treaty. In Cyprus, however, Cypriot apprehensions regarding the Common Market enabled the Bloc to negotiate a number of bilateral trade agreements which, together with an agreement concluded with Moscow in 1961, involved potential trade of about \$14 million, double the value of Cypriot-Bloc trade in 1961. Greek trade with the Bloc in 1961 continued its upward trend, with the Bloc accounting for 20 percent of Greece's exports and 10 percent of its imports.

S-E-C-R-E-T

S-E-C-R-E-T

Africa

Bloc influence in Africa, although marked by a variety of conflicting trends, continued to expand. The solid front presented by the African countries associated with the French community was broken as several countries in this group signed their first trade, cultural, and technical assistance agreements with the Bloc. New economic credits were extended to Guinea, Mali, and Morocco. The new Soviet aid to Guinea offset somewhat the strained relations which existed between the two countries early in 1962.

Toward the end of 1961, Guinea began to move to limit additional Bloc involvement in the country and to try, cautiously and tentatively, to develop countervailing relations with the West. Economic assistance was received from several Western countries, but new credits totaling about \$15 million were extended by the USSR and Bulgaria. Guinea's trade with the Bloc continued to expand and in 1961 accounted for about one-third of Guinea's total trade.

Ghanaian and Malian relations with the Bloc, already intimate and extensive, progressed further. Bloc penetration of vital sectors of the economy offered possibilities for influencing the course of economic development in these countries. Bloc influence proceeded rapidly in Mali because of Malian preoccupation with curtailing French influence and eliminating internal opposition to the regime. The USSR extended a credit of \$11 million to Mali. In Ghana, in spite of continued indications that military aid might be accepted from the Bloc, the internal security forces remained free of Bloc influence, although in the field of mass organizations and economic cooperation the Bloc role expanded.

There were no significant developments in Ethiopia's relations with the Bloc. About \$2 million has been drawn on the \$100 million Soviet credit extended in 1959. Delays continued to prevent initiation of construction of the oil refinery at Assab.

In Morocco the Bloc apparently gained entry into the army, following the signing of a \$4 million military aid agreement. Morocco received an economic credit from Poland totaling about \$5 million. The USSR completed a survey of a shipyard at Tangier and reportedly offered to undertake the project.

In Tunisia, Sudan, and the Somali Republic, limited progress was made by the Bloc in implementing economic aid programs already negotiated. The Bloc for the first time established cooperative relations with some of the relatively pro-Western states belonging to the UAM (Union of African and Malagasy States). Trade, cultural, and technical assistance agreements were concluded with Niger, Dahomey, and Senegal. The two latter countries also agreed to exchange ambassadors with Bloc countries.

- 9 -

S-E-C-R-E-T

S-E-C-R-E-T

Limited Bloc advances were made in Nigeria, where Soviet and Czechoslovak embassies were established. Czechoslovakia extended a credit of undetermined size for construction of industrial plants. No significant Bloc effort was made in newly independent Tanganyika, however, nor were standing Soviet military and economic aid offers taken up by the Congo Republic (Leopoldville).

The USSR made rapid strides in the civil aviation field and concluded agreements to establish Aeroflot routes in the East (Cairo-Khartoum) and in the West (Rabat-Conakry-Bamako-Accra), although it has not yet succeeded in negotiating a transverse link across middle Africa. The Czechoslovak airline increased its service on its existing West African run.

Although the Bloc continued to expand its training of Africans, some student dissatisfaction and defections occurred, primarily in Soviet institutions. However, even if only a small proportion of African students are converted in the Bloc, a substantial working nucleus of loyal Communist agents probably is being created for future use in African countries, including present Western dependencies.

On the international political scene as it concerned Africa, the Bloc took extreme demagogic positions demanding precipitate and unconditional independence for African populations in such controversial or sensitive areas as Rwanda, Burundi, the Federation of Rhodesia and Nyasaland, South-West Africa, Angola, Mozambique, and the Republic of South Africa, sometimes outdistancing even the most radical African states in the simplicity and vehemence of its demands.

Asia

The Sino-Soviet Bloc made substantial gains in its economic and military aid program to several different Asian countries during the first 6 months of 1962. In most instances, skillful Bloc exploitation of domestic difficulties or political frictions with neighboring countries increased the receptivity of local governments to Bloc overtures. Soviet economic and military ties with Afghanistan and Indonesia increased markedly during the review period.

Strong Soviet support for Afghanistan in its dispute with Pakistan and a new Soviet credit of \$89 million increased Afghanistan's dependence on the Bloc. The USSR gained entrance into new fields, such as education, geological survey, and housing -- areas where it had previously had little influence. The new Soviet credit increased the total of Soviet Bloc credits and grants to Afghanistan to more than one-half billion dollars, much of it on extremely favorable terms. Work continued on a number of different projects, and a new cultural agreement, an agreement on cooperation and training in meteorology, and the institution of Russian-language

S-E-C-R-E-T

S-E-C-R-E-T

training in Afghanistan typified the continued increase of the Bloc's presence in this strategic country connecting the USSR with the Indian subcontinent.

