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SINO-SOVIET FOREIGN ECONOMIC POLICIES AND THEIR PROBABLE EFFECTS IN UNDERDEVELOPED AREAS

Submitted by the

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SINO-SOVIET FOREIGN ECONOMIC POLICIES AND THEIR PROBABLE EFFECTS IN UNDERDEVELOPED AREAS

THE PROBLEM

To estimate the objectives of Sino-Soviet foreign economic policies toward underdeveloped areas and their probable effects.

CONCLUSIONS

1. During the past two years the Sino-Soviet Bloc's effort to promote economic relations with underdeveloped countries has grown dramatically. We believe that Bloc trade, credit, and technical assistance programs are intended to increase Bloc prestige and influence, diminish the influence of the West, and undermine the structure of Western alliances, without materially increasing the risk of general war. (*Paras. 8-16*)

2. Although the Bloc still has a relatively small share of the total trade of most underdeveloped countries, its trade with them has risen sharply during the past two years. As present programs gather momentum, this trade is likely to expand further, especially since it offers prospects of economic advantage to the Bloc. (*Paras. 21, 44*)

3. Bloc credit and technical assistance programs have also expanded substantially during the last year, though they remain concentrated in relatively few

countries. Although Bloc capabilities for expanding these programs are substantial, competing internal demands, coupled with relatively limited opportunities to achieve important political benefits from new programs, suggest that the volume of new credits from the Bloc in the next year or two will probably expand at a slower rate than in 1956. (*Paras. 17, 25, 45*)

4. We believe that few additional states are likely to enter into major credit or technical assistance arrangements with the Bloc in the near future. However, the Bloc will continue to be alert to situations offering a promise of political gain in return for economic assistance and expanded trade. Western economic policies or conditions adversely affecting particular underdeveloped countries would almost certainly enhance Bloc opportunities. (*Paras. 46, 55*)

5. In the Middle East and Asian countries which are already the recipients of major

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Bloc economic programs, Bloc prestige and opportunities for exercising influence will probably be maintained and may continue to grow. However, economic ties with the Bloc are not by themselves likely to subject any country to political domination except possibly in small countries on the borders of the Bloc which fail to preserve similar ties with the West. (*Para. 48*)

6. In the longer run, Bloc economic activities will provide opportunities for the propagation of Communist ideas and doctrine in politically unstable states. The Bloc is achieving a greater presence in countries which will be under increasingly severe internal strains as they seek to

develop and modernize their economies. (*Para. 49*)

7. The availability to underdeveloped countries of Bloc assistance has reduced the influence that the West can exercise through foreign aid. Acceptance of Bloc trade and aid enables many of these states to achieve some degree of balance in their relations with the two great power groups — a status which they welcome. The availability of Bloc assistance will not only tend to raise the price to the West of exercising influence through aid in uncommitted states, — it may also make such aid a more necessary and a more expensive condition of maintaining Western positions with allied states. (*Para. 54*)

DISCUSSION

I. OBJECTIVES OF BLOC FOREIGN ECONOMIC POLICIES

8. Recent Sino-Soviet policies in the economically underdeveloped areas of the free world have had the objective not only of increasing Bloc prestige and influence but also of encouraging neutralist policies and lessening Western influence in those areas, including the undermining of the structure of Western alliances and bases. To these ends, Bloc leaders seek to identify themselves with the strong forces of nationalism and the strivings of most underdeveloped countries for economic betterment, and to channel these forces against Western positions and influence. Bloc foreign economic policy — in its arms, trade, credit, and technical assistance programs — is an integral part of the Bloc's general policy of political warfare against the West, and is directed toward the same general objectives.

9. The stream of Bloc missions offering capital equipment and technical assistance to underdeveloped countries during the past two years has played upon a number of themes. These missions have emphasized the success

of Communism in providing rapid industrial expansion in the Bloc countries and the benefits which the underdeveloped countries could obtain by establishing closer relations with the Bloc. At the same time, they have sought to exploit weaknesses in Western policies or relations with less developed countries. The US is pictured as seeking to extend "colonial capitalism" by tying "political strings" to its aid, by charging higher interest rates on loans, by interfering in the details of local plans, by depressing commodity markets through dumping of surpluses, and by generally trying to keep underdeveloped countries in the "colonial" status of producers of raw materials for the continued enrichment of the West. In such ways, the Bloc has sought both to utilize and to aggravate the currents of suspicion against the West which are in part a legacy of former Western domination in many of the underdeveloped countries.

