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**AID AND TRADE ACTIVITIES OF COMMUNIST  
COUNTRIES IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JULY - 31 DECEMBER 1963**

**EIC R14-S16**

February 1964

**ECONOMIC INTELLIGENCE COMMITTEE**  
of the  
**UNITED STATES INTELLIGENCE BOARD**



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Approved For Release 2006/02/07 : CIA-RDP92B01090R000400010017-5

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S-E-C-R-E-T

FOREWORD

The EIC-R14 series provides periodic summaries and analytical interpretations of significant developments in the economic and military relations of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series.

This report, covering the 6 months from 1 July through 31 December 1963, constitutes the sixteenth periodic supplement to EIC-R14, the initial report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, including representatives of the Department of State; the Defense Intelligence Agency; the Departments of the Army, Navy, and Air Force; the Departments of Commerce and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 12 February 1964.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed areas: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally donor of aid. The term does not include Yugoslavia.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic.

S-E-C-R-E-T

CONTENTS

	<u>Page</u>
Summary . . . . .	3
I. Economic Assistance . . . . .	4
A. Credits and Grants . . . . .	5
B. Technical Assistance . . . . .	7
1. Economic Technicians . . . . .	7
2. Academic Students and Technical Trainees . . . . .	8
II. Bloc Military Assistance . . . . .	9
A. Credits and Grants . . . . .	9
B. Technical Assistance . . . . .	10
1. Military Technicians . . . . .	10
2. Military Trainees from Less Developed Countries . . . . .	11
III. Trade . . . . .	11
A. Value . . . . .	11
B. Direction . . . . .	12
C. Commodity Composition . . . . .	13
IV. Area Reviews . . . . .	14
A. Africa . . . . .	14
B. Asia . . . . .	17
C. Latin America . . . . .	20
D. Middle East . . . . .	23



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S-E-C-R-E-T

AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS OF THE FREE WORLD

Summary\*

Economic activities of the Communist countries in the less developed countries of the Free World during the last half of 1963 expanded over the previous 6-month period in most sectors. Soviet and Chinese aid commitments increased and drawings on previously extended lines of credit accelerated, there was a continuing high level of activity in military assistance, and the scale of training programs and the number of Communist technicians in less developed countries continued to increase.

The assistance extended to Algeria, the Somali Republic, and Iran constituted the most significant new aid activity during the period. Both the USSR and Communist China seized opportunities for extending new assistance to Algeria and the Somali Republic. Also, by extending a development credit to Iran for a joint multipurpose project, which will provide both countries with power and irrigation, the USSR agreed to an aid undertaking that will yield direct benefits to its own economy.

Although the levels of new economic assistance extended in the last half of 1963 by Communist countries were still below earlier peak periods, such aid increased markedly over recent 6-month periods. Credits and grants extended to the less developed countries by the Communist countries during the last half of 1963 totaled about \$215 million, bringing aggregate economic aid extended for 1963 to \$315 million -- slightly less than the amount provided in 1962 and less than one-third of the peak year extensions in 1961. The Eastern European countries were virtually inactive during the period. The USSR and Communist China accounted for almost all the new assistance provided. For both of these countries, the new aid extended represented substantial increases over 6-month totals recorded in the previous year and a half. Soviet economic aid extensions totaled \$142 million, and Chinese Communist extensions totaled \$72 million. This brought aggregate extensions by Communist China in 1963 up to \$88 million -- its largest annual aid commitment (with the exception of 1961) since the inception of the Chinese Communist aid program in 1956.

Although the extension of new assistance reflected the continued willingness of the USSR and Communist China to grasp new aid opportunities, it also pointed up the competition between the USSR and Communist China in Africa. This rivalry has been apparent for several years in the political sphere but now appears to have become more intense in the economic field. The timing of credits extended to Algeria

\* See the chart, Figure 1, following p. 3.

S-E-C-R-E-T

by the USSR and the Chinese Communists, as well as the terms offered by the latter, was indicative of the competitive nature of their undertakings. Similarly, in the Somali Republic, the extension of economic assistance by the Chinese Communists was followed by military aid from the USSR.

The USSR's first development loan to Iran has political overtones, since Iran is Western-oriented and committed to a military alliance with the United States. The loan also is of economic importance to the domestic economy of the USSR. The multipurpose development of facilities along the Aras River, which forms a natural boundary between the Iranian province of Azerbaijan and the USSR, will provide both countries with power and irrigation.

The rate of drawings on Communist economic credits continued to increase. Approximately \$260 million of economic aid was expended during the second half of 1963, bringing total aid disbursements for the year to approximately \$465 million, or almost 25 percent above the level of 1962. Total cumulated drawings reached \$1.6 billion by the end of 1963, or one-third of the total of \$4.9 billion in Communist economic aid thus far extended.

New military aid agreements worth at least \$90 million were concluded during the last 6 months of 1963, bringing known extensions of military assistance during 1963 to approximately \$290 million. Nevertheless, new extensions of military assistance were still below the years of peak extensions in 1960 and 1961. Soviet military assistance to the Somali Republic and Algeria comprised over half of the total extended during the second half of 1963, with the remainder going to India. There is evidence, however, to indicate that additional agreements may have been signed with other countries.

Deliveries of Soviet military aid included MIG-21's to India, Syria, and the United Arab Republic (UAR); Komar-class guided missile patrol boats to Indonesia, Syria, and the UAR; and surface-to-air missiles (SAM's) to Indonesia and the UAR. Other items of military hardware also were delivered to Algeria to support its border conflict with Morocco and to Yemen to fulfill earlier commitments.

Technical assistance and academic training programs, the most dynamic components of the Communist countries' efforts in many of the less developed countries in recent years, continued to increase. During the 6-month period under review the number of economic technicians from Communist countries employed in the less developed areas rose to about 11,940, an increase of about 6 percent over the previous 6-month period. In spite of the adverse publicity arising out of student protests in the USSR and Eastern Europe during 1963, the number of students enrolling in the academic institutions of Communist countries continued to increase. Almost 2,400 students arrived in Communist countries during the period, 50 percent of whom came from countries in Africa.



S-E-C-R-E-T

During the first half of 1963, foreign trade turnover between Communist countries and less developed countries of the Free World continued to show the moderate expansion noted in 1962. The value of this trade during the period January-June 1963 amounted to more than \$1.2 billion, or 13 percent above the corresponding period of 1962. Asia continued to be the Communist countries' most important trading area, followed in importance by the Middle East. Asia's trade with Communist countries in the first 6 months of 1963 amounted to \$494 million, whereas that of the Middle East was \$395 million. Trade with Latin America remained relatively stable at about \$140 million, while Communist trade with Africa increased about 36 percent. The year 1962 brought little variation from former patterns in the commodity composition of this trade. The Communist countries continued to represent primarily a market for crude materials and foodstuffs while supplying manufactured goods and machinery. Although the exports of Communist countries rose more than their imports during the 6-month period under review, the Communist area still emerged as a net importer, reflecting primarily the deficit position of the USSR that has been evident since 1955.

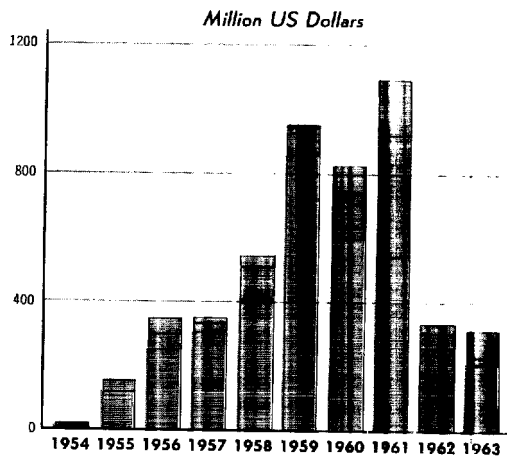
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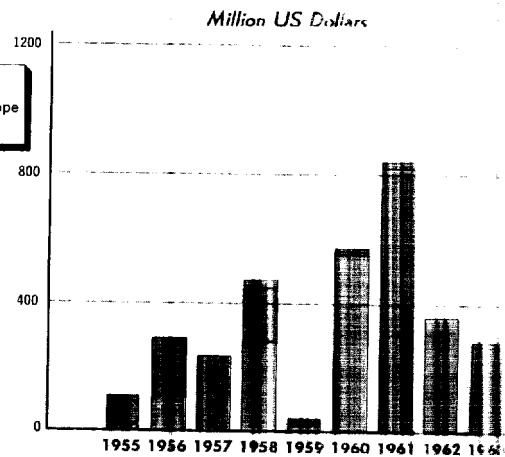
## ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD

Selected Years, 1954 - 63

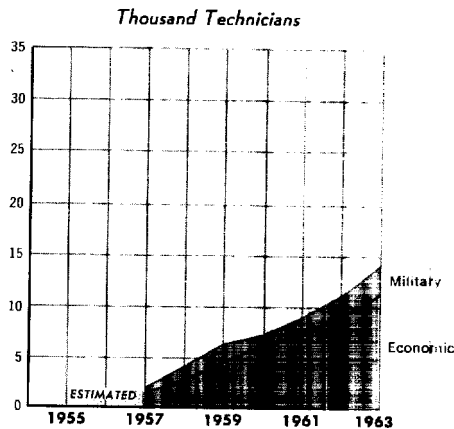
**COMMUNIST ECONOMIC ASSISTANCE  
TO LESS DEVELOPED COUNTRIES  
1954-63**



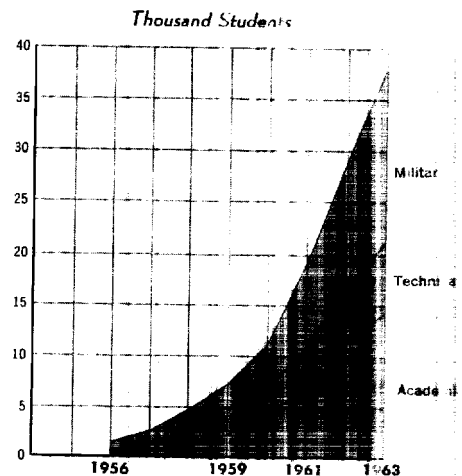
**COMMUNIST MILITARY ASSISTANCE  
TO LESS DEVELOPED COUNTRIES, 1955-63**



**COMMUNIST ECONOMIC AND MILITARY  
TECHNICIANS IN LESS DEVELOPED COUNTRIES  
1955-63**



**STUDENTS FROM LESS DEVELOPED COUNTRIES  
TRAINED IN COMMUNIST COUNTRIES 1956-63**



\*Since Communist military assistance for some countries cannot be distributed by year, annual figures are only estimates.

**SECRET**

S-C-R-E-T

I. Economic AssistanceA. Credits and Grants

Economic credits and grants extended by Communist countries to less developed areas during the second half of 1963 totaled \$215 million (see Table 1\*) and brought total extensions in 1963 to \$315 million (see Figure 2\*\*). With these new extensions the cumulative total from the inception of the program in 1954 to the end of 1963 rose to \$4.9 billion. Although new commitments in the second half of 1963 were more than double those undertaken in the first half, the total for 1963 was slightly below the low level attained in 1962 and less than one-third of the commitments undertaken in the peak year of 1961 \*\*\*

During the second half of 1963 the USSR accounted for approximately 70 percent of total extensions by the Communist countries. This is consistent with its contribution to the total program from 1954 to 1963, during which period the USSR extended \$3.4 billion of the \$4.9 billion committed by the Communist countries. The \$142 million of new Soviet aid extended in the last 6 months of 1963 represented a significant increase above Soviet extensions of \$63 million, \$14 million, and \$65 million in the two halves of 1962 and the first half of 1963, respectively.

In spite of the relatively large increase in Soviet extensions, only three countries -- Afghanistan, Algeria, and Iran -- were recipients of such aid, the lowest number to receive new Soviet aid during any 6-month period since 1954. Algeria and Iran represented significant opportunities seized by the USSR. Apparently convinced that the Ben Bella regime was firmly entrenched and committed to a policy of substantially expanding the public sector and anticipating an aid offer by Communist China, the USSR overcame its year-long hesitancy to provide aid to Algeria and extended a credit of \$100 million for that country's development program. In Iran the USSR succeeded in expanding its political and economic relations with a country allied with the United States in an anti-Communist military alliance. Moreover, benefits will accrue to the domestic economy of the USSR through the extension of aid to Iran. In addition to an increase in new extensions, the USSR made informal representations to both India and the UAR to indicate that it would consider the extension of additional aid for their next 5-year plans, which are being formulated at present.

For the first time since the inception of the Communist aid programs, the contribution of the Eastern European countries was insignificant. East Germany extended a minor credit to a private firm

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\* P. 6, below.

\*\* Following p. 6.

\*\*\* For a summary of specific credits and grants by Communist countries to less developed countries, see Tables 7 through 11, pp. 35 through 90, below.

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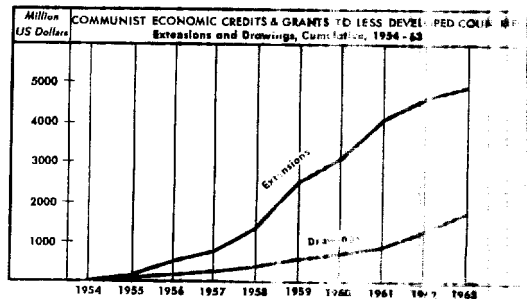
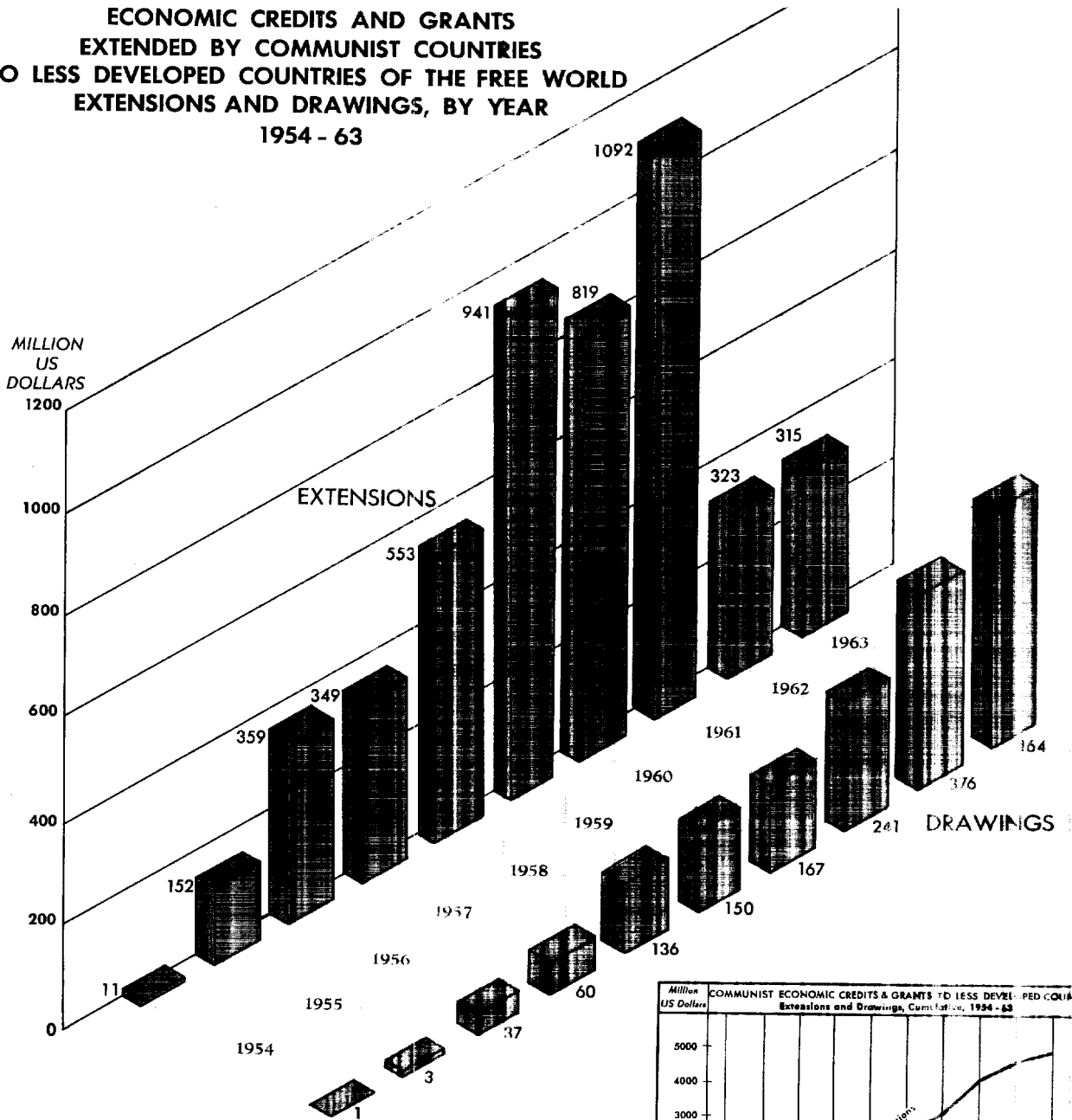
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**ECONOMIC CREDITS AND GRANTS  
EXTENDED BY COMMUNIST COUNTRIES  
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
EXTENSIONS AND DRAWINGS, BY YEAR  
1954 - 63**

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S-E-C-R-E-T

As in previous years, the rate of drawings on Communist credits previously extended continued to accelerate. Approximately \$260 million was expended during the period, bringing total expenditures for the year to \$465 million, an increase of almost 25 percent over the previous year. The major drawings occurred in the UAR, Afghanistan, and India, where pressure is being exerted to complete projects under the recipients' Five Year Plans. The pace of implementation also was stepped up in Ceylon, Burma, and the Somali Republic. Political instability and a lack of adequate material and human resources continued to impede the implementation of programs in most of the other countries of Africa and Asia. By the end of 1963, \$1.6 billion of the \$4.9 billion program had been expended.