India's relations with the Soviet Bloc were characterized by a continued guarded expansion on the part of the Indian Government. Relations with Communist China experienced a precipitous decline as a result of continued military clashes with Peiping along India's northern frontier. Among the more important developments during the period were the purchase of helicopters and transport planes from the USSR, a Soviet contract to provide India with jet aircraft engines, and a Soviet offer to supply India with two squadrons of MIG-21 jet fighters together with the manufacturing facilities to produce more of these aircraft. The Soviet-constructed Bhilai steel mill and the Rumanian-constructed Gauhati oil refinery both went into production, although the latter was forced to close down shortly afterward because of a change in the grade of crude oil produced in the Gauhati fields. India's trade with the Bloc increased by about 30 percent in 1961, although trade with Communist China fell off sharply and was expected to fall further during 1962.

Although the implementation of Soviet Bloc projects in Ceylon continued at a slow pace, Moscow was in a position to expand its influence in that country as a result of Ceylon's political instability, domestic financial problems, and balance-of-payments difficulties. A number of key Ceylonese leaders stated their belief that the techniques of economic development followed in the Bloc might be adopted advantageously in Ceylon. Several state corporations have been created to expand the functions of the public sector. Ceylon's trade with the Bloc declined sharply in 1961 but is expected to increase rapidly during 1962 as a result of contracts which call for the USSR and the European Satellites to take about 50 percent of Ceylon's output of raw rubber and almost all of its sheet rubber. The Bloc also will provide about one-fourth of Ceylon's petroleum requirements, with Bloc POL products being distributed through a newly formed government-owned corporation.

Developments in Nepal saw a leveling off in Soviet activity and increased ties with Communist China. Although the Soviet hospital near Katmandu was nearing completion, the USSR announced that work on all projects would be suspended if Nepal failed to meet local currency costs. Toward this end the USSR extended a credit of \$3 million to Nepal to purchase Soviet commodities to be sold in Nepal. The USSR completed the survey of the part of the east-west highway for which it was responsible but refused to agree to undertake a survey of the rest of the highway. On the other hand, work continued on all Chinese Communist projects during the period, and the number of Chinese Communist technicians increased. Peiping also delivered the first of three gift aircraft to the Nepalese Government.

- 11 -

S-E-C-R-E-T

S-E-C-R-E-T

A new Soviet military aid agreement with Indonesia highlighted the accelerating tempo of Soviet military aid to that country. In the wake of increasing tension between Djakarta and The Hague over West New Guinea, Soviet deliveries included Tu-16 jet medium bombers, MIG-21 jet fighters, submarines, ground-to-air and air-to-ground missiles, and a wide range of other equipment. These weapons were accompanied by increased numbers of Soviet military technicians and an expanded military training program for Indonesian personnel. By 30 June the value of Bloc military aid to Indonesia was estimated to be more than \$1 billion. In the economic field, efforts were made to speed up implementation of a number of Bloc projects, and contracts were concluded for several new projects, including a Czechoslovak mineral survey and Rumanian oil exploration. The completion, late in June, of a Soviet-constructed stadium in Djakarta, to be used for the Asian Games beginning in August, was regarded as an important achievement.

Although no new Bloc credits were extended to Burma during the first half of 1962, a military takeover of that country's government and subsequent developments resulted in a number of anti-Western and pro-Bloc statements and actions by the Burmese leadership and indications that Bloc rather than Western aid will henceforth be considered preferable. Implementation of projects under the Chinese Communist credit of \$84 million continued, and it seemed likely that Communist China would dominate future foreign aid programs in Burma. Burma's trade with the Bloc rose sharply in 1961 and is expected to increase further in 1962.

In Cambodia, work continued on implementation of Bloc projects, along with public official statements which described aid from the Bloc as more disinterested than aid from the West. Although there were no new Bloc credits, Czechoslovakia conducted a trade fair, and the USSR made rapid progress in constructing a technological institute.

Soviet Bloc economic activity in Pakistan during the first half of 1962 continued to be minimal. The arrival of additional technicians for the Soviet oil exploration project increased the total number there to about 80, but adverse reaction to reports of planned Soviet military aid to India largely negated any pressures for further economic ties with Moscow.

Europe

Economic relations between Yugoslavia and the Soviet Bloc during the first 6 months of 1962 reflected the expanding cooperation which developed in political relations between Belgrade and Moscow. This increased cordiality did not characterize relations with Albania and Communist China, whose inimical ideological stance toward the Belgrade "revisionists" was reflected in a continued absence of large-scale trade with them. Although

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trade between Yugoslavia and the Bloc in 1961 declined about 12 percent, agreements signed in 1962 presage an increase in trade between the two areas. Annual protocols to existing long-term trade agreements were signed with all the European members of the Bloc plus Communist China, with most of these countries (Communist China and Albania being exceptions) calling for some increase in exchange levels. A 3-year agreement concluded with the USSR envisages a "considerable increase" in trade for 1963-65. Negotiations also were initiated for limited Yugoslav membership in the Council for Mutual Economic Assistance (CEMA), for reinstatement of the Soviet credits originally extended in 1956 but subsequently canceled by the USSR, and for deferment of installments due on Yugoslavia's debt to the USSR.