10. In the Middle East, arms and other trade deals have been used to strengthen regional opposition to the Baghdad Pact and to increase Soviet influence. Credit and technical

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assistance bulk large in the Soviet policy of re-enforcing neutrality in the uncommitted states of Asia. Soviet leaders also seek by offers of trade and assistance to loosen the ties of states allied with the West. For example, the USSR has offered a credit of \$200 million to Turkey to assist in its development program, and intimations have been made to Pakistan that substantial credits would be available if it adopted a more impartial policy as between Western and Bloc countries.

11. In its economic overtures to underdeveloped countries, the Bloc is in a position to combine business with politics. Industrial development in the USSR and Eastern European countries, with their increasingly efficient capital goods production and rising costs of food and raw materials, provides a sound economic basis for increased trade with less developed countries. The ability of the Soviet economy to absorb imports from these countries means that the USSR can operate most of its programs with considerable economic benefit or at least without serious net economic disadvantage. For example, when the Bloc sold surplus arms to Egypt at bargain prices in return for cotton, there were almost certainly economic as well as political advantages to the Bloc. Agreements for the large-scale purchase of Burmese rice not only provided opportunities for expanding Bloc contacts with Burma but served to supplement low levels of food consumption in certain Bloc countries.

12. Considerations of economic advantage are probably greater in the case of the industrialized Eastern European Satellites, which require a wide range of imported raw materials. Within the limits set by their commitments to the Bloc, the Satellites have rapidly expanded their trade in economically advantageous markets in less developed areas. However, the USSR has involved the Satellites in credits and trade activities, particularly in Egypt, Syria, and Yugoslavia, more directly related to Soviet objectives than to Satellite economic advantage.

13. Despite elements of economic benefit, we believe that Soviet credit and technical assistance programs as they have thus far evolved

are to a large extent a manifestation of Soviet political interest in the countries concerned. The four countries which have signed major credit agreements with the USSR are Yugoslavia, India, Indonesia, and Afghanistan. While Yugoslavia is an important potential source of certain Bloc raw material requirements, the recent action of the USSR in delaying the implementation of agreements which would have been repaid in commodities suggests that in the Soviet calculation political considerations are over-riding. India can supply some industrial raw materials, e.g., iron ore and industrial diamonds, and Indonesia could expand its rubber exports, but in each case the size of Soviet credits seems disproportionate to the trade benefits which are likely to be realized over the short term. Also, while the USSR can probably use low-grade wool and some other products from Afghanistan, the economic return does not appear to justify credits to that country in excess of \$160 million.

14. In some instances the Bloc leaders are probably seeking through trade and credit programs to foster a degree of economic dependence which would not only tend to affect policies of the countries concerned but could in time facilitate Communist infiltration and subversion. The lavish aid to Afghanistan and attempts to create a major dependence on Bloc markets for the primary exports of Egypt and Burma were probably designed to obtain influence over their policies. There is a danger over the long run for small countries whose economic stability is heavily dependent on the exports of primary commodities which non-Communist markets cannot wholly absorb. On the other hand, larger and relatively more diversified economies like those of India and Indonesia are not likely to fall into such dependence. Nor are deliveries of industrial plants and equipment on easy credit terms to such countries likely to gain for the Bloc a major leverage over their economies.

