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BIWEEKLY REPORT

**SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS**

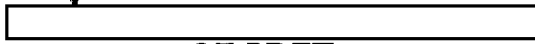
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30 March 1959

PREPARED BY THE WORKING GROUP
ON SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

ECONOMIC INTELLIGENCE COMMITTEE

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These biweekly reports on "Sino-Soviet Bloc Economic Activities in Underdeveloped Areas" are prepared and issued by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the International Cooperation Administration; the Office of the Secretary of Defense; and the Central Intelligence Agency. Their purpose is to provide up-to-date factual information on significant developments in the economic relations of Sino-Soviet Bloc countries with underdeveloped countries of the Free World. The EIC-R-14 series of reports, under the same title, provide periodic summaries and analytical interpretations of these developments.

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Summary of Events
13 - 26 March 1959

The USSR reportedly has granted Afghanistan lower transit rates and improved transit time on shipments through Soviet territory. This action, in the form of a protocol to the Afghan-Soviet general transit agreement, is an effort by Moscow to offset the effects of the US-financed Afghan-Pakistani transit agreement of June 1958, under which Pakistan promised improved port facilities in Karachi and the expeditious movement of Afghan goods through Pakistan.

Ceylon and the USSR signed a contract on 10 March under which the USSR agreed to draw designs and provide technical assistance for the construction of a tire plant in Ceylon. The plant, which is scheduled to produce approximately 360,000 tires a year, is scheduled to be completed in 1962.

Construction of the technological institute and hotel in Rangoon and the hospital in Taunggyi, being built as Soviet aid projects, is progressing ahead of schedule. All three projects, costing a total of \$21 million, are expected to be completed by June 1960, from 6 months to a year ahead of the original target dates.

Communist China recently became a direct supplier of military equipment to Indonesia. About 8 Il-10's (trainers) and perhaps 10 Tu-2's (twin-engine light bombers) are believed to have arrived in Indonesia from Communist China.

[redacted]
[redacted] the USSR has agreed to lend Indonesia \$5 million for use in education but has insisted that all the money be allocated for projects at Amboina, the capital of the Molucca Islands. The Ministry of Education had originally planned projects at Makasar (South Celebes) and Medan (North Sumatra) as well as Amboina. To date, Indonesia has not accepted the offer.

A \$137.5 million Soviet credit was extended to Iraq under an economic and technical cooperation agreement concluded on 16 March in Moscow. The credit will carry 2.5-percent interest and will be

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repayable in 12 annual installments. Four general conclusions may be drawn from a preliminary analysis of the agreement, as follows: (1) the scope of the 17 enumerated projects reveals that the role of the USSR in Iraq's economy will be even more significant than the amount of credit involved would indicate; (2) in itself, this Soviet economic assistance would hardly give the USSR a preponderant influence over the Iraqi economy; (3) the present Iraqi regime plans to give considerably more emphasis than its predecessor to industrial development; and (4) political considerations and prestige as well as economic motives were doubtless determinants in the choice of projects.

In addition to stepped-up Soviet political pressures against Iran because of its breakoff of negotiations for a Soviet-Iranian nonaggression pact and its subsequent signing of a bilateral defense agreement with the US, the USSR may also apply economic pressures, including one or more of the following: (1) termination of trade with Iran; (2) pressure on other Bloc countries to cease their trade with Iran; (3) termination of Iranian transit through the USSR; and (4) refusal to implement Soviet-Iranian agreements for the exploitation of the Aras, Rud-e Atrak, and Harirud Rivers through the construction of hydroelectric and irrigation projects. The impact of such measures on the Iranian economy probably would cause some local economic dislocation but would not be decisive.

Poland signed a contract with a private Iranian firm in January 1959 for a sugar beet plant to be constructed at Baghan in northeastern Iran. The total value of the contract is \$4.7 million, including machinery and equipment valued at \$3.6 million and transportation and insurance costs as well as the costs of plans and the costs of assembling equipment by Polish technicians.

On 16 March the USSR and Sudan signed a barter trade agreement, the first to be concluded between these two countries. Detailed terms are not yet available, but the agreement reportedly provides for the exchange of goods worth \$7.2 million over a 1-year period.

The Yugoslav - Chinese Communist trade agreement for 1959, signed in Peiping on 18 March, calls for an exchange of goods totaling

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\$7 million, a figure 60 percent lower than that set in the 1958 agreement. Yugoslavia is to export sheet aluminum, steel pipe, cables, and chemicals and will import soybeans, minerals, oils, and silk.

Certain actions by Sino-Soviet Bloc countries since 1956 have given rise to assertions by Free World suppliers that the Bloc is practicing dumping and that Bloc price-cutting is directed toward undermining the economic stability of the Free World. Such fears, however, appear to be without foundation. Recent Bloc price competition sometimes has adversely affected Free World economies, particularly those of primary producing countries. Such price competition, however, appears to reflect the Bloc's need to obtain foreign exchange rather than a deliberate attempt to sabotage the structure of world commodity markets.

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