Tito made some purchases of military hardware from the USSR, including tanks and artillery, for the first time since the 1948 break. Yugoslav sources denied, however, that these purchases represented any change in Belgrade's policy of independence from the Bloc, claiming that they were designed to help Yugoslavia conserve its severely limited supply of hard currency.

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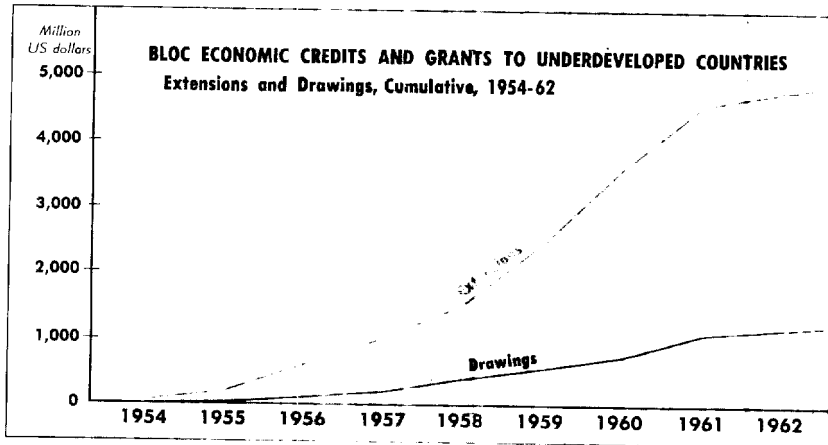
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BLOC ECONOMIC CREDITS AND GRANTS TO UNDERDEVELOPED COUNTRIES
Extensions and Drawings, by Year, 1954-62



Million US dollars

1,200 —

1,000 —

█ Extensions
 █ Drawings

800 —

600 —

400 —

200 —

0

*Extrapolated using January - June 1962 data.

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1962**

August 1962

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FOREWORD

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 Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia (including Afghanistan and Pakistan); and (5) Iceland, Portugal, Spain, and Yugoslavia.

S-E-C-R-E-T

CONTENTS

Page

25X1

Summary 1



- v -

S-E-C-R-E-T

25X1

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010014-8

Next 2 Page(s) In Document Exempt

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010014-8

S-E-C-R-E-T

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS
1 JANUARY - 30 JUNE 1962

Summary

Patterns and Prospects

The growing Bloc presence in the less developed areas has been marked by changes in both the scope and the character of the Bloc politicoeconomic offensive. Over the past year the offensive has evidenced significant shifts in the levels of extensions and drawings and in the concentration of aid. A dramatic expansion in Bloc training of nationals from underdeveloped countries as well as recent technical innovations in the Soviet aid program further suggests the continuing dynamics of the Bloc's thrust into these areas.

A sharp drop in Bloc extensions of economic aid occurred during the first half of 1962, when new extensions totaled \$300 million.* The decline in new extensions by the European Satellites and Communist China was particularly drastic, the latter extending no new aid so far in 1962. Soviet extensions, which ran at about \$800 million a year in 1959 and 1960, in 1961 declined to a little more than \$500 million and in the first half of 1962 continued at about the same rate (\$250 million through June). Drawings against earlier Bloc credits, however, continued to increase, reaching a 6-month total of \$225 million.

This drop in extensions has been accompanied, on the one hand, by a growing number of official Soviet statements emphasizing the limits to Soviet aid capabilities and, on the other, by new Soviet offers, so far unaccepted, of at least \$900 million in economic aid. In recent Soviet pronouncements on foreign aid, greater stress has been laid on the "sacrifices" which economic aid has cost the Soviet economy and on the need for developing countries to rely chiefly on their own internal resources for economic progress. In spite of this apparent shift in the official Soviet position on foreign aid, however, the evidence does not appear to suggest a lessening of interest on the part of the USSR in its foreign aid program.

Almost 80 percent of total Bloc extensions since mid-1961 have been awarded to Cuba, Afghanistan, and a half-dozen countries in Africa. In Cuba, \$457 million in Bloc economic development credits, purchases:

* Dollar values in this report are in terms of current US dollars.

S-E-C-R-E-T

S-E-C-R-E-T

of more than 80 percent of the Cuban sugar crop, and possible credits to finance commodity imports on current account indicate the Bloc's willingness to give large-scale support to its "socialist bridgehead" in the Western Hemisphere. In Afghanistan the USSR made available another \$300 million in economic credits, making total Soviet aid to Afghan economic development more than \$500 million. With both economic and military assistance the USSR seeks to preempt all foreign influence on the development of this isolated and strategically located neighbor.

The third major area which has been the recipient of a large share of Bloc economic aid during the past year is Africa, particularly West Africa. In the large number of small African countries, generally unstable politically and with bleak economic prospects, the Bloc can enhance its influence and prestige with smaller foreign aid outlays than are required in such countries as India and the United Arab Republic (UAR).