15. Even though the Bloc leaders may see some disadvantages in strengthening non-Communist governments by large-scale economic assistance, these disadvantages are in their view probably outweighed by the pros-

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pect of short-run political gains and the possibility over the longer term of affecting the development of economic institutions and political organization in a manner favorable to Bloc objectives. Economic programs offer Bloc countries a major opportunity to interject themselves into areas where their influence has hitherto been small. By these means the Bloc expects to gain a greater presence in politically unstable countries like Indonesia. The Bloc leaders probably recognize that Communist parties in the free world Asian countries are too weak to attain power without more directly merging their programs with the strong national movements. They almost certainly calculate that their assistance programs identify the Bloc as a significant economic force in world affairs and directly associate it with the national aspirations of these countries. At the same time, the Bloc leaders probably believe that neither their nor Western assistance will be sufficient to ameliorate the probable severe strains and frustrations in these countries as the gap between achievement and aspirations widens.

16. One aim of Bloc economic and technical assistance is to encourage the recipient countries to develop institutions in the Soviet image. Soviet leaders probably believe that the construction of industrial plants and other major projects in the uncommitted countries lends credence to claims that the Bloc is more sympathetic than the West to the desires of underdeveloped countries for industrialization, and enhances the appeal of the Soviet type of organization as a system which is particularly effective for producing rapid economic development. The dislike of Soviet methods which exists in the Western countries is less widespread in areas where millions of people live in poverty and have little experience with other than autocratic governments. The challenge is to the applicability of the political and economic system of the West to the problems of the underdeveloped states.

II. THE IMPLEMENTATION OF SINO-SOVIET FOREIGN ECONOMIC POLICY

17. During the last year, Bloc economic relations with underdeveloped countries have

grown dramatically. The effort has included overtures to almost all the underdeveloped countries and has become a major element in Bloc diplomacy with nine of them. Credit agreements increased from \$468 million in 1955 to a level of \$1.4 billion in 1956.¹ In addition, credit offers of over \$500 million are outstanding. There has been little grant aid other than a total of \$35 million being given by Communist China to Cambodia and Nepal. Compared with relatively few Bloc specialists in underdeveloped areas during earlier periods, there were during 1956 a minimum of 1,400 employed for periods of a month or more, primarily in the Middle East and Asia.

18. The major part of the credits being extended by the Bloc in underdeveloped areas have been for economic development—the purchase of industrial equipment and plants and the furnishing of related technical assistance. While a number of countries have accepted such credit and technical assistance from the Bloc, these programs are substantial only with respect to Yugoslavia, India, Afghanistan, and Indonesia. The terms of the credits in general appear quite liberal. Interest rates in most cases are 2 to 2½ percent, and provision is often made for at least partial repayment in commodities. In offering economic and technical assistance, the Bloc leaders have catered to intense local desire for status by sending top officials, stressing reciprocity of benefits, and by not demanding economic justification for projects. The psychological impact has also been increased in a number of cases by the selection of projects which have particular appeal to local populations or which produce impressive results in a relatively short time.

19. In all its foreign economic programs the Bloc has attempted to expand trade or to establish a basis for trade where none previously existed. Agreements, fairs, and advertising campaigns extolling the progress of the Bloc, as well as the excellence of its products, have been used. A striking feature of recent

¹ About \$350 million of the Bloc credits were for the sale of arms in the Middle Eastern area. See Annex for specific data on the Bloc's economic activities in underdeveloped areas.

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Bloc trade tactics has been the adroitness with which attractive offers have been directed to countries with financial difficulties or with surpluses of primary commodities. Egyptian cotton and Burmese rice were the most notable but not the only examples. The USSR sought to buy Turkish and Lebanese goods which, because they were overpriced, were not moving in volume in world markets. When Iceland had balance of payments difficulties, the Bloc came forward with large-scale trade agreements. Such agreements are welcomed by many governments in the underdeveloped world as tending to stabilize their external trade. The attractiveness of Bloc trade practices has been heightened by offers of "tie-in deals" involving credits and technical assistance as well as export outlets.

20. Despite a poor record under earlier trade agreements, Bloc countries have, during the past two years, improved their reputation as trading partners. The outstanding exception is Burma, where the Soviet program received some setbacks, primarily because the USSR was unwilling or unable to supply the types of goods which the Burmese wanted. However, the USSR has taken steps to ameliorate this situation, and in general Bloc countries have been unusually expeditious in the implementation of credit agreements. Although there have been a few instances of friction, Bloc specialists have gained a reputation for competence, discipline, and unobtrusive living.