## B. Technical Assistance

### 1. Economic Technicians

The number of economic technicians from Communist countries employed in less developed areas during the last half of 1963 was about 11,940, an increase of about 6 percent above the previous 6-month period (see Table 12\*). The small increase reflects a leveling off of requirements for technicians on aid projects in countries in the Middle East and Africa and the presence of larger numbers of technicians in Indonesia, Mali, the UAR, and Yemen. The sizable increase in the UAR was a result of the quickening of the pace of activities at the Aswan Dam. In Yemen the increase was largely in nonproject activities.

Nearly 70 percent of all economic technicians provided by Communist governments were employed in six countries -- Afghanistan, Guinea, India, Iraq, the UAR, and Yemen. The largest group, about 1,700, was employed at the Aswan Dam. In Yemen, about 400 Soviet construction workers completed an airfield near San'a and departed by the end of the year. Nearly 1,200 technicians still were in Iraq during the last 6 months of 1963, although many had departed by the end of the year.

Activities under technical assistance agreements not connected with economic aid credits continued to increase and accounted for about 20 percent of the economic technicians in less developed countries. These technicians included about 830 medical personnel, more than half of them in Algeria. In addition, 1,560 were engaged in agricultural, educational, economic planning, urban development, and managerial activities.

Technical assistance activity in agriculture increased during the period as Soviet and Eastern European technicians were engaged in surveys of agricultural requirements and water utilization schemes, in water drilling, and in training native personnel to operate

\* P. 91, below.

S-E-C-R-E-T

and manage state farms. India, presumably satisfied with the Soviet-developed state farm at Suratgarh, announced plans to expand the farm with Soviet assistance.

In other activity, organizations from the Communist area were engaged in town planning and urban development activities in a number of countries, particularly Africa. Both Kenya and Tanganyika accepted assistance for the establishing of news distribution centers in those countries and the training of personnel in the USSR and Czechoslovakia.

## 2. Academic Students and Technical Trainees

The number of nationals from less developed countries enrolled in academic programs in Communist countries continued to increase in spite of indications of increased student dissatisfaction (see Table 14\*). By the end of the year, there were 12,800 students studying in Communist countries; the USSR was host to approximately two-thirds of the total. The largest single group from any one country, about 2,000, continued to be the students from Iraq, in spite of an Iraqi decree of June 1963 calling for the return of all Iraqi citizens studying in academic institutions in Communist countries. During the period, about 810 technical trainees from less developed countries arrived in Communist countries to undertake technical training programs (see Table 13\*\*).

During the last 6 months of 1963 an estimated total of 1,580 academic students departed for training at institutions in Communist countries, bringing to more than 14,500 the number who have undertaken academic programs in those countries. The number of new enrollees in academic institutions, however, falls far short of the enrollment level of the previous 3 years. The decline in the rate of increase of new enrollees may be attributable, in part, to increasing efforts by some governments to control the number and type of individuals studying abroad. New offers of scholarships reportedly have been rejected in some cases. The Sofia incident in February 1963 and the subsequent and more frequent allegations of racial discrimination also may have discouraged some governments and students from accepting scholarships to study in Communist countries. In spite of the racial problems, however, the largest increment of the increase in student enrollment, about 55 percent, again was represented by students from Africa.

Although the 12,800 students from less developed countries in all academic training programs in Communist countries is as yet rather modest compared with the 43,500 students in similar programs in the United States alone, the number is substantial in absolute terms, and the outlook for the future, in spite of periodic student incidents,

\* P. 95, below.

\*\* P. 93, below.

S-E-C-R-E-T

is one of continuing growth. The expansion of facilities at the Peoples Friendship University in Moscow is well underway, and enrollment for the 1963/64 academic year was estimated by the rector to be in excess of 2,600. A new Institute for Foreign Students in Sofia was formally dedicated in early November and apparently provides a centralized physical plant for the language and preparatory phase of the existing program in Bulgaria. It will serve, however, to isolate foreign students from their Bulgarian environment and thus, perhaps, minimize discord.

The adverse political impact of continuing student dissatisfaction also has caused concern to Communist officials, most recently in Moscow. Premier Khrushchev, in a blunt reply to the student demonstrations following the death of a Ghanaian student in late December, took a firm stand and offered exit visas to those students who did not like the treatment that they were receiving in the USSR.

About 810 technical personnel initiated technical training programs in Communist countries during the period, a slight increase over the previous reporting period, and brought to about 6,850 the number of technical personnel who have undertaken such training. The largest groups, accounting for nearly two-thirds of total trainees, were technical personnel from Algeria, Ghana, and India. A contingent of 92 Ghanaians departed for up to 4 years' training in various skills related to the fishing industry. About 55 Indians undertook training in the USSR in preparation for employment in the heavy electrical equipment plant that Czechoslovakia is building in India.

## II. Bloc Military Assistance

### A. Credits and Grants

During the second half of 1963 the USSR concluded new military aid agreements with Algeria, India, and the Somali Republic, totaling at least \$90 million. These new agreements brought military extensions in 1963 to a total estimated at \$290 million and brought the cumulative total since 1955 to \$3.2 billion\* (see Table 2\*\*).

New extensions fell off during the past 2 years, but drawings were maintained at a relatively high level as equipment from the earlier agreements was delivered. Deliveries of military equipment to Iraq recommenced in September, after a 3-month hiatus. In October the USSR delivered six MIG-21 jet fighters to Iraq. Other noteworthy deliveries in the period saw the UAR receive 27 MIG-21 jet fighters, 3 Komar-class guided-missile boats, and sufficiently large quantities of SAM equipment as to bring to at least 10 the number of SAM sites completed or

\* Not including credits for construction of military industrial installations and airfields, valued at approximately \$25 million, which are carried under economic assistance agreements.

\*\* P. 10, below.

S-E-C-R-E-T



S-E-C-R-E-T

Table 2

Military Aid Extended by Communist Countries  
to Less Developed Countries of the Free World a/  
September 1955 - December 1963

	Million Current US \$
Estimated minimum value	3,322
Less downpayments	123
Amount of aid	<u>3,199</u>
Discounts and grants	1,333
Credits	1,866

a. For additional details, see Tables 15 and 16, pp. 98 and 102, respectively, below.

under construction in the UAR. In addition, the USSR initiated deliveries of SAM equipment to India and delivered 30 medium tanks, 14 MIG-21 jet fighters, and 4 Komar-class guided-missile boats to Syria. One Soviet vessel delivered land armaments directly to Algeria during the brief October crisis between Algeria and Morocco, and another shipment arrived in December. These deliveries, however, did not prevent Moroccan-Soviet discussions concerning shipments of military aid still undelivered.

The reduction in military assistance extensions and drawings in 1963 does not mean a diminution in the program as a whole. The USSR undertook negotiations with the UAR, Syria, Iraq, Ghana, Indonesia, India, Morocco, Cambodia, and Yemen for additional assistance during the last half of the year. India asked the USSR for SAM equipment sufficient to equip 22 sites. Other important developments included the rescheduling of Indonesia's military debt servicing obligations to Poland and Communist China; the visit by Indonesian Defense Minister Nasution to the USSR, where he succeeded in obtaining additional military equipment; and the reportedly successful Iraqi-Soviet meetings over the disposition of the SAM equipment delivered to Iraq.

B. Technical Assistance

1. Military Technicians

Approximately 2,310 military technicians from Communist countries were assigned to less developed countries during the last half of 1963 (see Table 17\*), primarily to assist in the training on and

\* P. 104, below.

S-E-C-R-E-T

maintenance of military equipment supplied by Communist countries. This was somewhat less than during the first half of the year, and most of the decline can be attributed to the halving of the Soviet contingent in Indonesia. By the end of the year the group of Soviet military technicians in Iraq was reduced drastically from 380 to 80, the result of a reduction in the military aid program there, especially curtailment of the SAM program. Other contingents in the Middle East remained at about the same levels as in the preceding period. In spite of this over-all decrease, negotiations on new aid with India, Ghana, the UAR, and the Somali Republic should produce an increase in the number of technicians in less developed countries in the months ahead.

## 2. Military Trainees from Less Developed Countries

During the last 6 months of 1963, 1,780 nationals from less developed countries enrolled in military programs in the USSR, about the same number that went during the previous 6-month period (see Table 18\*). Indonesia sent 1,220 and the Somali Republic 335. During the period, Iraq, for the first time since the aid program there began, had no military trainees in Communist countries. The USSR continued to virtually monopolize this area of military aid; no trainees were known to have been sent to Eastern Europe during the period. Of those currently being trained in military institutions in Communist countries, Indonesia, Algeria, and Afghanistan continued to have the largest contingents.

By the end of December 1963, about 16,200 military personnel from less developed countries had been trained in Communist countries, more than 80 percent of whom came from Indonesia, the UAR, Syria, and Iraq. The USSR has trained almost 85 percent of the total.

### III. Trade

#### A. Value

During the first half of 1963, foreign trade turnover between the Communist area and the non-Communist less developed countries amounted to more than \$1.2 billion, an increase of about 13 percent above the comparable period in 1962.\*\* Although the exports of Communist countries rose more than imports during the 6-month period under review, the Communist area still emerged as a net importer, reflecting primarily the deficit position of the USSR that has been

\* P. 105, below.

\*\* The value figures presented in this section are based primarily on trade statistics as reported by the less developed countries. Because of differences in reporting methods, these figures differ substantially from those on the same trade as reported by official Communist sources.

S-E-C-R-E-T

S-E-C-R-E-T

evident since 1955. Eastern European countries, which ordinarily attain a surplus in trade with less developed countries, also showed a deficit in the first half of 1963, although of a much smaller magnitude than that of the USSR. Detailed data on Communist exports to and imports from individual less developed countries are presented in Tables 19 and 20.\*

B. Direction

During the first half of 1963, Asia continued to account for the largest share of the Communist countries' trade with the less developed areas. Trade between the two areas amounted to \$494 million in the first 6 months of 1963, 18 percent above the corresponding period of 1962. India and Malaya together accounted for more than two-thirds of the trade between the two areas. Imports from Malaya increased more than \$30 million as a result of increased purchases of rubber by the USSR, the largest single purchaser of Malayan rubber. During the first 9 months of 1963, about one-fourth of Malaya's rubber exports went to the Communist countries.

The Middle East continued to be an important trading area for the Communist countries, total trade between the two areas amounting to about \$395 million during the first half of 1963. Exports of Communist countries to the Middle East declined slightly during the first half of 1963. Exports to the UAR, the principal Middle Eastern trading partner of the Communist countries, maintained the same level (about \$70 million) achieved during the first 6 months of 1962 and accounted for about 17 percent of total UAR imports.

The imports of Communist countries from the Middle East increased about 5 percent, chiefly as the result of increased imports from the UAR that totaled \$128 million for the 6-month period and accounted for about 45 percent of total UAR exports. The UAR sold about 62 percent of its cotton to the Communist countries during the marketing season September 1962/August 1963. However, current heavy sales in the West of Egyptian cotton, the major commodity exported by the UAR, indicate that for the 1963/64 marketing season the UAR will direct no more than half of its total cotton exports to the Communist countries.

The largest percentage increase in trade between the Communist countries and the less developed countries was achieved in Africa. This trade during the first half of 1963 totaled about \$156 million, an increase of about 36 percent above the level of the corresponding period of 1962. Most of the increase was accounted for by Ghana, Morocco, and Sudan. The expanded trade with Ghana reflected Communist trade promotion activities coupled with Ghanaian efforts to direct trade to countries with which it has trade agreements.

\* Pp. 106 and 110, respectively, below.

S-E-C-R-E-T

Trade with Latin America remained relatively stable during the first half of 1963 compared with the first 6 months of 1962, amounting to about \$140 million in each period. Although the imports of Communist countries declined about 20 percent, the decline was compensated for by a significant rise in exports to Brazil, which almost doubled in the period under review. Soviet shipments accounted for the major portion of this increase. Moscow, however, was unable to supply more than half of its 1963 export quota of wheat, a major component of Soviet exports to Brazil, and subsequently reneged on its commitment to provide 600,000 tons of wheat in 1964. It thus seems clear that Soviet-Brazilian trade will not attain the highly publicized levels projected by the 5-year trade and payments agreement concluded in April 1963.

The trade between the Communist countries and the less developed areas of Europe rose to \$59 million compared with only \$37 million in the first 6 months of 1962. This increase was due almost entirely to increased Eastern European trade with Spain.

#### C. Commodity Composition

The year 1962 brought little variation from former patterns in the commodity composition of the trade of Communist countries with less developed countries (see Figure 3\*). The Communist countries continued to represent primarily a market for crude materials and foodstuffs; together, these two categories of goods accounted for approximately 90 percent of total Communist purchases in less developed countries in 1962 (crude materials, 60 percent; foodstuffs, 30 percent). Rubber and cotton together accounted for more than 40 percent of total imports of crude materials from the less developed areas.

Imports by the Communist countries of natural rubber, the major portion of which came from Malaya, amounted to about 544,000 metric tons in 1962, about 6 percent less than the volume imported in the peak year of 1961. The USSR continued to be the major Communist purchaser of rubber, having imported more than 360,000 tons for the second consecutive year. Imports of cotton continued to be supplied primarily by the UAR, which accounted for almost 60 percent of cotton imports of the Communist countries from the less developed countries in 1962.

The share of foodstuffs in total purchases of Communist countries from the less developed countries increased from 21 percent in 1961 to 30 percent in 1962. Soviet imports of food products were 50 percent above those of 1961, largely because of purchases of rice from Burma and the UAR and increased imports of cocoa beans from Ghana and Brazil. Manufactured goods continued to account for only 6 percent of the imports of Communist countries; more than two-thirds consisted of cotton yarn from the UAR, jute manufactures from India, and copper from the Federation of Rhodesia and Nyasaland.

\* Following p. 14.