The continued scrutiny of the aid program which must occur at various levels of the Bloc hierarchy, particularly that of the USSR, has led recently to significant changes in the procedures and techniques of Bloc aid. For the most part, these changes appear to reflect a developing sophistication and flexibility in the conduct of an effective aid program as well as the desire to maximize the politicoeconomic return per ruble of aid extended. The progress of development programs in most underdeveloped countries is often slowed by the inability or unwillingness of the recipient government to allocate sufficient domestic resources to development projects. In some of the countries receiving Soviet assistance the USSR has found it necessary to provide commodities for sale in their domestic markets in order to raise the local currency portions of project development costs. Another recent innovation in the Soviet aid program has appeared in India, where the USSR agreed to train Indian engineers on the job before their departure for further training in the USSR. India and the USSR also agreed to the Soviet-sponsored training of Ceylonese engineers at the Bhilai steel plant in India. In both cases the training costs are reduced for the recipient country, as is the length of time its trainees would have to spend in the Bloc. Another recent feature of the Soviet offensive has been the intensification of the efforts of the USSR to extend its international air routes in Africa and Latin America. Although most of the new routes do not appear to be economically feasible, they undoubtedly are viewed by Soviet leaders as a means for enhancing Soviet prestige in the less developed areas.

Economic and Military Aid

The Bloc extended about \$300 million in economic aid to underdeveloped countries during the first half of 1962, the lowest level of

S-E-C-R-E-T

S-E-C-R-E-T

new extensions for any 6-month period since the first half of 1959. Drawings against earlier lines of credit, however, reached their highest 6-month total. Extensions by the USSR during this period approximated the level of its aid for the first half of 1961. European Satellite extensions, however, amounted to only 40 percent of the volume of aid provided during the comparable period in 1961, and the Chinese Communists extended no new aid during the first half of 1962.

By the end of June 1962 the cumulative total of Bloc economic credits and grants amounted to nearly \$4.9 billion.* Almost three-fourths of this total was extended by the USSR, with the major share of aid (70 percent) being allocated to the Middle East and Asia.

Drawings on Bloc credits and grants during the first half of 1962 totaled about \$225 million, an increase of 45 percent over the preceding 6-month period. By the end of June 1962, about 25 percent of total Bloc economic aid had been drawn. Of the total drawn, the USSR accounted for about 73 percent. Repayments of Bloc economic credits are estimated to total about \$165 million, or about 14 percent of the amount drawn. More than three-fourths of the total repayments were by India, Indonesia, the UAR, and Yugoslavia.

The USSR concluded new military aid agreements with Indonesia, Morocco and Syria during the first half of 1962. The Indonesian agreement alone amounts to about \$70 million. The size of the Syrian agreement is not known, but it may be as high as \$40 million. The Soviet-Moroccan military agreement totals about \$4 million.

The aggregate value of military supplies and equipment which has been and will be provided under Bloc agreements with 12 underdeveloped countries now totals more than \$2.5 billion. Indonesia is the major recipient, accounting for about \$1 billion. About \$1.8 billion of total Bloc military aid is being financed under credit. About \$655 million is estimated to have been repaid on Bloc military credits. Indonesia and the UAR provided about three-fourths of total repayments.

Technical Assistance

During the first half of 1962, about 12,000 Bloc technicians of all types were present in underdeveloped countries. The number of military technicians increased by more than 40 percent above the previous half-year, compared with a rise of only 14 percent in economic technicians.

* All figures concerning the Bloc's aid program through 1961 have been audited. The result of the audit plus subsequent receipt of additional information have necessitated a revision of some of the figures presented in previous issues of this report.

S-E-C-R-E-T

S-E-C-R-E-T

Of about 9,600 economic technicians present in 28 underdeveloped countries, nearly half were employed in Afghanistan, Cuba, and Guinea.

More than 2,500 Bloc military technicians were present in 11 underdeveloped countries during the first 6 months of 1962. More than three-fourths of the total were located in Cuba, Indonesia, Iraq, and the UAR. Indonesia and the UAR accounted for about 85 percent of the increase during the 6-month period, reflecting a large-scale implementation of military agreements concluded earlier.

During the period under review, about 5,300 nationals from underdeveloped countries undertook training at academic, technical, or military training centers in the Bloc. Of the total, more than 2,860 students undertook academic and technical training programs. That 2,460 military personnel undertook training programs in the Bloc during this period is a reflection of the rapid implementation of military aid agreements concluded during the past year.

This large increase in the number of students and trainees raises to almost 27,000 the number who have had some training in the Bloc since 1955. More than 17,000 were engaged in academic and technical training courses. The total of 10,000 personnel who have undertaken military training approximates the number of academic students for the first time.

Trade

The trend of Bloc trade with the underdeveloped countries was characterized by the large increase in trade with Cuba and the declining level of commodity prices. The value of trade between the two areas during 1961 amounted to \$3.4 billion, an increase of about 20 percent above the 1960 level. The rise was almost entirely due to an increase of \$600 million in Bloc-Cuban trade. If Cuban trade is excluded, Bloc trade with the underdeveloped countries for 1961 would register a small decline.

To some extent the decline in the value of trade between the two areas was due to a declining trend in commodity prices. These declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, rubber, and tobacco. Whereas the value of Bloc imports from Indonesia and Malaya declined somewhat, the volume of rubber imported from these countries rose about 30 percent. The value of Bloc imports of cocoa from Ghana declined about 55 percent, but the volume of these imports fell only 40 percent.