21. Recent trade trends generally reflect the efforts of the Bloc to expand its economic relations. Bloc trade with underdeveloped areas was running at an annual rate of \$1.4 billion during the first six months of 1956, more than 20 percent above the 1955 level and nearly 75 percent greater than in 1954. The expansion in 1956 was largely the result, however, of a spectacularly increased level of trade with a relatively small number of countries. The most prominent gains were apparent in Bloc trade with Burma, Yugoslavia, Egypt, and India. Substantial gains were also made in trade with Iceland, Greece, and Malaya, although in Latin America trade declined significantly with Argentina and Cuba. Despite recent increases, the Bloc still has a

relatively small share of the total trade of most underdeveloped countries.

	Percent of Total Trade with the Bloc		
	1954	1955	1956*
Iceland	21.1	24.5	27.8
Egypt	9.6	15.4	22.9
Yugoslavia	1.7	9.8	20.6
Burma	.8	11.6	16.3
Turkey	12.3	19.7	16.1
Ceylon	11.9	6.2	9.4
Iran	12.4	11.4	7.
Greece	4.2	3.8	6.7
Argentina	8.1	8.9	5.
Indonesia	1.6	4.8	4.5
Pakistan	5.6	5.8	4.5
India	1.3	1.9	3.8
Malaya	2.5	2.2	3.3

*Partial year, generally six to eight months.

22. Bloc assistance, though small in comparison with the total volume of grants and credits flowing from the US, looms relatively large in the competition for influence in the uncommitted states of the Middle East and Asia, where the Communist effort is concentrated. The major part of US aid to the Afro-Asian regions is concentrated in South Vietnam, Pakistan, the Republic of China, and the Republic of Korea and is largely for military assistance and related defense support activities. Moreover, with the possible exception of India, the countries which are major targets of the Bloc economic offensive do not presently provide an investment climate which is attractive to Western private enterprise, and foreign development aid becomes largely dependent upon government action.

III. BLOC CAPABILITIES

23. The centralized control of the economies of the USSR and its European Satellites provides Bloc leaders with a considerable political and administrative capacity to operate an effective foreign trade and aid program. The Soviet leaders can allocate resources for foreign assistance from their large and increasingly flexible industrial capacity without having to go through the processes of parliamentary or public justification. They can import commodities which are not badly needed, manipulate prices, enter into long term commit-

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ments, and generally adapt their initiatives to the demands of special situations. Further, when important interests are involved, the USSR can act with considerable dispatch and maneuverability in its dealings with the underdeveloped world. There is considerable evidence that Bloc programs have been coordinated by the USSR.

24. The USSR commands the economic and technical capability to sustain and, in time, expand substantially its trade and credit assistance program. It is producing a large volume of basic capital goods which are in heavy demand in underdeveloped countries and can advantageously absorb large imports of raw materials. It has enough technically qualified personnel for the operation of foreign assistance programs, and its facilities for training technicians from underdeveloped countries are considerable. While there is a sound economic basis for an expanding level of trade, exports under long term credits involve foregoing the domestic use of resources, at least temporarily. Moreover, during the latter part of 1956, the USSR undertook credit commitments and other concessions to the Eastern European Satellites totaling over \$1 billion. However, shipments under Soviet credits to both Satellite and non-Bloc countries are to be phased over a number of years and in any one year will be a fraction of one percent of Soviet gross national product. Such commitments are well within Soviet capabilities.

25. Nevertheless, Bloc leaders are likely to be more careful in allocating additional resources for use outside the Bloc in the immediate future. The unsettling events in Eastern Europe, coupled with the lag in the development of energy and raw material resources, have forced a downward revision in the goals of the 1957 Soviet economic plan and probably of the Sixth Five Year Plan, and have had repercussions on planned economic goals throughout the Bloc. Efforts to deal with these problems, and to ensure the continued rapid rates of growth in the Soviet economy, probably involve a tighter allocation in supplies of Soviet machinery and equipment for the next couple of years. While the allocation of re-

sources for important additional foreign credits would be relatively marginal to Soviet gross capabilities and would have negligible effects on longer term internal plans, it is probable that Soviets leaders will seek to phase deliveries under new foreign credits more heavily in the period after 1958. For example, the recent Soviet credit to India for an estimated \$126 million provided for deliveries beginning in 1959.