S-E-C-R-E-T

Exports of the Communist countries to the less developed countries in 1962 continued to be dominated by manufactured goods and machinery and equipment which together accounted for more than half of such exports. Soviet exports of machinery again consisted primarily of equipment for complete plants, motor vehicles, and air transport equipment that together accounted for more than 80 percent of total Soviet deliveries of machinery. The Eastern European countries continued to deliver primarily transportation equipment, electrical machinery, and metalworking machinery. Exports of manufactured goods continued to consist largely of textile fabrics, yarns and threads, and iron and steel.

#### IV. Area Reviews

##### A. Africa

The African continent was the chief target of new Communist economic aid activities during the last half of 1963, with new aid extensions shifting to Algeria and East Africa. The largest share of the new economic assistance and more than half of the military aid extended by the Communist countries was committed to Africa. The lime-light was largely on Algeria, which received its first important commitments, and the Somali Republic, whose irredentist policies toward neighboring Ethiopia and Kenya and its break with the UK presented Moscow and Peiping with new opportunities.

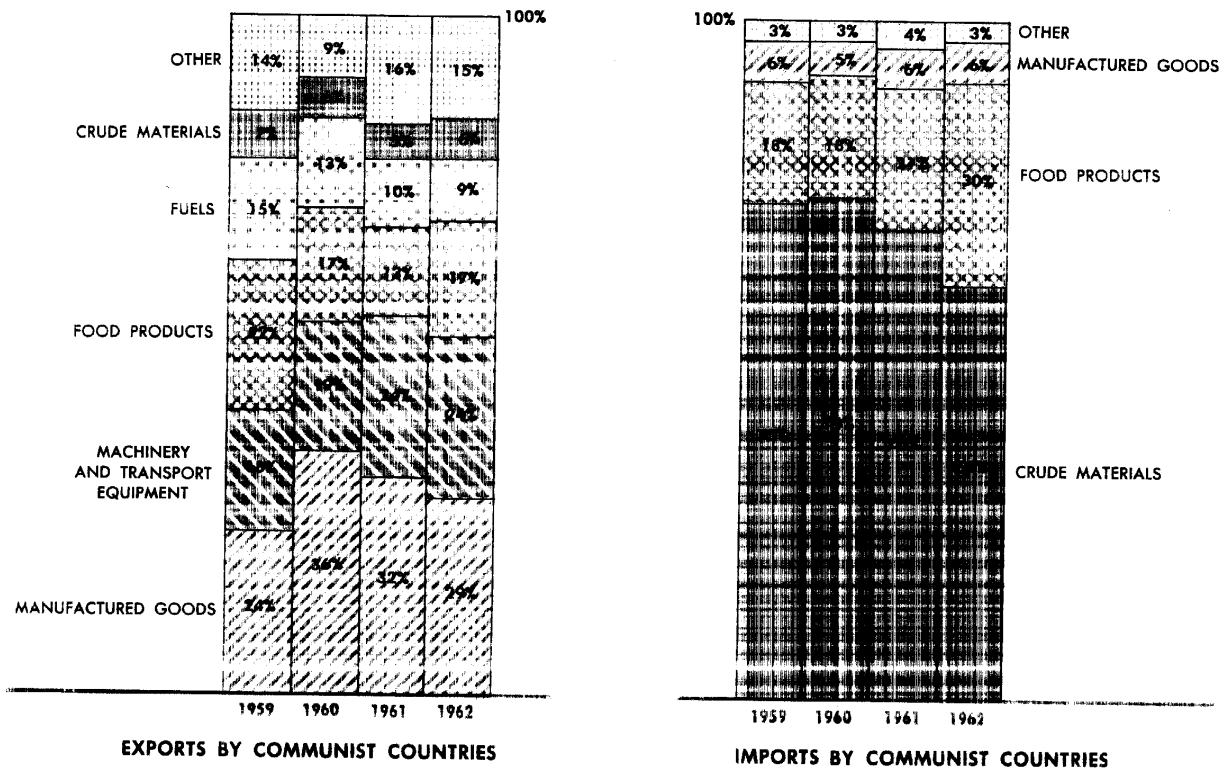
The growing competition between the USSR and Communist China -- an important element in Africa -- was particularly noticeable in the coincidence of new aid extended by both Moscow and Peiping to Algeria and the Somali Republic. The competition seemed to have entered a new phase in mid-December with the arrival of Chinese Communist Premier Chou En-lai and Foreign Minister Ch'en Yi for an extended tour that was scheduled to take them to at least 10 African, as well as several non-African, countries. Chou appeared to be seeking to counter Moscow's influence in Africa by playing on psychological and ideological themes in order to create closer ties between Africa and Communist China. On the eve of Chou's departure from Communist China, Peiping provided a further illustration of its intention to undercut Moscow in Africa by issuing a sharp criticism of Soviet opposition to the expansion of UN organs to accommodate more African representatives. The USSR has for years argued that such an expansion must be linked with the seating of Communist China, but Peiping denied that it favored this tactic and charged that Moscow was using the seating issue as an excuse to hold down African representation.

The USSR agreed to provide Algeria with economic assistance in October 1963 and extended a credit of \$100 million for the Algerian economic development program. The credit represents the largest Soviet extension to any less developed country since 1961. The Chinese Communists quickly followed with a \$50 million credit. Although the

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Figure 3

**TRADE OF COMMUNIST COUNTRIES WITH LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
BY COMMODITY GROUP, 1959-62\***



\*Based on the trade returns of about 20 non-Communist, less developed countries which reported merchandise trade with Communist countries.

S-E-C-R-E-T

credit was of smaller magnitude, its terms are more favorable: no interest and repayment over a 20-year period beginning in 1970. The interest on the Soviet credit was established at 2.5 percent, and principal repayments were extended over a 12-year period.

During the period the USSR, for the first time, delivered arms directly to Algeria. Since the outbreak of the Algerian-Moroccan border crisis in October, at least two Soviet vessels made arms deliveries, including about 35 medium tanks and mobile communications equipment. In addition, about 400 Algerians were receiving military training in the USSR, and additional military shipments, including air force and naval equipment, are expected.

The Somali Republic's Prime Minister Abdirascid signed the first economic and technical assistance agreement between the Somali Republic and Communist China during a visit to Peiping in August 1963. The assistance to be received includes an interest-free credit of about \$19 million and a \$3 million grant for budgetary support, half in hard currency and half in commodities. The budgetary grant will approximately cover the deficit created by the loss of British budgetary aid. The Chinese reportedly also offered military assistance.

The Somali Republic concluded a major military agreement with the USSR valued at about \$35 million. The agreement concluded in October is believed to include aircraft, armor, medium artillery, anti-aircraft weapons, and patrol craft. In addition, 335 Somali military trainees went to the USSR during the last half of 1963.

Kenya concluded an agreement with the USSR and Czechoslovakia for aid in establishing a state news agency shortly before Kenyan independence in December 1963. Teleprinters and other equipment valued at \$140,000 are to be provided. The USSR is to train 40 Kenyan journalists and 50 teletype operators, and Czechoslovakia promised financial aid and scholarships for teleprinting trainees. Soviet and Czechoslovak news agencies are expected to provide Kenya with news media advisers. Leaders from the Nyanza region in late 1963 decided to seek Hungarian assistance on a hydroelectric scheme and Czechoslovak aid in irrigating sugar plantations and managing a sugar cooperative.

In Ethiopia a Soviet survey team undertook feasibility and site surveys for meat-processing plants, tanneries, a shoe factory, a fruit and vegetable cannery, and an edible oil processing plant. Construction of the Soviet-financed petroleum refinery at Assab reportedly was about to start, following renegotiation of an earlier agreement. A Soviet-financed technical school at Baherdar-Giyorgis opened during the period, and work progressed on a Czechoslovak shoe factory near Addis Ababa.

Tanganyika, which already has trade agreements with several Communist countries, signed its first with the USSR in August. Tanganyika

S-E-C-R-E-T

S-E-C-R-E-T

will exchange traditional agricultural produce for agricultural and roadbuilding machinery. The Tanganyikan Minister for Commerce and Industry, George Kahama, visited the USSR, Czechoslovakia, and Poland to seek economic and technical assistance and to discuss trade matters. Under an agreement of December 1963, Poland and Tanganyika will jointly construct, operate, and own a sugar factory and plantation in Tanganyika. A Polish organization will retain 40 percent of the ownership of the enterprise for 12 years. The Poles also discussed entrance into the Tanganyikan fishing and fish-canning, glass, and small agricultural tools industries. Czechoslovakia is to help Tanganyika establish a news agency.

The trade of Sudan with Communist countries increased substantially during 1963, largely as a result of increased imports of Sudanese cotton, primarily by the USSR, Communist China, and Rumania. As of November 1963, Communist purchases of Sudanese cotton were more than double those of the previous year and accounted for about one-third of total Sudanese exports of cotton. In December 1963 the Sudanese press reported that the USSR had replaced the UK as the largest single buyer of Sudanese cotton.

In Libya, Bulgaria has undertaken the first project to be built by a Communist country -- construction of part of a large sewerage system in Tripoli. Progress on the implementation of Soviet and Eastern European credits to Tunisia continued to be slow. A civil air agreement, signed in October, provides for a weekly Bulgarian flight on the route Sofia-Rome-Tunis-Algiers. An inaugural flight took place on 31 October.

Mali signed an agreement with North Korea in June, under which the latter agreed to undertake the rebuilding of a rice mill and the construction of a porcelain factory. Work on the latter project reportedly began early in September. No new credits were announced during the period, and the Communist countries gave no indication that they will provide budgetary support to meet the crisis caused by the loss of French hard currency support and the creation of the Malian franc. Soviet geologists continued their explorations and, according to one report, discovered promising evidence of gold near the Guinean border. The delivery of basic construction materials permitted work to begin on the sports stadium project.

Guinea reportedly received a second commitment of foreign exchange from Communist China amounting to \$4.2 million, which is believed to constitute a further obligation of the September 1960 credit. Progress was made on the cigarette factory that was being constructed with Chinese assistance; it was expected to be put into operation in 1964. Guinean news media and officials increasingly acknowledged Chinese Communist assistance (as well as Free World aid) but continued to ignore or to criticize obliquely Soviet assistance. Major Soviet construction projects in Conakry were stalled for 7 months



S-E-C-R-E-T

for a lack of local workers, but after protracted discussions an agreement was reached, and work was resumed in September. Guinea continued to be reluctant to permit its Soviet-built airport facilities to be used by Aeroflot for onward flights to Cuba and presented increasingly disingenuous excuses: in December, Aeroflot was informed that landing rights still could not be granted until the USSR agreed to guarantee the runway for 30 years. In September, Poland and Guinea dissolved their partnership in the joint Guinean-Polish fishing enterprise, although a number of Polish advisers have been retained, and some of the Polish boats were not returned.

Ghana and the Communist countries continued to seek to surmount the various obstacles to implementation of credits. The lack of financing for local costs remained a prime deterrent. Poland agreed to obligate \$4.4 million from its April 1961 credit to cover local costs of a civil engineering works at its sugar refinery near Akuse. An agreement signed between the USSR and Ghana in July whereby the USSR would provide goods, under the November 1961 credit, to generate local currency for its projects ran into various difficulties, but it appeared likely that in time the difficulties could be ironed out. Another approach to the problem was illustrated by agreements that the Ghanaian Government signed with a French firm to finance certain local construction costs of some Czechoslovak and Hungarian projects. The USSR, under considerable pressure from Ghana, accepted the return of four Il-18 transports and one An-12 transport purchased for Ghana Airways under a 1960 Soviet credit.

Ghana's complaints about its trade and payments arrangements with Communist countries, which have in the past resulted in Ghana being a substantial creditor on trade accounts, reportedly resulted in an agreement "in principle" with all Communist trading partners for a periodic balancing of trade accounts, with settlement to be in convertible currency. Only one agreement -- with Bulgaria -- was signed, however, and it merely provided that a favorable balance could be used to repay developmental credits extended by Bulgaria.

Poland offered Nigeria a \$42 million credit in June, but nothing more has been heard about the status of the offer. Nevertheless, two Poles have conducted feasibility studies on the erection of factories in northern Nigeria.

#### B. Asia

In spite of a political climate that seemed in many Asian countries to offer increased opportunities, the Communist countries undertook few new activities in the aid field during the last half of 1963. The presence of the Communist countries generally was maintained in the area, largely through the continued implementation of previous grants and credits. Several new projects were initiated or agreed upon under existing extensions, but new credits were at a low level.

S-E-C-R-E-T

S-E-C-R-E-T

Significant developments included (1) Cambodia's renunciation of US aid, with a possibility of greater dependence on Communist China; (2) new trade agreements between India and several Communist countries calling for expanded and diversified trade; (3) Pakistan's movement toward a limited increase in economic relations with the Communist countries; and (4) Indonesia's search for material support for its confrontation with Malaysia, with little result.

In Indonesia, Sukarno turned his attention in the latter half of 1963 to the confrontation with Malaysia and at the same time seemed to shift his weight back to the foot that he keeps in the Communist camp. The severance of trade and communications between Indonesia and Malaysia in September dealt a heavy blow to the Indonesian economy and dimmed the possibility of carrying out the economic stabilization program.

In late 1963, Indonesian Defense Minister Nasution visited the USSR for the purpose of obtaining economic, military, and diplomatic support for Indonesia. The USSR agreed to continue providing military equipment, including transports, helicopters, and combat aircraft, to Indonesia, but Khrushchev reportedly advised Nasution to avoid direct military clashes with the British over Malaysia. Indonesia meanwhile had been successful in negotiating a stretchout of debt repayments with the several Communist countries -- an issue that had exacerbated relations earlier in the year. The Poles and the Chinese agreed to reschedule the military portion of Indonesia's debt-servicing obligations. Approaches to the Czechoslovaks for a reduction of the 1963 debt obligation were not successful, but the repayment period for the remaining debt may be extended.

The USSR, along with Czechoslovakia, Bulgaria, and Rumania, has shown interest in production-sharing arrangements. A production-sharing agreement was signed with Bulgaria in August that extended credits of \$500,000 for the construction of a citronella plant. It is assumed that this constitutes an obligation of the May 1961 line of credit that hitherto has not been utilized.

Cambodia, while maintaining officially its longstanding policy of nonalignment during the last half of 1963, showed an increased inclination to support Communist China on international issues. Cambodia showed sympathy for the Chinese stand in the Sino-Soviet dispute (although without attacking the USSR). The USSR delivered military aid to Cambodia in November, and Sihanouk announced in mid-December that he had accepted an "important gift" of military equipment from Communist China. A contract with the USSR under a previous credit for the construction of the Kamchay Dam was signed during the period.

In November, Prince Sihanouk demanded that US aid to Cambodia be terminated. It appears that France will partly fill the resulting gap, and conditions are favorable for an increase in Chinese Communist

S-E-C-R-E-T

influence in Cambodia. French influence will continue because of important French contributions to military and administrative training and French interests in business and finance. The proposed nationalization in 1964 of foreign trade and banking, however, could, if implemented, serve to diminish French commercial influence.

The most significant Communist involvement in Burma during the reporting period was political in nature, with the Chinese backing the attempt of their Communist (White Flag) protégés to achieve a legalization of their position. The failure of the negotiations between the government and the Communist insurgents, their return to their bases in the jungle, and the subsequent arrest of the leadership of the White Flag Communists precluded for a time the possibility of an accommodation between the government of Burma and the Burmese Communists.

Although no new credits were reported during the period, modest implementation of the Chinese Communist credit of \$84 million continued. Surveys of all projects under the credit reportedly had been completed by August. Construction of a bridge across the Salween River at Kunlong in the Northern Shan States is scheduled to begin in March 1964, the first of numerous projects under the Chinese loan actually to reach the construction stage. Most of the equipment under the \$2.6 million Soviet credit for agricultural machinery had arrived by the end of 1963, and progress continued on the construction of the Soviet-assisted dam at Kyetmauktaung.