Trade between the Bloc and Africa and the Far East rose about 8 percent and 4 percent, respectively. Trade with the Middle East declined slightly as a result of a 10-percent drop in the Bloc's total trade with

S-E-C-R-E-T

S-E-C-R-E-T

Greece, Turkey, and the UAR. Trade with the underdeveloped countries of Europe declined almost 15 percent owing to a sharp drop in trade with Yugoslavia.

Latin America

Economic relations between the countries of the Sino-Soviet Bloc and Latin America did not expand greatly during the first 6 months of 1962. Except for Cuba, where the Communist countries found it necessary to shore up the sagging Cuban economy, the Bloc was content to await the development of the Alliance for Progress. Moscow concentrated on propaganda efforts designed to discredit the Alliance as a "Yankee tool of neocolonialism," and Latin American countries, for their part, were reluctant to move toward closer economic ties with the Bloc at a time when the Alliance is at a critical proving stage. In two South American countries, however, there were important breakthroughs by the Bloc which could lead to an increase in its influence in those areas.

In Bolivia the issue of whether or not to accept previous offers of Soviet Bloc aid continued to be hotly debated. In general, the government of President Paz favored postponing acceptance of such aid in the hope that Bolivia's aspirations might be realized through the Alliance for Progress. Pressure on the government from leftist labor groups, however, finally brought about the signing of a contract for Bolivia's first Bloc aid project. Czechoslovakia was awarded a contract to construct an antimony smelter in the city of Oruro. A credit of \$1.9 million was extended to cover the foreign exchange costs of the project. Although the Soviet Ambassador to Mexico in a visit to La Paz urged closer Bolivian economic and diplomatic ties with the USSR, no further moves were made in the direction of accepting the \$150 million offer of developmental aid made by the USSR more than a year ago.

Brazil's resumption of diplomatic relations with the USSR late in 1961 opened the way to a significant increase in economic contracts between those two countries. A trade protocol was signed at the end of April which set a goal for trade during 1962 at \$80 million, twice the amount of their total trade in 1961. To stimulate interest in buying from the USSR as well as to depict the technical advances and improved living standards of the Communist countries, a large trade and industrial fair was held in Rio during the month of May and was visited by about one-half million Brazilians. Czechoslovakia continued its commercial activity in the Brazilian Northeast, assigning a commercial attaché to the city of Recife, where a special effort is being made to sell Czechoslovak commodities. There were discussions of possible Bloc credits held with several state and local government officials, but apparently no agreements were concluded during the first 6 months of 1962.

S-E-C-R-E-T

S-E-C-R-E-T

In the case of Cuba, an extremely disappointing sugar harvest left that country largely dependent on the Soviet Bloc. The Castro regime had expected a rising level of sugar sales in 1962 to bring some improvement in an increasingly bleak economic picture. The program of industrialization, to be accomplished with Bloc help in the amount of nearly one-half billion dollars in credits, had not progressed very far. Moreover, the efforts of Bloc technicians to aid the Cubans in operating the various nationalized industries had not been sufficient to prevent the gradual deterioration resulting from the lack of spare parts and inept managerial coordination by the regime. Thus Cuba continued to be dependent on foreign trade earnings for most of its industrial goods and a great part of its foodstuffs. The decrease in potential foreign exchange earnings resulting from the low sugar yield, added to the decline in domestic output in nearly every sector, threatened Cuba with even greater shortages of consumer goods and raw materials and compelled it to seek additional help from Moscow.

Accordingly, in March the Cubans began to seek adjustments in their trade protocols with Bloc countries. The original agreements with the Bloc had set total trade for 1962 at more than \$1 billion, an increase of about \$200 million above 1961. In spite of Cuba's inability even to meet its sugar commitments to the Bloc, the revised protocols showed no diminution in the total volume of Cuban imports from those countries and even showed a rise in the case of the USSR. Thus it would appear that the USSR has agreed to carry some Cuban purchases on credit during Cuba's present economic difficulties. Early in 1962 the USSR also extended an additional credit of \$100 million for Cuba's industrial development, bringing the total Bloc commitment to \$457 million. There were indications, however, that Moscow might have imposed sterner conditions on the Cubans in exchange for aid. Soviet and European Satellite officials complained of Cuban inefficiency and bungled attempts at socialist planning. At least two technical delegations traveled to Cuba, apparently to impose some reforms on the Cuban administrative mechanism.

Early in the year, Cuba received 6 submarine chasers and 12 motor torpedo boats. Around the end of the period under review, there were indications that increased deliveries of military equipment were to begin.

Although there were at least two substantial sales of Argentine wheat to Communist China during the period of this report, trade with the Bloc continued at a low level. Construction equipment and machinery under the Soviet line of credit were delivered. Argentina's trade agreement with the USSR -- the last of its bilateral agreements with Bloc countries -- was denounced shortly after the ouster of President Frondizi by anti-Communist military groups, with Argentina still in a creditor position. Uruguay, another Latin American country whose trade with the Bloc has fallen off considerably in recent years, succeeded in obtaining an order

S-E-C-R-E-T

for 15,000 tons* of beef from the USSR (valued at about \$7 million) and another from East Germany for 2,000 tons, at a time when Uruguay's meat industry is suffering from reduced sales to Western European markets. Czechoslovakia also purchased 800 tons of Uruguayan beef, paying for it with industrial alcohol transshipped from Cuba.