26. The more industrialized Eastern European Satellites have the capacity for increased production of certain capital goods for export and will probably be able to provide increasing support to Bloc programs in underdeveloped countries. Czechoslovakia and East Germany have been most active in the trade and assistance fields, while the contributions of Poland and Hungary have been relatively minor. The Satellites will also be under considerable inducement to increase such exports in order to obtain raw materials which are becoming more of a problem for the Bloc. Consequently, the USSR is likely to allow a further, possibly substantial, expansion of Satellite trade with non-Bloc underdeveloped areas in the next few years.

27. Communist China is increasing its participation in the Bloc economic campaign, particularly in non-Communist Asia. In 1956 the Chinese Communists exported a complete factory to Burma and undertook to construct four small plants in Cambodia on a grant basis. The capability of Communist China for exporting capital goods is small, but the progress of its industrialization in the next few years and its eagerness to demonstrate this progress mean that it will probably offer a somewhat larger volume and wider range of machinery and light manufactures in Southeast Asian markets.

IV. SUSCEPTIBILITY OF UNDERDEVELOPED AREAS TO BLOC ECONOMIC DIPLOMACY

28. As has been noted, Bloc economic diplomacy is but a facet of total Bloc foreign policy. Similarly, the attitude of each underdeveloped state toward Bloc economic approaches is strongly conditioned by political as well as

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by economic factors. Individual states vary widely in such matters as the degree of their suspicion of Soviet intentions, their desire for great power support for particular national objectives, and their estimates of how far they can go in accepting economic relations with the Bloc without prejudicing relations with the West.

29. The underdeveloped states are obsessed with a determination to preserve and strengthen their independence. They are wary of any relationship with foreign powers which recalls the image of former colonial status. In many countries these sentiments carry anti-Western overtones. The underdeveloped countries are generally suspicious of exclusive dependence on the West and tend to associate Western capitalism with colonial domination. Many do not believe that economic relations with the Bloc carry a greater inherent danger to their independence than economic relations with the West. Many of them feel that by maintaining economic relations both with the Bloc and the West, they can improve their bargaining position with both. At the same time there is a widespread desire to remain aloof from close political ties with either side in a great power struggle which might involve a general war. It is in the context of these basic political feelings that the underdeveloped countries weigh the implications of economic relationships with the West and the Bloc.

30. The desire for a full measure of political independence is accompanied throughout the underdeveloped world by increasing aspirations for the fruits of economic development. A number of these states require foreign aid merely to keep existing low standards of living from falling; all seek help in order to obtain the economic progress without which their political stability would be threatened. But local capital resources are in most cases wholly inadequate to support the investment programs which these countries wish. Nor have free world capital markets and other institutional arrangements provided development funds of the magnitude desired. Hence, they look with increasing eagerness towards any foreign sources which give hope of furnishing

the desired capital investment with the minimum risk of political involvement.

31. In many of the underdeveloped countries, the export of a few primary commodities, for which the free world has traditionally provided virtually the only market, is an important factor in government revenues and in the level of national income. These countries accordingly welcome increased trade relations with the Bloc as a means of providing additional purchasers, as well as furnishing markets for commodity surpluses and for other goods which are noncompetitive in free world markets. For example, Iceland, Ceylon, Turkey, and Greece have turned to Bloc markets for important segments of their trade. Generally, there have been serious lags and fluctuations in free world markets for primary products, which have affected the economic positions of countries like Burma, Egypt, Indonesia, and more recently Ghana, and have tended to increase their susceptibility to Bloc offers of trade.