In the last 6 months of 1963 the USSR and Eastern Europe assured India of their continued and enhanced participation in future Indian economic affairs. These assurances were in the form of several new credit offers for the Third and Fourth Plans -- one from Czechoslovakia for \$50 million and one from Hungary for \$25 million -- and new trade agreements with the USSR, Czechoslovakia, and Hungary that call for greatly expanded and diversified trade over the next 3 years.

Following discussions held in Moscow in August 1963, a \$38 million military contract was concluded with the USSR for the supply of surface-to-air missile equipment. By the end of the year, some of this equipment began to arrive in India. The value of such aid may be higher, as the Indian Government is seeking equipment sufficient for the establishment of a total of 22 SAM sites. Plans to establish MIG-21 manufacturing facilities in India progressed somewhat during the period in spite of numerous reports that the Indians were disenchanted with the idea. Project reports on the engine and air frame factories have been completed, and a report on a plant for electronic equipment for the planes is now being prepared.

In the trade sphere, efforts were made to expand the volume and variety of goods traded between India and the Communist countries. Recently concluded long-term trade agreements with the USSR, Czechoslovakia, and Hungary provided for increased exchanges, including exports of goods not traditionally exported by India.

S-E-C-R-E-T

S-E-C-R-E-T

Recent political developments in Nepal have not been favorable to the interests of the Communist countries. King Mahendra's domestic political base broadened while the opposition to his regime remained in disarray. Relations between Nepal and India also improved. Finally, Nepal showed interest in obtaining at least small amounts of military aid from the US even at the risk of incurring Peiping's displeasure.

Although the political developments in Nepal may have affected the position of the Communist countries in Nepal, it did not affect their aid activities. Communist China continued with construction of the Katmandu-Kodari (Tibet) road, but the proposed cement factory at Hitaura and the paper mill at Nepalgunj have been abandoned. The Chinese aid funds thus released may be channeled to other projects, such as hydroelectric and irrigation facilities and roadbuilding in the Terai.\* The three Soviet-financed projects -- the hydroelectric plant, sugar mill, and cigarette factory -- now under construction are proceeding satisfactorily. Inasmuch as these projects probably will be completed by the end of 1965, the USSR agreed to investigate the possibilities for further economic aid to Nepal, including the construction of a 65-mile road from Janakpur to Simra and the establishment of an agricultural implements factory. There was, however, no announced expansion in the current Soviet aid program.

In Ceylon, construction progressed on the Soviet-assisted iron and steel works and the tire and tube factory -- started earlier in the year -- and work was begun on the cold storage plant at Kandy. The proposed flour mill and grain elevator complex was brought a step closer toward implementation with the signing of an agreement that set forth the Soviet contribution to the project. The USSR was to cover foreign exchange costs, estimated at about \$1.4 million. Communist China meanwhile agreed to supply Ceylon with 30,000 tons of rice during the last quarter of 1963, the costs to be charged against the unused portion of the 1958 flood relief credit. Peiping also offered to set up a fountain pen factory and to equip a second textile mill, presumably as part of its \$26.3 million grant program. The Chinese under the same program completed delivery of \$5 million worth of railroad rolling stock.

Ceylonese trade relations with Communist countries were highlighted by the renewal in October of the 5-year rubber-for-rice pact with Communist China. The new agreement calls for the exchange of 200,000 tons of rice and 35,000 tons of rubber at an estimated value of \$21 million each way. Ceylon also reached agreement with the USSR for the purchase of the Ceylon Petroleum Corporation's petroleum requirements for 1964, at the same discount prices paid for earlier purchases.

\* Agreement reportedly was reached in January 1964 for the construction of a hydroelectric plant on the Baghamati River, brick-tile and pottery factories in the Katmandu Valley, the Morang-Janakpur section of the East-West Highway, five warehouses, and a tannery and shoe factory at Butwal.

S-E-C-R-E-T

Pakistan continued to implement a policy of expanding its relations with Communist China. The two countries signed an air agreement and a \$1.7 million barter agreement. An official visit by Premier Chou En-lai in February 1964 was announced. Pakistan appeared to be going ahead with plans to open the civil air service to China early in 1964 in spite of the fact that Pakistan International Airlines has been denied Japanese permission to fly on to Tokyo.

Pakistan and the USSR signed a civil air agreement on 7 October, giving the USSR rights to Karachi and beyond, while Pakistan got rights to Moscow and beyond. Reports of Soviet and Eastern European aid offers were numerous, but aid remained limited to the Soviet petroleum exploration program. Some increase in Communist assistance, probably related to heavy industrial development, may be forthcoming to coincide with the initiation of Pakistan's Third Five Year Plan in 1965. Thus it is probable that Pakistan's limited economic ties with the Communist countries will slowly expand, not so much as a move to weaken a basic pro-Western attitude as to show displeasure with Western military assistance to India.

In Afghanistan, former Prime Minister Daud's departure from the government gave the Afghans somewhat more flexibility in the international political arena. The USSR continued to maintain its preponderant position, however, in the military and economic assistance fields in spite of Afghanistan's desire to moderate Soviet influence. The visit of Soviet President Brezhnev to Kabul in October was successful but produced no startling results. He brought a Soviet promise to exploit the newly discovered gas reserves north of the Hindu Kush and indicated Soviet willingness to construct a pipeline into Soviet Central Asia. The USSR would then import about 1.5 billion of the 2 billion cubic meters of gas that are expected to be extracted annually for the initial period of exploitation.

During the period the USSR extended a \$3 million credit for a nuclear reactor to be constructed in Afghanistan. This project will further the expansion of Soviet influence in Afghan education, which also was furthered by the initiation of construction on the Soviet Polytechnic Institute in Kabul and by the departure of 117 academic students for training in the USSR.

Afghanistan's almost exclusive dependence on the USSR for military equipment and training continued during the period. Emphasis was on the accelerated familiarization training of Afghan personnel both in the USSR and in Afghanistan under the military assistance program. Commercial agreements with the USSR appear to cover the replacement and supply needs of Afghanistan, and there was no indication that new agreements are in prospect.

S-E-C-R-E-T

C. Latin America

The economic involvement of Latin America with the Communist countries was relatively unchanged during the latter half of 1963. Domestic political developments and changes in government were not along lines that would materially increase the area's receptivity to Communist trade and aid offers. Brazil, with its precarious balance between left and right, remains the country most interested in developing East-West trade, but Soviet inability to meet wheat export obligations will depress Soviet-Brazilian trade, at least through 1964. A number of other Latin American countries have indicated a somewhat heightened interest in developing their exports to Communist countries. This interest is based on commercial, rather than political, considerations.

Communist China stepped up its commercial activities in Latin America, particularly in Argentina. Meat and grain contracts that Communist China has been negotiating with Argentine interests since mid-1963 total approximately \$100 million. Mexico sold wheat and cotton to Peiping, and Chile reportedly was negotiating a \$6 million copper sale. Communist China held a trade exhibition in Mexico.

In Brazil, Poland renewed its offer (dormant since November 1962) to finance construction of a \$26 million thermal electric powerplant in southern Brazil. Czechoslovakia offered to undertake modernization of the port of Recife and urged that Brazil utilize a longstanding credit of \$60 million for powerplant construction. None of these offers had been accepted by the end of 1963. In December, four Soviet engineers, at the invitation of Brazilian officials, arrived in Brazil to survey the feasibility of constructing a giant hydroelectric power complex at Sete Quedas in the state of Parana.

Brazil continued its efforts to expand iron ore exports to Eastern Europe. A Brazilian trade mission visited Rumania in August 1963 to discuss an exchange of iron ore for petroleum products. Brazil's largest iron ore producer plans to increase its exports from 1.5 million to 4 million tons annually, with much of the increase earmarked for Eastern Europe, particularly Bulgaria and Rumania.

The USSR offered Uruguay assistance in a project that would expand Uruguay's thermal electric power capacity significantly. Although the offer yielded some propaganda benefits to the USSR, there was no indication that the Uruguayan Government was seriously considering the offer. During the period, Czechoslovakia offered to purchase \$12 million worth of Uruguayan meat in exchange for cash.

The protracted negotiations between Czechoslovakia and Bolivia for construction of an antimony smelter continued without final agreement. Although Bolivian counterproposals made during the first half of 1963 apparently were accepted in principle by Czechoslovak negotiators, final approval still had not been obtained from Prague.

S-E-C-R-E-T

Commercial activities continued in a number of other Latin American countries. The USSR continued negotiating with Chile for an additional \$6 million worth of copper. Poland actively pursued trade with Mexico, Honduras, Chile, and Argentina and reportedly proposed a \$300,000 exchange of agricultural products from Haiti for Polish construction materials. Czechoslovakia participated in a trade fair in Lima and succeeded in selling 200 buses in Peru.

D. Middle East

In the Middle East, Communist activity was highlighted by the first major Soviet aid agreement with Iran, additional deliveries of military equipment, an over-all decline of aid activities in Iraq, and continued implementation of economic aid projects in Syria and the UAR.

After more than a year of gradually improving relations, the USSR and Iran signed an economic aid agreement in July 1963 providing for joint construction of a multipurpose project on the Aras border river, 11 grain silos in Iran, and fish hatcheries on the Caspian Sea. In connection with the river project the USSR extended a credit of \$38.9 million to Iran to cover the latter's share of the cost of the project. The credit is to be repaid in Iranian commodities over a period of 12 years at 3.6 percent interest. It was reported that the dams to be constructed, combined with irrigation canals, will allow an area of almost 99,000 acres (half on each side of the frontier) to be brought under cultivation. In addition, power to be generated by three power stations will supply the requirements of agriculture and industry in northern Iran and Azerbaydzhan SSR.

During the period, several of the Eastern European countries also offered long-term credits to Iran for a variety of economic development projects. Probably the most significant of these offers was a \$30 million offer by Czechoslovakia to expand Iran's sugar industry. Poland and Hungary offered credits of \$15 million and \$10 million, respectively, for other industrial projects. None of these offers is known to have resulted in agreements.

The second half of 1963 witnessed a continuation of reduced Communist economic aid activity in Iraq. This curtailment of these economic efforts in Iraq, which began with the Ba'ath coup of 8 February 1963, apparently was continued by the military junta that seized power on 18 November 1963. By the end of the year a project-by-project review of the entire Communist economic assistance program in Iraq was still in process. Iraqi authorities called in Western experts to provide an assessment of the projects of Communist countries. The experts' advice confirmed the Iraqi regime's view that many of the projects were poorly designed and constructed.

S-E-C-R-E-T

By the end of the period, eight projects had been canceled, and efforts had been made to obtain implementation by non-Communist countries through international tender. Among these are the Baghdad steel mill and the agricultural machinery plant. Eight additional projects remained under study, and 27 had been completed or were expected to be completed. Because of the cancellation of some projects and the delay in others pending decisions, the number of economic technicians from Communist countries present in Iraq, about 1,200, declined and by the end of the period was slightly more than 600.

The severely strained relations between Iraq and the USSR, which resulted in mid-June 1963 in an abrupt halt to Soviet military deliveries, were carried into the second half of the year. By September, however, the difficulties between the two countries eased somewhat, and military deliveries were resumed. In October the USSR delivered six MIG-21's and six helicopters to Iraq. In November a Soviet military delegation arrived in Iraq to discuss all outstanding issues concerning military assistance.

The major difficulty in military aid involved the disposition of the surface-to-air missile equipment already delivered. The project itself was suspended by Iraq, and eventually it was decided to place the bulk of the equipment in storage and turn the trucks and radar equipment over to Iraqi units. The reduction of the Soviet military aid program resulted in a sharp reduction in Soviet military technicians in Iraq to about 80 at the end of the year.

The pace of implementation of construction activities in the UAR continued at a relatively high level. The most important single Soviet aid project, the Aswan Dam, moved rapidly toward completion of the first stage in May 1964. The USSR had 1,700 technicians working on the project and plans to maintain that level until completion of the first stage. Expansion of the oil refinery at Suez was completed, and other petroleum projects met no unusual delays. Plans were finalized for Hungary to furnish equipment for a Soviet-financed calcium carbide and ferrosilicon plant at Aswan, on which construction will commence in early 1964.

Deliveries of military equipment to the UAR continued at a high rate, partly as a result of a new agreement concluded in June 1963. Among the major military deliveries were 27 MIG-21 jet fighters, 3 Komar-class guided-missile patrol boats, and large quantities of missile-related equipment. Training missiles for both types of craft were to have been delivered, and the MIG-21's and the Komar-class boats that arrived previously were operable. Work also progressed on the SAM sites in Cairo, Alexandria, and the Suez Canal, and at least 10 sites were reported completed or under construction.



S-E-C-R-E-T

In Yemen the USSR continued its aid activities and completed the Al Rahiba International Airport and a road connecting the airfield to the nearby town of San'a. Formal airport dedication ceremonies of 27 September 1963 were accompanied by voluminous and fulsome propaganda. This project was the largest single one undertaken by the USSR in Yemen and reportedly brought Soviet prestige in that country to an all-time high. With the completion of the project, most of the 600 Soviet technicians employed on the project departed. Considerable Soviet military and economic aid, however, has been provided to Yemen since the USSR decided to support the new regime. The value of such assistance, however, is still unknown.

In Syria, Soviet policy was much the same as it has been since the breakup of the UAR in September 1961. In spite of frequent and violent changes in Syrian regimes, the USSR continued to implement its economic and military aid programs in that country without any significant policy changes toward Syria. Projects under construction apparently proceeded without incident. The only reported difficulty concerned a disagreement over the type of fertilizer factory to be built in Homs by the USSR. The USSR continued to deliver military equipment to Syria. About 30 medium tanks were delivered by the USSR in September and 14 MIG-21 jet fighters and 4 Komar-class guided-missile patrol boats in December.

Turkey signed an agreement with Poland during the second half of 1963 under which Poland will provide equipment and technical assistance for the establishment of a borax and boric acid plant in Turkey. A 6-year credit of \$0.8 million was extended at 5 percent interest, representing 65 percent of the foreign exchange cost.

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**AID AND TRADE ACTIVITIES OF COMMUNIST  
COUNTRIES IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JULY - 31 DECEMBER 1963**

**SUMMARY**

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

**EIC R14-S16**

February 1964

**ECONOMIC INTELLIGENCE COMMITTEE**  
of the  
**UNITED STATES INTELLIGENCE BOARD**



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S-E-C-R-E-T

FOREWORD

The EIC-R14 series provides periodic summaries and analytical interpretations of significant developments in the economic and military relations of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series.

This report, covering the 6 months from 1 July through 31 December 1963, constitutes the sixteenth periodic supplement to EIC-R14, the initial report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, including representatives of the Department of State; the Defense Intelligence Agency; the Departments of the Army, Navy, and Air Force; the Departments of Commerce and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 12 February 1964.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed areas: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. The term does not include Yugoslavia.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic.

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S-E-C-R-E-T

AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS OF THE FREE WORLD

Summary\*

Economic activities of the Communist countries in the less developed countries of the Free World during the last half of 1963 expanded over the previous 6-month period in most sectors. Soviet and Chinese aid commitments increased and drawings on previously extended lines of credit accelerated, there was a continuing high level of activity in military assistance, and the scale of training programs and the number of Communist technicians in less developed countries continued to increase.

The assistance extended to Algeria, the Somali Republic, and Iran constituted the most significant new aid activity during the period. Both the USSR and Communist China seized opportunities for extending new assistance to Algeria and the Somali Republic. Also, by extending a development credit to Iran for a joint multipurpose project, which will provide both countries with power and irrigation, the USSR agreed to an aid undertaking that will yield direct benefits to its own economy.