Soviet interest in purchasing 60,000 tons of copper and semifabricated copper products from Chile was revived in February, but agreement appeared to stall over the list of goods which the USSR would send to Chile in exchange for the copper, as well as the type of copper products acceptable to the USSR. The possibility of Soviet assistance for construction of a copper smelter or a petroleum refinery in Chile was injected into the negotiations. Poland was more successful in arranging a barter agreement with the Chileans, concluding an agreement for the exchange of 2 million liters of Chilean wine for 1,500 tons of Polish butter and 5,000 tons of fish meal.

A number of overtures were made by both sides toward the development of economic relations between British Guiana and the Bloc. Czechoslovakia contracted to purchase from British Guiana 3,000 tons of rice valued at \$1 million. Czechoslovakia and East Germany offered to construct a large number of small manufacturing enterprises.

Middle East

The over-all position of the Sino-Soviet Bloc in the Middle East during the first 6 months of 1962 remained relatively unchanged in spite of an upsurge in military aid activities and the signing of a number of new commercial agreements with Cyprus. Only in Iraq was the Bloc successful in significantly expanding its political and economic influence in a Middle Eastern country.

A new military agreement was concluded with Syria, and deliveries of military equipment under earlier agreements with Iraq and the UAR were increased. Iraq's dependence on the USSR was marked by a definite upward in the implementation of various economic projects and in deliveries of military equipment, by an increase in the number of economic and military technicians, and by a series of commercial agreements which further pre-empted markets formerly held by Western firms. By continuing to support Kassem on the Kuwait issue, the USSR secured such political dividends as fewer restrictions on the Iraqi Communist Party and the appointment of more Communists and fellow travelers to positions in the Kassem government.

* Unless otherwise indicated, tonnages are given in metric tons throughout this report.

S-E-C-R-E-T

Continued instability in the Syrian Government following a military coup early in 1962 acted to limit increases in Bloc economic activity in the Syrian Arab Republic, although work on several projects continued. The weakness in the government, however, did give the local Communist Party some opportunity to reassert itself after a period of severe repression which it had undergone during previous months. A Syrian military mission which had visited Moscow in February apparently obtained Soviet agreement to provide more military aid.

In the UAR, Nasser's determination to maintain a balanced course between East and West prompted him to continue seeking economic assistance from both sides. Czechoslovakia extended a new credit of about \$57 million for the UAR's development program. Progress continued on various Bloc aid projects in Egypt. The USSR pressed forward with the implementation of the Aswan Dam. UAR press announcements expressed confidence that the High Dam would be completed as scheduled in 1964. The USSR stepped up the pace of deliveries of military equipment to the UAR. Deliveries are expected to include MIG-21's and guided missiles. UAR-Bloc trade in 1961 experienced a sharp decline as a result of the UAR's poor cotton harvest.

In Yemen, Bloc economic activity remained at a virtual standstill. The primary Bloc objective continued to be to obtain some kind of foothold so as to be able to exert political and economic influence in this strategic area near the Red Sea when the time seems propitious. The first half of 1962 was marked by the absence of any new Bloc credits, by Chinese Communist delay in the building of a textile plant, and by criticism of the quality of the Soviet-constructed port facilities at Al Hudaydah. Probably the most significant Bloc activity in Yemen was the increased influence over the local press and certain trade circles through bribery.

Elsewhere in the Middle East, Moscow continued to be unsuccessful in its efforts, begun more than 2 years ago, to persuade Turkey to accept an offer of about \$500 million in aid credits. In Iran, Moscow continued, also unsuccessfully, to press for a nonaggression treaty. In Cyprus, however, Cypriot apprehensions regarding the Common Market enabled the Bloc to negotiate a number of bilateral trade agreements which, together with an agreement concluded with Moscow in 1961, involved potential trade of about \$14 million, double the value of Cypriot-Bloc trade in 1961. Greek trade with the Bloc in 1961 continued its upward trend, with the Bloc accounting for 20 percent of Greece's exports and 10 percent of its imports.

S-E-C-R-E-T

Africa

Bloc influence in Africa, although marked by a variety of conflicting trends, continued to expand. The solid front presented by the African countries associated with the French community was broken as several countries in this group signed their first trade, cultural, and technical assistance agreements with the Bloc. New economic credits were extended to Guinea, Mali, and Morocco. The new Soviet aid to Guinea offset somewhat the strained relations which existed between the two countries early in 1962.

Toward the end of 1961, Guinea began to move to limit additional Bloc involvement in the country and to try, cautiously and tentatively, to develop countervailing relations with the West. Economic assistance was received from several Western countries, but new credits totaling about \$15 million were extended by the USSR and Bulgaria. Guinea's trade with the Bloc continued to expand and in 1961 accounted for about one-third of Guinea's total trade.