32. In itself, the economic dependence of an underdeveloped country on a foreign power is unlikely to involve subjection to political control by the latter. This is particularly the case as long as alternative channels of trade are kept open and alternative sources of assistance can be made quickly available. The Bloc has attained an important role in the export markets of a few countries, e.g., Iceland and Egypt. Afghanistan will have substantial difficulties in repaying the large credits it has received from the Bloc. Such circumstances inevitably become a factor in the political calculations of the governments involved. The danger, particularly for small states, of a predominant economic dependence on the Bloc, is the opportunity provided to the latter to exploit political and psychological weakness, especially in cases where these states increasingly isolate themselves from Western channels of trade and assistance. However, even in these states the strongly nationalist attitudes combined in many cases with a hyper-sensitivity to the prerogatives of independence, tend to limit their susceptibility to political control.

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33. *Middle East and South Asia.* Bloc economic diplomacy has been most successful with Egypt and Afghanistan, which have been particularly predisposed toward policies which lessen their dependence on the West and which have been unable to obtain from the West economic, military, and technical assistance in the amounts and on the terms they desire. They have also welcomed Soviet support in local disputes with their neighbors and, in the case of Egypt, with various of the Western powers. Syria and the Yemen are similarly motivated. Although less interested in Soviet political and diplomatic support, India has welcomed Bloc as well as Western aid in advancing its ambitious development program.

34. The idea of Bloc assistance is generally attractive in other states of the area, particularly as a means of stimulating Western aid. However, unless strongly anti-Western elements gain control, as may be the case in Jordan, these states will probably continue to view Bloc offers of assistance with some reserve lest they jeopardize profitable Western ties or unduly expose themselves to Communist influence. These inhibitions to the acceptance of economic commitments to the Bloc are particularly strong in the states allied with the West and in Saudi Arabia — all of which benefit substantially by their ties with the West and in addition have strong political suspicions about the Communist powers. Nevertheless, a number of these states, including Greece and Turkey, have been moved by economic advantages to expand trade with the Bloc. Moreover, there are elements in many of these states which would favor acceptance of Bloc aid both for the economic benefits involved and as evidence of greater independence from the West. Should there be a decline in the value of their Western ties or in the risks of forfeiting them through expanded dealing with the Bloc, some of these states would probably be receptive to at least limited Bloc developmental assistance. While Turkey remains reluctant to accept credits from the Bloc, Soviet proposals such as a recent \$200 million credit offer may become more tempting if the Turks fail to obtain additional development funds from the West

pending stabilization of their economy. Generally, incentives to acceptance of Bloc developmental aid are likely to remain less in the oil producing states, whose revenues make them capable of meeting long-term development expenses without major outside capital assistance.

35. At least so long as Nasser remains in power, Egypt will continue to be the focal point of Soviet activity in the Middle East. A significant portion of future Egyptian exports is already mortgaged to the Bloc in repayment for the substantial arms shipments and economic assistance provided thus far. Moreover, Nasser will probably continue to look toward the Bloc for help because of his desire for material and diplomatic support in his current difficulties with the Western powers and his probable belief that the Bloc provides the best market for a major portion of Egypt's cotton production and the only reliable source of additional arms for himself and his Arab friends. Nasser has shown some concern about falling under Soviet domination and would probably welcome countervailing Western (and particularly US) support if he were convinced it could be obtained on terms politically acceptable to him. However, he would almost certainly wish to retain a free hand in making new economic deals with the Bloc and in promoting the acceptance of Bloc arms and assistance by other Arab countries.

36. The Afghan government's keen interest in the Eisenhower proposals and its recent moves toward rapprochement with Pakistan indicate a desire to restore some balance in its foreign diplomatic and economic relations. However, Afghanistan's location and the fact that it is already heavily committed to the Bloc with respect to trade, developmental aid, and military assistance, make it likely to retain close economic ties with the Bloc, even if it receives substantial Western help.

37. The present government of India has staked its domestic reputation on a major developmental effort in the period 1956-61. The plan presently calls for about 2.4 billion dollars in foreign capital, of which \$800-900 million seems assured, about \$250 million of

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it from the the USSR. The Indian government will probably remain receptive to increased assistance from the Bloc. Ceylon, whose political outlook is now similar to that of India, will probably be receptive to such deals with the Bloc as can be worked out without destroying the relatively favorable position it enjoys in Western markets.