Although the levels of new economic assistance extended in the last half of 1963 by Communist countries were still below earlier peak periods, such aid increased markedly over recent 6-month periods. Credits and grants extended to the less developed countries by the Communist countries during the last half of 1963 totaled about \$215 million, bringing aggregate economic aid extended for 1963 to \$315 million -- slightly less than the amount provided in 1962 and less than one-third of the peak year extensions in 1961. The Eastern European countries were virtually inactive during the period. The USSR and Communist China accounted for almost all the new assistance provided. For both of these countries, the new aid extended represented substantial increases over 6-month totals recorded in the previous year and a half. Soviet economic aid extensions totaled \$142 million, and Chinese Communist extensions totaled \$72 million. This brought aggregate extensions by Communist China in 1963 up to \$88 million -- its largest annual aid commitment (with the exception of 1961) since the inception of the Chinese Communist aid program in 1956.

Although the extension of new assistance reflected the continued willingness of the USSR and Communist China to grasp new aid opportunities, it also pointed up the competition between the USSR and Communist China in Africa. This rivalry has been apparent for several years in the political sphere but now appears to have become more intense in the economic field. The timing of credits extended to Algeria

\* See the chart, Figure 1, following p. 3.

S-E-C-R-E-T

by the USSR and the Chinese Communists, as well as the terms offered by the latter, was indicative of the competitive nature of their undertakings. Similarly, in the Somali Republic, the extension of economic assistance by the Chinese Communists was followed by military aid from the USSR.

The USSR's first development loan to Iran has political overtones, since Iran is Western-oriented and committed to a military alliance with the United States. The loan also is of economic importance to the domestic economy of the USSR. The multipurpose development of facilities along the Aras River, which forms a natural boundary between the Iranian province of Azerbaijan and the USSR, will provide both countries with power and irrigation.

The rate of drawings on Communist economic credits continued to increase. Approximately \$260 million of economic aid was expended during the second half of 1963, bringing total aid disbursements for the year to approximately \$465 million, or almost 25 percent above the level of 1962. Total cumulated drawings reached \$1.6 billion by the end of 1963, or one-third of the total of \$4.9 billion in Communist economic aid thus far extended.

New military aid agreements worth at least \$90 million were concluded during the last 6 months of 1963, bringing known extensions of military assistance during 1963 to approximately \$290 million. Nevertheless, new extensions of military assistance were still below the years of peak extensions in 1960 and 1961. Soviet military assistance to the Somali Republic and Algeria comprised over half of the total extended during the second half of 1963, with the remainder going to India. There is evidence, however, to indicate that additional agreements may have been signed with other countries.

Deliveries of Soviet military aid included MIG-21's to India, Syria, and the United Arab Republic (UAR); Komar-class guided missile patrol boats to Indonesia, Syria, and the UAR; and surface-to-air missiles (SAM's) to Indonesia and the UAR. Other items of military hardware also were delivered to Algeria to support its border conflict with Morocco and to Yemen to fulfill earlier commitments.

Technical assistance and academic training programs, the most dynamic components of the Communist countries' efforts in many of the less developed countries in recent years, continued to increase. During the 6-month period under review the number of economic technicians from Communist countries employed in the less developed areas rose to about 11,940, an increase of about 6 percent over the previous 6-month period. In spite of the adverse publicity arising out of student protests in the USSR and Eastern Europe during 1963, the number of students enrolling in the academic institutions of Communist countries continued to increase. Almost 2,400 students arrived in Communist countries during the period, 50 percent of whom came from countries in Africa.

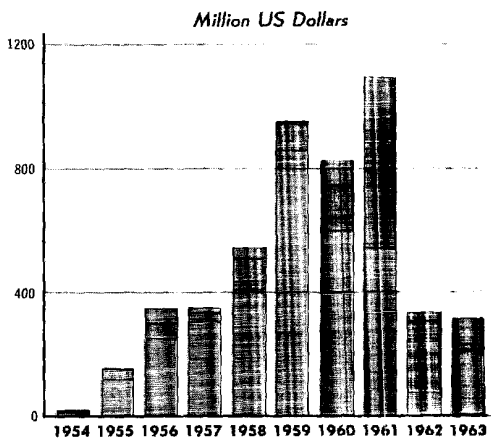
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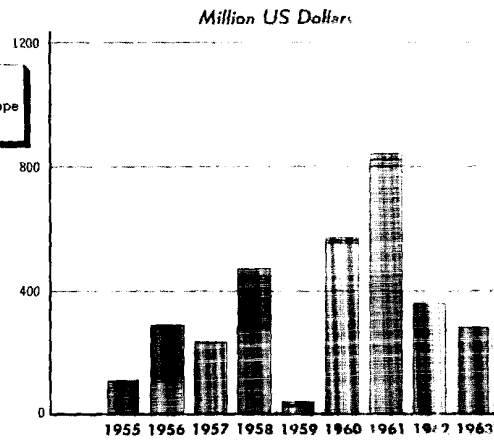
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## ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD Selected Years, 1954 - 63

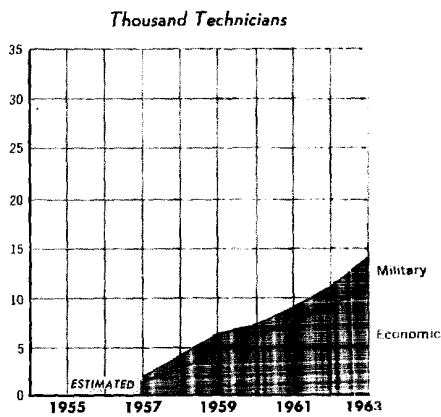
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TO LESS DEVELOPED COUNTRIES  
1954-63**



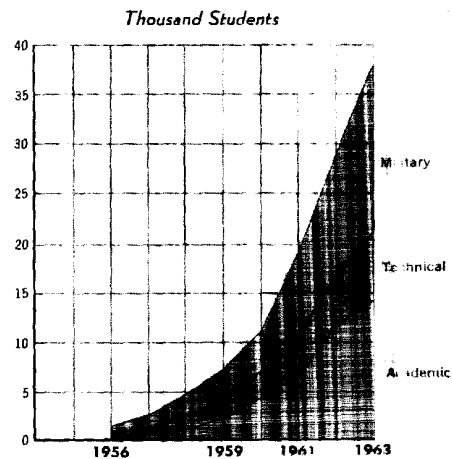
**COMMUNIST MILITARY ASSISTANCE  
TO LESS DEVELOPED COUNTRIES, 1955-63\***



**COMMUNIST ECONOMIC AND MILITARY  
TECHNICIANS IN LESS DEVELOPED COUNTRIES  
1955-63**



**STUDENTS FROM LESS DEVELOPED COUNTRIES  
TRAINED IN COMMUNIST COUNTRIES, 1956-63**



\*Since Communist military assistance for some countries cannot be distributed by year, annual figures are only estimates.

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**AID AND TRADE ACTIVITIES  
OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JULY - 31 DECEMBER**

963

**March 1964**

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**SECRET**

**AID AND TRADE ACTIVITIES  
OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JULY – 31 DECEMBER  
1963**

March 1964

**SECRET**

FOREWORD

This series provides periodic summaries and analytical interpretations of significant developments in the economic and military relations of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in biweekly reports under the same title.

This report, covering the 6 months from 1 July through 31 December 1963, constitutes the sixteenth periodic supplement to a report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed areas: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. The term does not include Yugoslavia.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba and (5) all countries in the Middle East, including Cyprus, Greece, the Syrian Arab Republic, Turkey, and the United Arab Republic.

S-E-C-R-E-T

CONTENTS

	<u>Page</u>
Summary . . . . .	1
I. Economic Assistance . . . . .	5
A. Credits and Grants . . . . .	5
B. Technical Assistance . . . . .	7
1. Economic Technicians . . . . .	7
2. Academic Students and Technical Trainees . . . . .	8
II. Bloc Military Assistance . . . . .	9
A. Credits and Grants . . . . .	9
B. Technical Assistance . . . . .	10
1. Military Technicians . . . . .	10
2. Military Trainees from Less Developed Countries . . . . .	11
III. Trade . . . . .	11
A. Value . . . . .	11
B. Direction . . . . .	11
C. Commodity Composition . . . . .	13
IV. Area Reviews . . . . .	14
A. Africa . . . . .	14
B. Asia . . . . .	17
C. Latin America . . . . .	21
D. Middle East . . . . .	22

Appendix

Statistical Appendix . . . . .	25
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AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS OF THE FREE WORLD

Summary\*

Economic activities of the Communist countries in the less developed countries of the Free World during the last half of 1963 expanded over the previous 6-month period in most sectors. Soviet and Chinese aid commitments increased and drawings on previously extended lines of credit accelerated, there was a continuing high level of activity in military assistance, and the scale of training programs and the number of Communist technicians in less developed countries continued to increase.

The assistance extended to Algeria, the Somali Republic, and Iran constituted the most significant new aid activity during the period. Both the USSR and Communist China seized opportunities for extending new assistance to Algeria and the Somali Republic. Also, by extending a development credit to Iran for a joint multipurpose project, which will provide both countries with power and irrigation, the USSR agreed to an aid undertaking that will yield direct benefits to its own economy.

Although the levels of new economic assistance extended in the last half of 1963 by Communist countries were still below earlier peak periods, such aid increased markedly over recent 6-month periods. Credits and grants extended to the less developed countries by the Communist countries during the last half of 1963 totaled about \$210 million, bringing aggregate economic aid extended for 1963 to about \$310 million -- slightly less than the amount provided in 1962 and less than one-third of the peak year extensions in 1961. The Eastern European countries were virtually inactive during the period. The USSR and Communist China accounted for almost all the new assistance provided. For both of these countries, the new aid extended represented substantial increases over 6-month totals recorded in the previous year and a half. Soviet economic aid extensions totaled \$139 million, and Chinese Communist extensions totaled \$72 million. This brought aggregate extensions by Communist China in 1963 up to \$88 million -- its largest annual aid commitment (with the exception of 1961) since the inception of the Chinese Communist aid program in 1956.

Although the extension of new assistance reflected the continued willingness of the USSR and Communist China to grasp new aid opportunities, it also pointed up the competition between the USSR and Communist China in Africa. This rivalry has been apparent for several years in the political sphere but now appears to have become more intense in the economic field. The timing of credits extended to Algeria

\* See the chart, Figure 1, following p. 3.



by the USSR and the Chinese Communists, as well as the terms offered by the latter, was indicative of the competitive nature of their undertakings. Similarly, in the Somali Republic, the extension of economic assistance by the Chinese Communists was followed by military aid from the USSR.

The USSR's first development loan to Iran has political overtones, since Iran is Western-oriented and committed to a military alliance with the United States. The loan also is of economic importance to the domestic economy of the USSR. The multipurpose development of facilities along the Aras River, which forms a natural boundary between the Iranian province of Azerbaijan and the USSR, will provide both countries with power and irrigation.

The rate of drawings on Communist economic credits continued to increase. Approximately \$260 million of economic aid was expended during the second half of 1963, bringing total aid disbursements for the year to approximately \$465 million, or almost 25 percent above the level of 1962. Total cumulated drawings reached \$1.6 billion by the end of 1963, or one-third of the total of \$4.9 billion in Communist economic aid thus far extended.

New military aid agreements concluded with Algeria, India, and the Somali Republic during the last 6 months of 1963 brought the minimum total of Communist military aid to less developed countries since 1955 to \$3.2 billion.

Deliveries of Soviet military aid included MIG-21's to India, Syria, and the United Arab Republic (UAR); Komar-class guided missile patrol boats to Syria and the UAR; and surface-to-air missiles (SAM's) to the UAR. Other items of military hardware also were delivered to Algeria to support its border conflict with Morocco.

Technical assistance and academic training programs, the most dynamic components of the Communist countries' efforts in many of the less developed countries in recent years, continued to increase. During the 6-month period under review the number of economic technicians from Communist countries employed in the less developed areas rose to about 11,940, an increase of about 6 percent over the previous 6-month period. In spite of the adverse publicity arising out of student protests in the USSR and Eastern Europe during 1963, the number of students enrolling in the academic institutions of Communist countries continued to increase. Almost 2,400 students arrived in Communist countries during the period, 50 percent of whom came from countries in Africa.

During the first half of 1963, foreign trade turnover between Communist countries and less developed countries of the Free World continued to show the moderate expansion noted in 1962. The value of this trade during the period January-June 1963 amounted to more than \$1.2 billion, or 13 percent above the corresponding period of 1962. Asia continued to be the Communist countries' most important trading area, followed in importance by the Middle East. Asia's trade with Communist countries in the first 6 months of 1963 amounted to \$494 million, whereas that of the Middle East was \$395 million. Trade with Latin America remained relatively stable at about \$140 million, while Communist trade with Africa increased about 36 percent. The year 1962 brought little variation from former patterns in the commodity composition of this trade. The Communist countries continued to represent primarily a market for crude materials and foodstuffs while supplying manufactured goods and machinery. Although the exports of Communist countries rose more than their imports during the 6-month period under review, the Communist area still emerged as a net importer, reflecting primarily the deficit position of the USSR that has been evident since 1955.

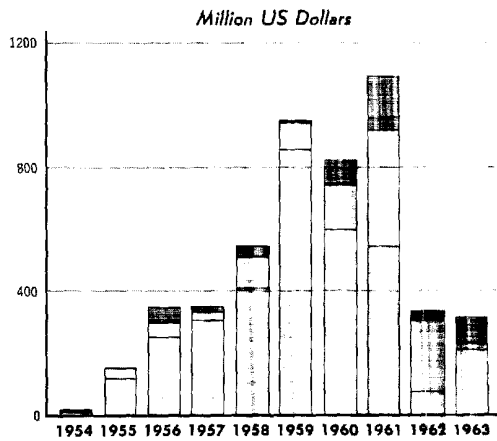
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Figure 4

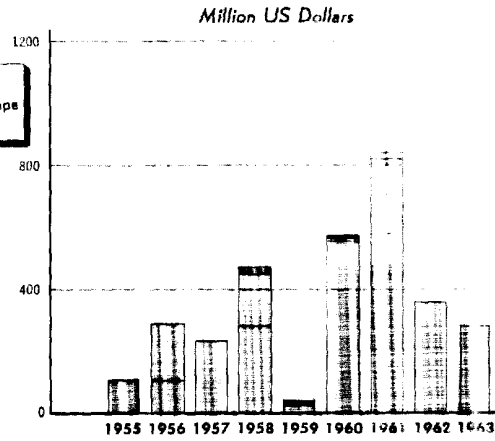
## ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD

Selected Years, 1954 - 63

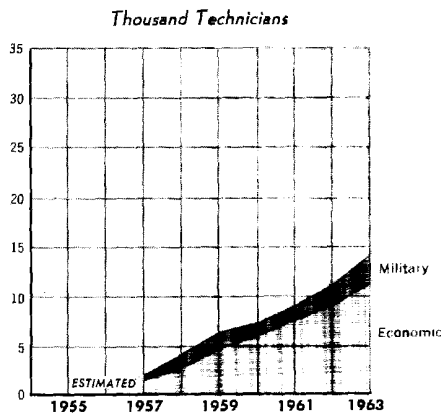
**COMMUNIST ECONOMIC ASSISTANCE  
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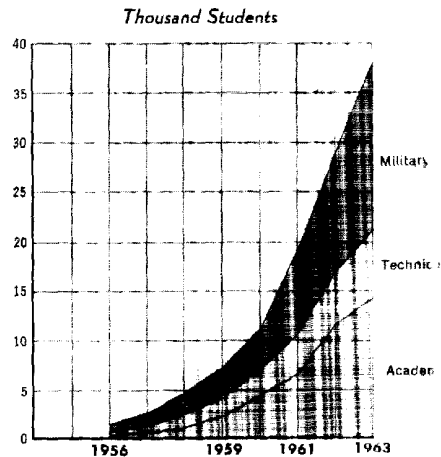
**COMMUNIST MILITARY ASSISTANCE  
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**STUDENTS FROM LESS DEVELOPED COUNTRIES  
TRAINED IN COMMUNIST COUNTRIES, 1956-63**



\*Since Communist military assistance for some countries cannot be distributed by year, annual figures are only estimates.