Ghanaian and Malian relations with the Bloc, already intimate and extensive, progressed further. Bloc penetration of vital sectors of the economy offered possibilities for influencing the course of economic development in these countries. Bloc influence proceeded rapidly in Mali because of Malian preoccupation with curtailing French influence and eliminating internal opposition to the regime. The USSR extended a credit of \$11 million to Mali. In Ghana, in spite of continued indications that military aid might be accepted from the Bloc, the internal security forces remained free of Bloc influence, although in the field of mass organizations and economic cooperation the Bloc role expanded.

There were no significant developments in Ethiopia's relations with the Bloc. About \$2 million has been drawn on the \$100 million Soviet credit extended in 1959. Delays continued to prevent initiation of construction of the oil refinery at Assab.

In Morocco the Bloc apparently gained entry into the army, following the signing of a military aid agreement. Morocco received an economic credit from Poland totaling about \$5 million. The USSR completed a survey of a shipyard at Tangier and reportedly offered to undertake the project.

In Tunisia, Sudan, and the Somali Republic, limited progress was made by the Bloc in implementing economic aid programs already negotiated. The Bloc for the first time established cooperative relations with some of the relatively pro-Western states belonging to the UAM (Union of African and Malagasy States). Trade, cultural, and technical assistance agreements were concluded with Niger, Dohomey, and Senegal. The two latter countries also agreed to exchange ambassadors with Bloc countries.

S-E-C-R-E-T

Limited Bloc advances were made in Nigeria, where Soviet and Czechoslovak embassies were established. Czechoslovakia extended a credit of undetermined size for construction of industrial plants. No significant Bloc effort was made in newly independent Tanganyika, however, nor were standing Soviet military and economic aid offers taken up by the Congo Republic (Leopoldville).

The USSR made rapid strides in the civil aviation field and concluded agreements to establish Aeroflot routes in the East (Cairo-Khartoum) and in the West (Rabat-Conakry-Bamako-Accra), although it has not yet succeeded in negotiating a transverse link across middle Africa. The Czechoslovak airline increased its service on its existing West African run.

Although the Bloc continued to expand its training of Africans, some student dissatisfaction and defections occurred, primarily in Soviet institutions. However, even if only a small proportion of African students are converted in the Bloc, a substantial working nucleus of loyal Communist agents probably is being created for future use in African countries, including present Western dependencies.

On the international political scene as it concerned Africa, the Bloc took extreme demagogic positions demanding precipitate and unconditional independence for African populations in such controversial or sensitive areas as Rwanda, Burundi, the Federation of Rhodesia and Nyasaland, South-West Africa, Angola, Mozambique, and the Republic of South Africa, sometimes outdistancing even the most radical African states in the simplicity and vehemence of its demands.

Asia

The Sino-Soviet Bloc made substantial gains in its economic and military aid program to several different Asian countries during the first 6 months of 1962. In most instances, skillful Bloc exploitation of domestic difficulties or political frictions with neighboring countries increased the receptivity of local governments to Bloc overtures. Soviet economic and military ties with Afghanistan and Indonesia increased markedly during the review period.

Strong Soviet support for Afghanistan in its dispute with Pakistan and new Soviet credits of about \$105 million increased Afghanistan's dependence on the Bloc. The USSR gained entrance into new fields, such as education, geological survey, and housing -- areas where it had previously had little influence. The new Soviet credits increased the total of Soviet Bloc credits and grants to Afghanistan to more than one-half billion dollars, much of it on extremely favorable terms. Work continued on a number of different projects, and a new cultural agreement, an agreement on cooperation and training in meteorology, and the

S-E-C-R-E-T

S-E-C-R-E-T

institution of Russian-language training in Afghanistan typified the continued increase of the Bloc's presence in this strategic country connecting the USSR with the Indian subcontinent.

India's relations with the Soviet Bloc were characterized by a continued guarded expansion on the part of the Indian Government. Relations with Communist China experienced a precipitous decline as a result of continued military clashes with Peiping along India's northern frontier. Among the more important developments during the period were the purchase of helicopters and transport planes from the USSR, a Soviet contract to provide India with jet aircraft engines, and a Soviet offer to supply India with two squadrons of MIG-21 jet fighters together with the manufacturing facilities to produce more of these aircraft. The Soviet-constructed Bhilai steel mill and the Rumanian-constructed Gauhati oil refinery both went into production, although the latter was forced to close down shortly afterward because of a change in the grade of crude oil produced in the Gauhati fields. India's trade with the Bloc increased by about 30 percent in 1961, although trade with Communist China fell off sharply and was expected to fall further during 1962.

Although the implementation of Soviet Bloc projects in Ceylon continued at a slow pace, Moscow was in a position to expand its influence in that country as a result of Ceylon's political instability, domestic financial problems, and balance-of-payments difficulties. A number of key Ceylonese leaders stated their belief that the techniques of economic development followed in the Bloc might be adopted advantageously in Ceylon. Several state corporations have been created to expand the functions of the public sector. Ceylon's trade with the Bloc declined sharply in 1961 but is expected to increase rapidly during 1962 as a result of contracts which call for the USSR and the European Satellites to take about 50 percent of Ceylon's output of raw rubber and almost all of its sheet rubber. The Bloc also will provide about one-fourth of Ceylon's petroleum requirements, with Bloc POL products being distributed through a newly formed government-owned corporation.