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I. Economic Assistance

A. Credits and Grants

Economic credits and grants extended by Communist countries to less developed areas during the second half of 1963 totaled \$210 million (see Table 1\*) and brought total extensions in 1963 to approximately \$310 million (see Figure 2\*\*). With these new extensions the cumulative total from the inception of the program in 1954 to the end of 1963 rose to \$4.9 billion. Although new commitments in the second half of 1963 were more than double those undertaken in the first half, the total for 1963 was slightly below the low level attained in 1962 and less than one-third of the commitments undertaken in the peak year of 1961.

During the second half of 1963 the USSR accounted for approximately 70 percent of total extensions by the Communist countries. This is consistent with its contribution to the total program from 1954 to 1963, during which period the USSR extended \$3.4 billion of the \$4.9 billion committed by the Communist countries. The \$139 million of new Soviet aid extended in the last 6 months of 1963 represented a significant increase above Soviet extensions of \$63 million, \$14 million, and \$65 million in the two halves of 1962 and the first half of 1963, respectively.

In spite of the relatively large increase in Soviet extensions, only two countries -- Algeria and Iran -- were recipients of such aid, the lowest number to receive new Soviet aid during any 6-month period since 1954. Algeria and Iran represented significant opportunities seized by the USSR. Apparently convinced that the Ben Bella regime was firmly entrenched and committed to a policy of substantially expanding the public sector and anticipating an aid offer by Communist China, the USSR overcame its year-long hesitancy to provide aid to Algeria and extended a credit of \$100 million for that country's development program. In Iran the USSR succeeded in expanding its political and economic relations with a country allied with the United States in an anti-Communist military alliance. Moreover, benefits will accrue to the domestic economy of the USSR through the extension of aid to Iran. In addition to an increase in new extensions, the USSR made informal representations to both India and the UAR to indicate that it would consider the extension of additional aid for their next 5-year plans, which are being formulated at present.

For the first time since the inception of the Communist aid programs, the contribution of the Eastern European countries was insignificant. East Germany extended a minor credit to a private firm in the UAR. However, several Eastern European countries also have

\* P. 6, below.

\*\* Following p. 6.

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discussed new lines of credit with India and have a number of proposals under discussion with Iran.

Table 1

Economic Aid Extended by Communist Countries  
to Less Developed Countries of the Free World a/  
July-December 1963

Area and Country	Million Current US \$			
	Total	USSR	Eastern Europe	Communist China
Total	<u>210.8</u>	<u>138.9</u>	<u>0.3</u>	<u>71.6</u>
<u>Middle East</u>	<u>39.2</u>	<u>38.9</u>	<u>0.3</u>	
Iran	38.9	38.9		
United Arab Republic	0.3		0.3	
<u>Africa</u>	<u>171.6</u>	<u>100.0</u>		<u>71.6</u>
Algeria	150.0	100.0		50.0
Somali Republic	21.6			21.6

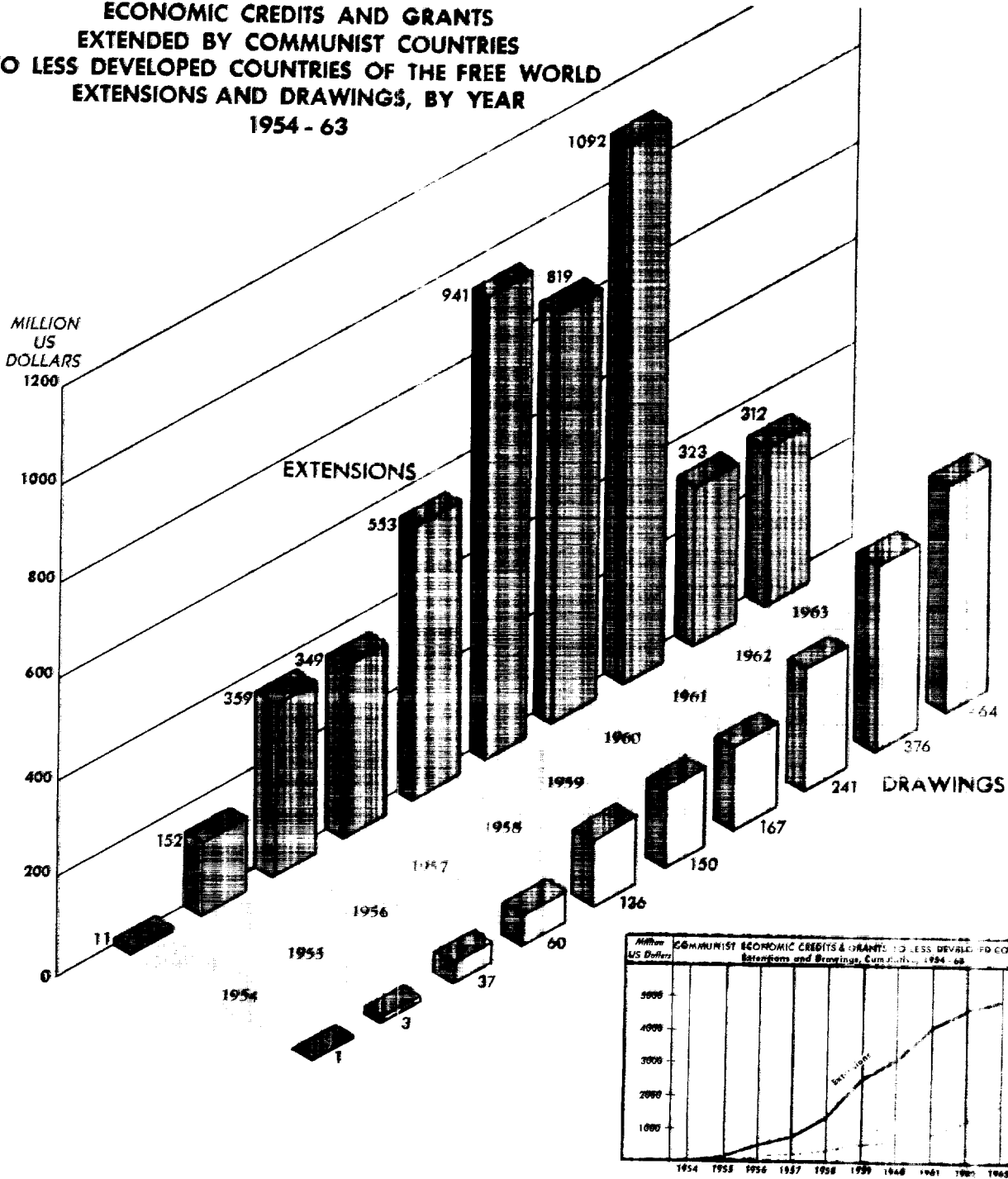
a. Credits, except for a Chinese Communist grant of \$3.0 million to the Somali Republic. (For additional details, see Tables 3 through 6, pp. 27 through 32, below.)

The Chinese Communists concentrated their new extensions of economic aid on two countries in Africa -- Algeria and the Somali Republic. These two extensions totaled \$72 million and accounted for 30 percent of aid extended by Communist countries during the period. These new commitments represented the largest amount extended by Communist China in any 6-month period since the start of the aid program, except in the first half of 1961, when Peiping extended \$114 million of economic aid. Communist China's resurgence in aid extensions tended to heighten speculation over Sino-Soviet economic competition in Africa. Peiping's credit of \$50 million to Algeria followed closely on the heels of the Soviet credit. Economic aid totaling about \$22 million to the Somali Republic was extended to a country where the USSR is heavily committed.

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**ECONOMIC CREDITS AND GRANTS  
EXTENDED BY COMMUNIST COUNTRIES  
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
EXTENSIONS AND DRAWINGS, BY YEAR  
1954 - 63**



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As in previous years, the rate of drawings on Communist credits previously extended continued to accelerate. Approximately \$260 million was expended during the period, bringing total expenditures for the year to \$465 million, an increase of almost 25 percent over the previous year. The major drawings occurred in the UAR, Afghanistan, and India, where pressure is being exerted to complete projects under the recipients' Five Year Plans. The pace of implementation also was stepped up in Ceylon, Burma, and the Somali Republic. Political instability and a lack of adequate material and human resources continued to impede the implementation of programs in most of the other countries of Africa and Asia. By the end of 1963, \$1.6 billion of the \$4.9 billion program had been expended.

B. Technical Assistance

1. Economic Technicians

The number of economic technicians from Communist countries employed in less developed areas during the last half of 1963 was about 11,940, an increase of about 6 percent above the previous 6-month period (see Table 7\*). The small increase reflects a leveling off of requirements for technicians on aid projects in countries in the Middle East and Africa and the presence of larger numbers of technicians in Indonesia, Mali, the UAR, and Yemen. The sizable increase in the UAR was a result of the quickening of the pace of activities at the Aswan Dam. In Yemen the increase was largely in nonproject activities.

Nearly 70 percent of all economic technicians provided by Communist governments were employed in six countries -- Afghanistan, Guinea, India, Iraq, the UAR, and Yemen. The largest group, about 1,700, was employed at the Aswan Dam. In Yemen, about 400 Soviet construction workers completed an airfield near San'a and departed by the end of the year. Nearly 1,200 technicians still were in Iraq during the last 6 months of 1963, although many had departed by the end of the year.

Activities under technical assistance agreements not connected with economic aid credits continued to increase and accounted for about 20 percent of the economic technicians in less developed countries. These technicians included about 830 medical personnel, more than half of them in Algeria. In addition, 1,560 were engaged in agricultural, educational, economic planning, urban development, and managerial activities.

Technical assistance activity in agriculture increased during the period as Soviet and Eastern European technicians were engaged in surveys of agricultural requirements and water utilization schemes, in water drilling, and in training native personnel to operate

\* P. 33, below.

and manage state farms. India, presumably satisfied with the Soviet-developed state farm at Suratgarh, announced plans to expand the farm with Soviet assistance.

In other activity, organizations from the Communist area were engaged in town planning and urban development activities in a number of countries, particularly Africa. Both Kenya and Tanganyika accepted assistance for the establishing of news distribution centers in those countries and the training of personnel in the USSR and Czechoslovakia.

## 2. Academic Students and Technical Trainees

The number of nationals from less developed countries enrolled in academic programs in Communist countries continued to increase in spite of indications of increased student dissatisfaction (see Table 9\*). By the end of the year, there were 12,800 students studying in Communist countries; the USSR was host to approximately two-thirds of the total. The largest single group from any one country, about 2,000, continued to be the students from Iraq, in spite of an Iraqi decree of June 1963 calling for the return of all Iraqi citizens studying in academic institutions in Communist countries. During the period, about 810 technical trainees from less developed countries arrived in Communist countries to undertake technical training programs (see Table 8\*\*).

During the last 6 months of 1963 an estimated total of 1,580 academic students departed for training at institutions in Communist countries, bringing to more than 14,500 the number who have undertaken academic programs in those countries. The number of new enrollees in academic institutions, however, falls far short of the enrollment level of the previous 3 years. The decline in the rate of increase of new enrollees may be attributable, in part, to increasing efforts by some governments to control the number and type of individuals studying abroad. New offers of scholarships reportedly have been rejected in some cases. The Sofia incident in February 1963 and the subsequent and more frequent allegations of racial discrimination also may have discouraged some governments and students from accepting scholarships to study in Communist countries. In spite of the racial problems, however, the largest increment of the increase in student enrollment, about 55 percent, again was represented by students from Africa.

Although the 12,800 students from less developed countries in all academic training programs in Communist countries is as yet rather modest compared with the 43,500 students in similar programs in the United States alone, the number is substantial in absolute terms, and the outlook for the future, in spite of periodic student incidents,

\* P. 37, below.

\*\* P. 35, below.



is one of continuing growth. The expansion of facilities at the Peoples Friendship University in Moscow is well underway, and enrollment for the 1963/64 academic year was estimated by the rector to be in excess of 2,600. A new Institute for Foreign Students in Sofia was formally dedicated in early November and apparently provides a centralized physical plant for the language and preparatory phase of the existing program in Bulgaria. It will serve, however, to isolate foreign students from their Bulgarian environment and thus, perhaps, minimize discord.

The adverse political impact of continuing student dissatisfaction also has caused concern to Communist officials, most recently in Moscow. Premier Khrushchev, in a blunt reply to the student demonstrations following the death of a Ghanaian student in late December, took a firm stand and offered exit visas to those students who did not like the treatment that they were receiving in the USSR.

About 810 technical personnel initiated technical training programs in Communist countries during the period, a slight increase over the previous reporting period, and brought to about 6,850 the number of technical personnel who have undertaken such training. The largest groups, accounting for nearly two-thirds of total trainees, were technical personnel from Algeria, Ghana, and India. A contingent of 92 Ghanaians departed for up to 4 years' training in various skills related to the fishing industry. About 55 Indians undertook training in the USSR in preparation for employment in the heavy electrical equipment plant that Czechoslovakia is building in India.

## II. Bloc Military Assistance

### A. Credits and Grants

During the second half of 1963 the USSR concluded new military aid agreements with Algeria, India, and the Somali Republic. These new agreements brought the cumulative total since 1955 to \$3.2 billion\* (see Table 2\*\*).

New extensions fell off during the past 2 years, but drawings were maintained at a relatively high level as equipment from the earlier agreements was delivered. Deliveries of military equipment to Iraq recommenced in September, after a 3-month hiatus. In October the USSR delivered MIG-21 jet fighters to Iraq. Other noteworthy deliveries in the period saw the UAR receive MIG-21 jet fighters, Komar-class guided-missile boats, and additional equipment for SAM sites

\* Not including credits for construction of military industrial installations and airfields, valued at approximately \$25 million, which are carried under economic assistance agreements.

\*\* P. 10, below.

Table 2

Military Aid Extended by Communist Countries  
to Less Developed Countries of the Free World  
September 1955 - December 1963

	Million Current US \$
Estimated minimum value	3,322
Less downpayments	123
Amount of aid	<u>3,199</u>
Discounts and grants	1,333
Credits	1,866

under construction in the UAR. In addition, the USSR initiated deliveries of SAM equipment to India and delivered medium tanks, MIG-21 jet fighters, and Komar-class guided-missile boats to Syria. One Soviet vessel delivered land armaments directly to Algeria during the brief October crisis between Algeria and Morocco, and another shipment arrived in December.

The reduction in military assistance extensions and drawings in 1963 does not mean a diminution in the program as a whole. The USSR undertook negotiations with the UAR, Syria, Iraq, Ghana, Indonesia, India, Morocco, Cambodia, and Yemen for additional assistance during the last half of the year. Another important development was the visit by Indonesian Defense Minister Nasution to the USSR, where he succeeded in obtaining additional military equipment.

B. Technical Assistance

1. Military Technicians

Approximately 2,310 military technicians from Communist countries were assigned to less developed countries during the last half of 1963, primarily to assist in the training on and maintenance of military equipment supplied by Communist countries. This was somewhat less than during the first half of the year, and most of the decline can be attributed to the halving of the Soviet contingent in Indonesia. By the end of the year the group of Soviet military technicians in Iraq was reduced to less than 100, largely the result of a reduction in the military aid program there. Other contingents in the Middle East remained at about the same levels as in the preceding period. In spite of this over-all decrease, negotiations on new aid with India, Ghana, the UAR, and the Somali Republic should produce an increase in the number of technicians in less developed countries in the months ahead.

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2. Military Trainees from Less Developed Countries

During the last 6 months of 1963, 1,780 nationals from less developed countries enrolled in military programs in the USSR, about the same number that went during the previous 6-month period. Indonesia and the Somali Republic accounted for more than 85 percent of the total. During the period, Iraq, for the first time since the aid program there began, had no military trainees in Communist countries. The USSR continued to virtually monopolize this area of military aid; no trainees were known to have been sent to Eastern Europe during the period. Of those currently being trained in military institutions in Communist countries, Indonesia, Algeria, and Afghanistan continued to have the largest contingents.

By the end of December 1963, about 16,200 military personnel from less developed countries had been trained in Communist countries, more than 80 percent of whom came from Indonesia, the UAR, Syria, and Iraq. The USSR has trained almost 85 percent of the total.

III. Trade

A. Value

During the first half of 1963, foreign trade turnover between the Communist area and the non-Communist less developed countries amounted to more than \$1.2 billion, an increase of about 13 percent above the comparable period in 1962.\* Although the exports of Communist countries rose more than imports during the 6-month period under review, the Communist area still emerged as a net importer, reflecting primarily the deficit position of the USSR that has been evident since 1955. Eastern European countries, which ordinarily attain a surplus in trade with less developed countries, also showed a deficit in the first half of 1963, although of a much smaller magnitude than that of the USSR. Detailed data on Communist exports to and imports from individual less developed countries are presented in Tables 10 and 11.\*\*

B. Direction

During the first half of 1963, Asia continued to account for the largest share of the Communist countries' trade with the less developed areas. Trade between the two areas amounted to \$494 million in the first 6 months of 1963, 18 percent above the corresponding

\* The value figures presented in this section are based primarily on trade statistics as reported by the less developed countries. Because of differences in reporting methods, these figures differ substantially from those on the same trade as reported by official Communist sources.  
 \*\* Pp. 40 and 44, respectively, below.

period of 1962. India and Malaya together accounted for more than two-thirds of the trade between the two areas. Imports from Malaya increased more than \$30 million as a result of increased purchases of rubber by the USSR, the largest single purchaser of Malayan rubber. During the first 9 months of 1963, about one-fourth of Malaya's rubber exports went to the Communist countries.

The Middle East continued to be an important trading area for the Communist countries, total trade between the two areas amounting to about \$395 million during the first half of 1963. Exports of Communist countries to the Middle East declined slightly during the first half of 1963. Exports to the UAR, the principal Middle Eastern trading partner of the Communist countries, maintained the same level (about \$70 million) achieved during the first 6 months of 1962 and accounted for about 17 percent of total UAR imports.

The imports of Communist countries from the Middle East increased about 5 percent, chiefly as the result of increased imports from the UAR that totaled \$128 million for the 6-month period and accounted for about 45 percent of total UAR exports. The UAR sold about 62 percent of its cotton to the Communist countries during the marketing season September 1962/August 1963. However, current heavy sales in the West of Egyptian cotton, the major commodity exported by the UAR, indicate that for the 1963/64 marketing season the UAR will direct no more than half of its total cotton exports to the Communist countries.

The largest percentage increase in trade between the Communist countries and the less developed countries was achieved in Africa. This trade during the first half of 1963 totaled about \$156 million, an increase of about 36 percent above the level of the corresponding period of 1962. Most of the increase was accounted for by Ghana, Morocco, and Sudan. The expanded trade with Ghana reflected Communist trade promotion activities coupled with Ghanaian efforts to direct trade to countries with which it has trade agreements.

Trade with Latin America remained relatively stable during the first half of 1963 compared with the first 6 months of 1962, amounting to about \$140 million in each period. Although the imports of Communist countries declined about 20 percent, the decline was compensated for by a significant rise in exports to Brazil, which almost doubled in the period under review. Soviet shipments accounted for the major portion of this increase. Moscow, however, was unable to supply more than half of its 1963 export quota of wheat, a major component of Soviet exports to Brazil, and subsequently reneged on its commitment to provide 600,000 tons of wheat in 1964. It thus seems clear that Soviet-Brazilian trade will not attain the highly publicized levels projected by the 5-year trade and payments agreement concluded in April 1963.

The trade between the Communist countries and the less developed areas of Europe rose to \$59 million compared with only \$37 million in the first 6 months of 1962. This increase was due almost entirely to increased Eastern European trade with Spain.

### C. Commodity Composition

The year 1962 brought little variation from former patterns in the commodity composition of the trade of Communist countries with less developed countries (see Figure 3\*). The Communist countries continued to represent primarily a market for crude materials and foodstuffs; together, these two categories of goods accounted for approximately 90 percent of total Communist purchases in less developed countries in 1962 (crude materials, 60 percent; foodstuffs, 30 percent). Rubber and cotton together accounted for more than 40 percent of total imports of crude materials from the less developed areas.

Imports by the Communist countries of natural rubber, the major portion of which came from Malaya, amounted to about 544,000 metric tons in 1962, about 6 percent less than the volume imported in the peak year of 1961. The USSR continued to be the major Communist purchaser of rubber, having imported more than 360,000 tons for the second consecutive year. Imports of cotton continued to be supplied primarily by the UAR, which accounted for almost 60 percent of cotton imports of the Communist countries from the less developed countries in 1962.

The share of foodstuffs in total purchases of Communist countries from the less developed countries increased from 21 percent in 1961 to 30 percent in 1962. Soviet imports of food products were 50 percent above those of 1961, largely because of purchases of rice from Burma and the UAR and increased imports of cocoa beans from Ghana and Brazil. Manufactured goods continued to account for only 6 percent of the imports of Communist countries; more than two-thirds consisted of cotton yarn from the UAR, jute manufactures from India, and copper from the Federation of Rhodesia and Nyasaland.

Exports of the Communist countries to the less developed countries in 1962 continued to be dominated by manufactured goods and machinery and equipment which together accounted for more than half of such exports. Soviet exports of machinery again consisted primarily of equipment for complete plants, motor vehicles, and air transport equipment that together accounted for more than 80 percent of total Soviet deliveries of machinery. The Eastern European countries continued to deliver primarily transportation equipment, electrical machinery, and metalworking machinery. Exports of manufactured goods continued to consist largely of textile fabrics, yarns and threads, and iron and steel.

\* Following p. 14.

#### IV. Area Reviews

##### A. Africa

The African continent was the chief target of new Communist economic aid activities during the last half of 1963, with new aid extensions shifting to Algeria and East Africa. The largest share of the new economic assistance and more than half of the military aid extended by the Communist countries was committed to Africa. The lime-light was largely on Algeria, which received its first important commitments, and the Somali Republic, whose irredentist policies toward neighboring Ethiopia and Kenya and its break with the UK presented Moscow and Peiping with new opportunities.

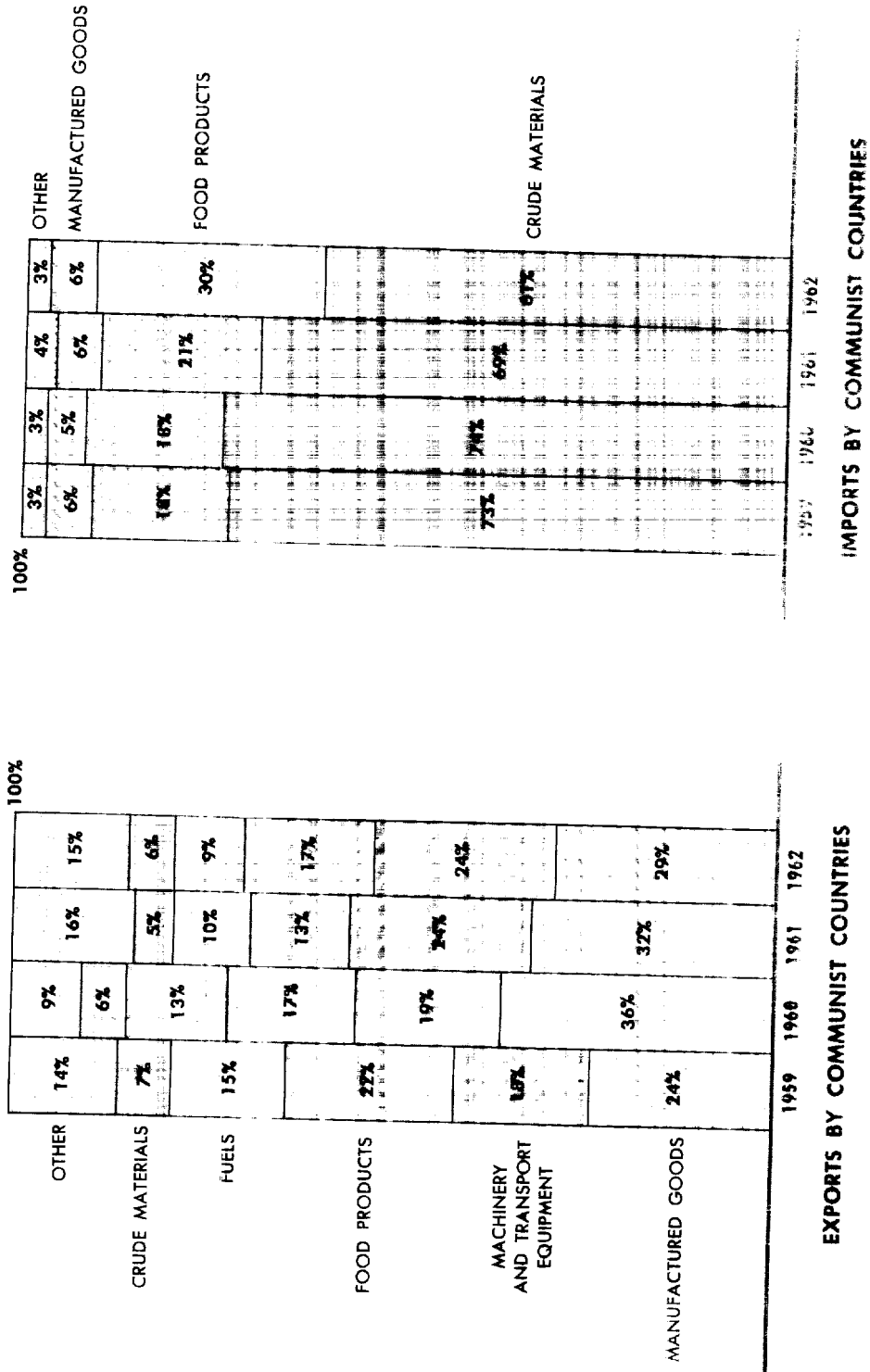
The growing competition between the USSR and Communist China -- an important element in Africa -- was particularly noticeable in the coincidence of new aid extended by both Moscow and Peiping to Algeria and the Somali Republic. The competition seemed to have entered a new phase in mid-December with the arrival of Chinese Communist Premier Chou En-lai and Foreign Minister Ch'en Yi for an extended tour that was scheduled to take them to at least 10 African, as well as several non-African, countries. Chou appeared to be seeking to counter Moscow's influence in Africa by playing on psychological and ideological themes in order to create closer ties between Africa and Communist China. On the eve of Chou's departure from Communist China, Peiping provided a further illustration of its intention to undercut Moscow in Africa by issuing a sharp criticism of Soviet opposition to the expansion of UN organs to accommodate more African representatives. The USSR has for years argued that such an expansion must be linked with the seating of Communist China, but Peiping denied that it favored this tactic and charged that Moscow was using the seating issue as an excuse to hold down African representation.

The USSR agreed to provide Algeria with economic assistance in October 1963 and extended a credit of \$100 million for the Algerian economic development program. The credit represents the largest Soviet extension to any less developed country since 1961. The Chinese Communists quickly followed with a \$50 million credit. Although the credit was of smaller magnitude, its terms are more favorable: no interest and repayment over a 20-year period beginning in 1970. The interest on the Soviet credit was established at 2.5 percent, and principal repayments were extended over a 12-year period.

During the period the USSR, for the first time, delivered arms directly to Algeria. Since the outbreak of the Algerian-Moroccan border crisis in October, at least two Soviet vessels made arms deliveries, including about 35 medium tanks and mobile communications equipment. In addition, about 400 Algerians were receiving military training in the USSR, and additional military shipments, including air force and naval equipment, are expected.

Figure 3

**TRADE OF COMMUNIST COUNTRIES WITH LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
BY COMMODITY GROUP, 1959-62\***



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The Somali Republic's Prime Minister Abdirascid signed the first economic and technical assistance agreement between the Somali Republic and Communist China during a visit to Peiping in August 1963. The assistance to be received includes an interest-free credit of about \$19 million and a \$3 million grant for budgetary support. The budgetary grant will approximately cover the deficit created by the loss of British budgetary aid. The Chinese reportedly also offered military assistance.

The Somali Republic concluded a major military agreement with the USSR valued at about \$35 million. The agreement concluded in October is believed to include aircraft, armor, medium artillery, anti-aircraft weapons, and patrol craft. In addition, 335 Somali military trainees went to the USSR during the last half of 1963.

Kenya concluded an agreement with the USSR and Czechoslovakia for aid in establishing a state news agency shortly before Kenyan independence in December 1963. Teleprinters and other equipment valued at \$140,000 are to be provided. The USSR is to train 40 Kenyan journalists and 50 teletype operators, and Czechoslovakia promised financial aid and scholarships for teleprinting trainees. Soviet and Czechoslovak news agencies are expected to provide Kenya with news media advisers. Leaders from the Nyanza region in late 1963 decided to seek Hungarian assistance on a hydroelectric scheme and Czechoslovak aid in irrigating sugar plantations and managing a sugar cooperative.

In Ethiopia a Soviet survey team undertook feasibility and site surveys for meat-processing plants, tanneries, a shoe factory, a fruit and vegetable cannery, and an edible oil processing plant. Construction of the Soviet-financed petroleum refinery at Assab reportedly was about to start, following renegotiation of an earlier agreement. A Soviet-financed technical school at Baherdar-Giyorgis opened during the period, and work progressed on a Czechoslovak shoe factory near Addis Ababa.

Tanganyika, which already has trade agreements with several Communist countries, signed its first with the USSR in August. Tanganyika will exchange traditional agricultural produce for agricultural and roadbuilding machinery. The Tanganyikan Minister for Commerce and Industry, George Kahama, visited the USSR, Czechoslovakia, and Poland to seek economic and technical assistance and to discuss trade matters. Under an agreement of December 1963, Poland and Tanganyika will jointly construct, operate, and own a sugar factory and plantation in Tanganyika. A Polish organization will retain 40 percent of the ownership of the enterprise for 12 years. The Poles also discussed entrance into the Tanganyikan fishing and fish-canning, glass, and small agricultural tools industries. Czechoslovakia is to help Tanganyika establish a news agency.

The trade of Sudan with Communist countries increased substantially during 1963, largely as a result of increased imports of Sudanese



cotton, primarily by the USSR, Communist China, and Rumania. As of November 1963, Communist purchases of Sudanese cotton were more than double those of the previous year and accounted for about one-third of total Sudanese exports of cotton. In December 1963 the Sudanese press reported that the USSR had replaced the UK as the largest single buyer of Sudanese cotton.

In Libya, Bulgaria has undertaken the first project to be built by a Communist country -- construction of part of a large sewerage system in Tripoli. Progress on the implementation of Soviet and Eastern European credits to Tunisia continued to be slow. A civil air agreement, signed in October, provides for a weekly Bulgarian flight on the route Sofia-Rome-Tunis-Algiers. An inaugural flight took place on 31 October.

Mali signed an agreement with North Korea in June, under which the latter agreed to undertake the rebuilding of a rice mill and the construction of a porcelain factory. Work on the latter project reportedly began early in September. No new credits were announced during the period, and the Communist countries gave no indication that they will provide budgetary support to meet the crisis caused by the loss of French hard currency support and the creation of the Malian franc. Soviet geologists continued their explorations and, according to one report, discovered promising evidence of gold near the Guinean border. The delivery of basic construction materials permitted work to begin on the sports stadium project.

Guinea reportedly received a second commitment of foreign exchange from Communist China amounting to \$4.2 million, which is believed to constitute a further obligation of the September 1960 credit. Progress was made on the cigarette factory that was being constructed with Chinese assistance; it was expected to be put into operation in 1964. Guinean news media and officials increasingly acknowledged Chinese Communist assistance (as well as Free World aid) but continued to ignore or to criticize obliquely Soviet assistance. Major Soviet construction projects in Conakry were stalled for 7 months for a lack of local workers, but after protracted discussions an agreement was reached, and work was resumed in September. Guinea continued to be reluctant to permit its Soviet-built airport facilities to be used by Aeroflot for onward flights to Cuba and presented increasingly disingenuous excuses: in December, Aeroflot was informed that landing rights still could not be granted until the USSR agreed to guarantee the runway for 30 years. In September, Poland and Guinea dissolved their partnership in the joint Guinean-Polish fishing enterprise, although a number of Polish advisers have been retained, and some of the Polish boats were not returned.