Developments in Nepal saw a leveling off in Soviet activity and increased ties with Communist China. Although the Soviet hospital near Katmandu was nearing completion, the USSR announced that work on all projects would be suspended if Nepal failed to meet local currency costs. Toward this end the USSR extended a credit of \$3 million to Nepal to purchase Soviet commodities to be sold in Nepal. The USSR completed the survey of the part of the east-west highway for which it was responsible but refused to agree to undertake a survey of the rest of the highway. On the other hand, work continued on all Chinese Communist projects during the period, and the number of Chinese Communist technicians increased. Peiping also delivered the first of three gift aircraft to the Nepalese Government.

- 11 -

S-E-C-R-E-T

S-E-C-R-E-T

A new Soviet military aid agreement with Indonesia highlighted the accelerating tempo of Soviet military aid to that country. In the wake of increasing tension between Djakarta and The Hague over West New Guinea, Soviet deliveries included Tu-16 jet medium bombers, MIG-21 jet fighters, submarines, ground-to-air and air-to-ground missiles, and a wide range of other equipment. These weapons were accompanied by increased numbers of Soviet military technicians and an expanded military training program for Indonesian personnel. By 30 June the value of Bloc military aid to Indonesia was estimated to be more than \$1 billion. In the economic field, efforts were made to speed up implementation of a number of Bloc projects, and contracts were concluded for several new projects, including a Czechoslovak mineral survey and Rumanian oil exploration. The completion, late in June, of a Soviet-constructed stadium in Djakarta, to be used for the Asian Games beginning in August, was regarded as an important achievement.

Although no new Bloc credits were extended to Burma during the first half of 1962, a military takeover of that country's government and subsequent developments resulted in a number of anti-Western and pro-Bloc statements and actions by the Burmese leadership and indications that Bloc rather than Western aid will henceforth be considered preferable. Implementation of projects under the Chinese Communist credit of \$84 million continued, and it seemed likely that Communist China would dominate future foreign aid programs in Burma. Burma's trade with the Bloc rose sharply in 1961 and is expected to increase further in 1962.

In Cambodia, work continued on implementation of Bloc projects, along with public official statements which described aid from the Bloc as more disinterested than aid from the West. Although there were no new Bloc credits, Czechoslovakia conducted a trade fair, and the USSR made rapid progress in constructing a technological institute.

Soviet Bloc economic activity in Pakistan during the first half of 1962 continued to be minimal. The arrival of additional technicians for the Soviet oil exploration project increased the total number there to about 80, but adverse reaction to reports of planned Soviet military aid to India largely negated any pressures for further economic ties with Moscow.

Europe

Economic relations between Yugoslavia and the Soviet Bloc during the first 6 months of 1962 reflected the expanding cooperation which developed in political relations between Belgrade and Moscow. This increased cordiality did not characterize relations with Albania and Communist China, whose inimical ideological stance toward the Belgrade "revisionists" was reflected in a continued absence of large-scale trade with them. Although

S-E-C-R-E-T

S-E-C-R-E-T

trade between Yugoslavia and the Bloc in 1961 declined about 12 percent. Agreements signed in 1962 presage an increase in trade between the two areas. Annual protocols to existing long-term trade agreements were signed with all the European members of the Bloc plus Communist China, with most of these countries (Communist China and Albania being exceptions) calling for some increase in exchange levels. A 3-year agreement concluded with the USSR envisages a "considerable increase" in trade for 1963-65. Negotiations also were initiated for limited Yugoslav membership in the Council for Mutual Economic Assistance (CEMA), for reinstatement of the Soviet credits originally extended in 1956 but subsequently canceled by the USSR, and for deferment of installments due on Yugoslavia's debt to the USSR.

Tito made some purchases of military hardware from the USSR, including tanks and artillery, for the first time since the 1948 break. Yugoslav sources denied, however, that these purchases represented any change in Belgrade's policy of independence from the Bloc, claiming that they were designed to help Yugoslavia conserve its severely limited supply of hard currency.

Agreements were signed by Yugoslavia with Rumania and Bulgaria for the construction of a major hydroelectric combine at the Danube's Iron Gate and for a long-discussed highway linking Belgrade and Sofia via Dmistrograd. A major rail link with Hungary was opened with the finishing of reconstruction of a Danube River bridge in May. Yugoslav shipyards were working on 9 small tankers and 12 freighters for the USSR, to be delivered by 1965.

No Bloc technicians were known to be active in Yugoslavia during the reporting period. There was, however, a series of exchanges of observers with several Bloc countries, including parliamentary delegations, trade union officials, and journalists. Belgrade granted the USSR landing rights at the new Surcin airfield near the capital for the Soviet civil air carrier Aeroflot on its newly established Moscow-Accra run beginning in August.

There was no change in Bloc relations with Iceland, Spain, and Portugal. The trade of all three countries with the Bloc in 1961 experienced a small decline from the levels achieved in 1960.

S-E-C-R-E-T

25X1

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Next 91 Page(s) In Document Exempt

Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010014-8