Ghana and the Communist countries continued to seek to surmount the various obstacles to implementation of credits. The lack of financing for local costs remained a prime deterrent. Poland agreed to obligate \$4.4 million from its April 1961 credit to cover local costs of a

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civil engineering works at its sugar refinery near Akuse. An agreement signed between the USSR and Ghana in July whereby the USSR would provide goods, under the November 1961 credit, to generate local currency for its projects ran into various difficulties, but it appeared likely that in time the difficulties could be ironed out. Another approach to the problem was illustrated by agreements that the Ghanaian Government signed with a French firm to finance certain local construction costs of some Czechoslovak and Hungarian projects. The USSR, under considerable pressure from Ghana, accepted the return of four Il-18 transports and one An-12 transport purchased for Ghana Airways under a 1960 Soviet credit.

Ghana's complaints about its trade and payments arrangements with Communist countries, which have in the past resulted in Ghana being a substantial creditor on trade accounts, reportedly resulted in an agreement "in principle" with all Communist trading partners for a periodic balancing of trade accounts, with settlement to be in convertible currency. Only one agreement -- with Bulgaria -- was signed, however, and it merely provided that a favorable balance could be used to repay developmental credits extended by Bulgaria.

Poland offered Nigeria a \$42 million credit in June, but nothing more has been heard about the status of the offer. Nevertheless, two Poles have conducted feasibility studies on the erection of factories in northern Nigeria.

#### B. Asia

In spite of a political climate that seemed in many Asian countries to offer increased opportunities, the Communist countries undertook few new activities in the aid field during the last half of 1963. The presence of the Communist countries generally was maintained in the area, largely through the continued implementation of previous grants and credits. Several new projects were initiated or agreed upon under existing extensions, but new credits were at a low level. Significant developments included (1) Cambodia's renunciation of US aid, with a possibility of greater dependence on Communist China; (2) new trade agreements between India and several Communist countries calling for expanded and diversified trade; (3) Pakistan's movement toward a limited increase in economic relations with the Communist countries; and (4) Indonesia's search for material support for its confrontation with Malaysia, with little result.

In Indonesia, Sukarno turned his attention in the latter half of 1963 to the confrontation with Malaysia and at the same time seemed to shift his weight back to the foot that he keeps in the Communist camp. The severance of trade and communications between Indonesia and Malaysia in September dealt a heavy blow to the Indonesian economy and dimmed the possibility of carrying out the economic stabilization program.

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The USSR, along with Czechoslovakia, Bulgaria, and Rumania, has shown interest in production-sharing arrangements. A production-sharing agreement was signed with Bulgaria in August that extended credits of \$500,000 for the construction of a citronella plant. It is assumed that this constitutes an obligation of the May 1961 line of credit that hitherto has not been utilized.

Cambodia, while maintaining officially its longstanding policy of nonalignment during the last half of 1963, showed an increased inclination to support Communist China on international issues. Cambodia showed sympathy for the Chinese stand in the Sino-Soviet dispute (although without attacking the USSR). The USSR delivered military aid to Cambodia in November, and Sihanouk announced in mid-December that he had accepted an "important gift" of military equipment from Communist China. A contract with the USSR under a previous credit for the construction of the Kamchay Dam was signed during the period.

In November, Prince Sihanouk demanded that US aid to Cambodia be terminated. It appears that France will partly fill the resulting gap, and conditions are favorable for an increase in Chinese Communist influence in Cambodia. French influence will continue because of important French contributions to military and administrative training and French interests in business and finance. The proposed nationalization in 1964 of foreign trade and banking, however, could, if implemented, serve to diminish French commercial influence.

The most significant Communist involvement in Burma during the reporting period was political in nature, with the Chinese backing the attempt of their Communist (White Flag) protégés to achieve a legalization of their position. The failure of the negotiations between the government and the Communist insurgents, their return to their bases in the jungle, and the subsequent arrest of the leadership of the White Flag Communists precluded for a time the possibility of an accommodation between the government of Burma and the Burmese Communists.

Although no new credits were reported during the period, modest implementation of the Chinese Communist credit of \$84 million continued. Surveys of all projects under the credit reportedly had been completed by August. Construction of a bridge across the Salween River at Kunlong in the Northern Shan States is scheduled to begin in March 1964, the first of numerous projects under the Chinese loan actually to reach the construction stage. Most of the equipment under the \$2.6 million Soviet credit for agricultural machinery had arrived by the end of 1963, and progress continued on the construction of the Soviet-assisted dam at Kyetmouktaung.

In the last 6 months of 1963 the USSR and Eastern Europe assured India of their continued and enhanced participation in future Indian economic affairs. These assurances were in the form of several new credit offers for the Third and Fourth Plans -- one from Czechoslovakia for \$50 million and one from Hungary for \$25 million -- and

new trade agreements with the USSR, Czechoslovakia, and Hungary that call for greatly expanded and diversified trade over the next 3 years.

In the trade sphere, efforts were made to expand the volume and variety of goods traded between India and the Communist countries. Recently concluded long-term trade agreements with the USSR, Czechoslovakia, and Hungary provided for increased exchanges, including exports of goods not traditionally exported by India.

Recent political developments in Nepal have not been favorable to the interests of the Communist countries. King Mahendra's domestic political base broadened while the opposition to his regime remained in disarray. Relations between Nepal and India also improved.

Although the political developments in Nepal may have affected the position of the Communist countries in Nepal, it did not affect their aid activities. Communist China continued with construction of the Katmandu-Kodari (Tibet) road, but the proposed cement factory at Hitaura and the paper mill at Nepalgunj have been abandoned. The Chinese aid funds thus released may be channeled to other projects, such as hydroelectric and irrigation facilities and roadbuilding in the Terai.\* The three Soviet-financed projects -- the hydroelectric plant, sugar mill, and cigarette factory -- now under construction are proceeding satisfactorily. Inasmuch as these projects probably will be completed by the end of 1965, the USSR agreed to investigate the possibilities for further economic aid to Nepal, including the construction of a 65-mile road from Janakpur to Simra and the establishment of an agricultural implements factory. There was, however, no announced expansion in the current Soviet aid program.

In Ceylon, construction progressed on the Soviet-assisted iron and steel works and the tire and tube factory -- started earlier in the year -- and work was begun on the cold storage plant at Kandy. The proposed flour mill and grain elevator complex was brought a step closer toward implementation with the signing of an agreement that set forth the Soviet contribution to the project. The USSR was to cover foreign exchange costs, estimated at about \$1.4 million. Communist China meanwhile agreed to supply Ceylon with 30,000 tons of rice during the last quarter of 1963, the costs to be charged against the unused portion of the 1958 flood relief credit. Peiping also offered to set up a fountain pen factory and to equip a second textile mill, presumably as part of its \$26.3 million grant program. The Chinese under the same program completed delivery of \$5 million worth of railroad rolling stock.

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\* Agreement reportedly was reached in January 1964 for the construction of a hydroelectric plant on the Baghamati River, brick-tile and pottery factories in the Katmandu Valley, the Morang-Janakpur section of the East-West Highway, five warehouses, and a tannery and shoe factory at Butwal.

S-E-C-R-E-T

Ceylonese trade relations with Communist countries were highlighted by the renewal in October of the 5-year rubber-for-rice pact with Communist China. The new agreement calls for the exchange of 200,000 tons of rice and 35,000 tons of rubber at an estimated value of \$21 million each way. Ceylon also reached agreement with the USSR for the purchase of the Ceylon Petroleum Corporation's petroleum requirements for 1964.

Pakistan continued to implement a policy of expanding its relations with Communist China. The two countries signed an air agreement and a \$1.7 million barter agreement. An official visit by Premier Chou En-lai in February 1964 was announced. Pakistan appeared to be going ahead with plans to open the civil air service to China early in 1964 in spite of the fact that Pakistan International Airlines has been denied Japanese permission to fly on to Tokyo.

Pakistan and the USSR signed a civil air agreement on 7 October, giving the USSR rights to Karachi and beyond, while Pakistan got rights to Moscow and beyond. Reports of Soviet and Eastern European aid offers were numerous, but aid remained limited to the Soviet petroleum exploration program. Some increase in Communist assistance, probably related to heavy industrial development, may be forthcoming to coincide with the initiation of Pakistan's Third Five Year Plan in 1965. Thus it is probable that Pakistan's limited economic ties with the Communist countries will slowly expand, not so much as a move to weaken a basic pro-Western attitude as to show displeasure with Western military assistance to India.

In Afghanistan, former Prime Minister Daud's departure from the government gave the Afghans somewhat more flexibility in the international political arena. The USSR continued to maintain its preponderant position, however, in the military and economic assistance fields in spite of Afghanistan's desire to moderate Soviet influence. The visit of Soviet President Brezhnev to Kabul in October was successful but produced no startling results. He brought a Soviet promise to exploit the newly discovered gas reserves north of the Hindu Kush and indicated Soviet willingness to construct a pipeline into Soviet Central Asia. The USSR would then import about 1.5 billion of the 2 billion cubic meters of gas that are expected to be extracted annually for the initial period of exploitation.

Afghanistan's almost exclusive dependence on the USSR for military equipment and training continued during the period. Emphasis was on the accelerated familiarization training of Afghan personnel both in the USSR and in Afghanistan under the military assistance program. Commercial agreements with the USSR appear to cover the replacement and supply needs of Afghanistan, and there was no indication that new agreements are in prospect.

- 20 -

S-E-C-R-E-T

C. Latin America

The economic involvement of Latin America with the Communist countries was relatively unchanged during the latter half of 1963. Domestic political developments and changes in government were not along lines that would materially increase the area's receptivity to Communist trade and aid offers. Brazil remains the country most interested in developing East-West trade, but Soviet inability to meet wheat export obligations will depress Soviet-Brazilian trade, at least through 1964. A number of other Latin American countries have indicated a somewhat heightened interest in developing their exports to Communist countries. This interest is based on commercial, rather than political, considerations.

Communist China stepped up its commercial activities in Latin America, particularly in Argentina. Meat and grain contracts that Communist China has been negotiating with Argentine interests since mid-1963 total approximately \$100 million. Mexico sold wheat and cotton to Peiping, and Chile reportedly was negotiating a \$6 million copper sale. Communist China held a trade exhibition in Mexico.

In Brazil, Poland renewed its offer (dormant since November 1962) to finance construction of a \$26 million thermal electric powerplant in southern Brazil. Czechoslovakia offered to undertake modernization of the port of Recife and urged that Brazil utilize a longstanding credit of \$60 million for powerplant construction. None of these offers had been accepted by the end of 1963. In December, four Soviet engineers, at the invitation of Brazilian officials, arrived in Brazil to survey the feasibility of constructing a giant hydroelectric power complex at Sete Quedas in the state of Parana.

Brazil continued its efforts to expand iron ore exports to Eastern Europe. A Brazilian trade mission visited Rumania in August 1963 to discuss an exchange of iron ore for petroleum products. Brazil's largest iron ore producer plans to increase its exports from 1.5 million to 4 million tons annually, with much of the increase earmarked for Eastern Europe, particularly Bulgaria and Rumania.

The USSR offered Uruguay assistance in a project that would expand Uruguay's thermal electric power capacity significantly. Although the offer yielded some propaganda benefits to the USSR, there was no indication that the Uruguayan Government was seriously considering the offer. During the period, Czechoslovakia offered to purchase \$12 million worth of Uruguayan meat in exchange for cash.

The protracted negotiations between Czechoslovakia and Bolivia for construction of an antimony smelter continued without final agreement. Although Bolivian counterproposals made during the first half of 1963 apparently were accepted in principle by Czechoslovak negotiators, final approval still had not been obtained from Prague.

Commercial activities continued in a number of other Latin American countries. The USSR continued negotiating with Chile for an additional \$6 million worth of copper. Poland actively pursued trade with Mexico, Honduras, Chile, Argentina, and Haiti. Czechoslovakia participated in a trade fair in Lima and succeeded in selling 200 buses in Peru.

#### D. Middle East

In the Middle East, Communist activity was highlighted by the first major Soviet aid agreement with Iran, additional deliveries of military equipment, an over-all decline of aid activities in Iraq, and continued implementation of economic aid projects in Syria and the UAR.

After more than a year of gradually improving relations, the USSR and Iran signed an economic aid agreement in July 1963 providing for joint construction of a multipurpose project on the Aras border river, 11 grain silos in Iran, and fish hatcheries on the Caspian Sea. In connection with the river project the USSR extended a credit of \$38.9 million to Iran to cover the latter's share of the cost of the project. The credit is to be repaid in Iranian commodities over a period of 12 years at 3.6 percent interest. It was reported that the dams to be constructed, combined with irrigation canals, will allow an area of almost 99,000 acres (half on each side of the frontier) to be brought under cultivation. In addition, power to be generated by three power stations will supply the requirements of agriculture and industry in northern Iran and Azerbaydzhan SSR.

During the period, several of the Eastern European countries also offered long-term credits to Iran for a variety of economic development projects. Probably the most significant of these offers was a \$20 million offer by Czechoslovakia to expand Iran's sugar industry. Poland and Hungary offered credits of \$15 million and \$10 million, respectively, for other industrial projects. None of these offers is known to have resulted in agreements.

The second half of 1963 witnessed a continuation of reduced Communist economic aid activity in Iraq. This curtailment of these economic efforts in Iraq, which began with the Ba'ath coup of 8 February 1963, apparently was continued by the military junta that seized power on 18 November 1963. By the end of the year a project-by-project review of the entire Communist economic assistance program in Iraq was still in process. Iraqi authorities called in Western experts to provide an assessment of the projects of Communist countries. The experts' advice confirmed the Iraqi regime's view that many of the projects were poorly designed and constructed.

By the end of the period, eight projects had been canceled, and efforts had been made to obtain implementation by non-Communist countries through international tender. Among these are the Baghdad steel

mill and the agricultural machinery plant. Eight additional projects remained under study, and 27 had been completed or were expected to be completed. Because of the cancellation of some projects and the delay in others pending decisions, the number of economic technicians from Communist countries present in Iraq, about 1,200, declined and by the end of the period was slightly more than 600.

The pace of implementation of construction activities in the UAR continued at a relatively high level. The most important single Soviet aid project, the Aswan Dam, moved rapidly toward completion of the first stage in May 1964. The USSR had 1,700 technicians working on the project and plans to maintain that level until completion of the first stage. Expansion of the oil refinery at Suez was completed, and other petroleum projects met no unusual delays. Plans were finalized for Hungary to furnish equipment for a Soviet-financed calcium carbide and ferrosilicon plant at Aswan, on which construction will commence in early 1964.

In Yemen the USSR continued its aid activities and completed the Al Rahiba International Airport and a road connecting the airfield to the nearby town of San'a. Formal airport dedication ceremonies of 27 September 1963 were accompanied by voluminous and fulsome propaganda. This project was the largest single one undertaken by the USSR in Yemen and reportedly brought Soviet prestige in that country to an all-time high. Considerable Soviet military and economic aid, however, has been provided to Yemen since the USSR decided to support the new regime. The value of such assistance, however, is still unknown.

In Syria, Soviet policy was much the same as it has been since the breakup of the UAR in September 1961. In spite of frequent and violent changes in Syrian regimes, the USSR continued to implement its economic and military aid programs in that country without any significant policy changes toward Syria. Projects under construction apparently proceeded without incident. The only reported difficulty concerned a disagreement over the type of fertilizer factory to be built in Homs by the USSR. The USSR continued to deliver military equipment to Syria.



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STATISTICAL APPENDIX

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