38. *Southeast Asia.* As a result of their low standards of living and aspirations to improve these standards, many of the Southeast Asian countries are attracted by the idea of developmental assistance from any source. Economic growth has been relatively slow throughout the area in the past few years. The increasing strength and rapid economic progress of Communist China exercise an increasingly strong attraction for accepting Communist methods and assistance. The ostensible willingness of the Communist countries to extend economic aid without requiring political ties or impairing the neutrality of the states of the area tends to increase the attractiveness of the Bloc as a source of aid. While manifestations of susceptibility to Bloc overtures have appeared throughout the region, either in terms of relaxing trade controls or a general interest in trade, Bloc economic diplomacy has so far made important progress only in Burma, Indonesia, and Cambodia.

39. The effect of less advantageous world markets for rice in 1953-55 on Burma's plans for development, coupled with a neutral foreign policy, led to long-term trade arrangements with Bloc countries. If completely carried through, these arrangements would have tied up almost 40 percent of Burma's trade and seriously disrupted economic ties with the non-Communist countries. However, an improvement in free world markets for rice led Burma substantially to reduce its goals for export to the Bloc. More recently, Burma has agreed to accept Soviet construction of six major public buildings, including a technological institute, theater, and permanent pavilion for Soviet industrial exhibits. While these monuments to Soviet assistance and the presence of Bloc technicians may have some impact, the present Burmese government appears determined to

avoid too great an economic dependence on Bloc countries.

40. Aspirations for development and the attractions of neutrality have inclined Indonesia and Cambodia to accept Bloc assistance. In addition to accepting \$22 million of grant assistance from Communist China, the Cambodian government has undertaken a trade agreement which, if fulfilled, would direct over 35 percent of its trade to Communist China, despite the fact that Cambodia has experienced no commercial difficulties in exporting to the West. However, it does not appear likely that the trade agreement will be fully implemented, and unless there is a drastic reduction in Western aid or difficulty in marketing Cambodian exports in the free world, Cambodia probably will not become economically dependent on the Bloc in the next few years. Indonesia has signed, though not yet ratified, an agreement for a \$100 million credit from the USSR and remains susceptible to Bloc offers of assistance. The need for foreign aid was sharpened by the reduced availability of Dutch capital and the withdrawal of Dutch technicians since Indonesian independence. However, it is unlikely that the Bloc through economic means will gain a significant position in the Indonesian economy, or in the economies of the other major trading countries of Southeast Asia, barring severe dislocations in Western markets.

41. *Africa and Latin America.* Bloc economic diplomacy toward Latin American and African states has not progressed to the same degree as in the Middle East and Asia. The susceptibility of most Latin American countries to Bloc offers is largely limited to a marginal interest in additional trade outlets for primary commodities in return for capital goods. More potentially susceptible to Bloc offers are Ghana, the Sudan, and the newly emerging states of North Africa, all of which are essentially dependent on foreign aid to maintain internal stability. Morocco and Tunisia are not likely to accept substantial Bloc assistance if they receive currently planned French and US aid or if capital funds and preferential commercial advantages are

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extended under the auspices of the European Common Market. However, French capital and technicians continue to withdraw; and in the event of a complete rupture with France, the attractiveness of major Bloc assistance would be greatly increased unless additional assistance were forthcoming from the US. Similarly, with the withdrawal of British authority, Ghana may be susceptible to Bloc offers, both as an act of independence and because economic stability has been jeopardized by the declining price for cocoa. In the Sudan, Bloc overtures have not been singularly successful to date, but might become more attractive if economic support from the West proves inadequate.

42. *Europe.* Yugoslavia is particularly receptive to Soviet overtures because Tito as a Communist desires good relations with the Bloc, while as a national leader he has grandiose aspirations for industrializing the Yugoslav economy. However, the Yugoslavs are well aware of the dangers of Soviet economic domination. While accepting large credits and increased trade with the Bloc, they almost certainly wish to maintain strong economic ties with the West in order to avoid too great a dependence on the USSR.

43. In the less developed countries of Western Europe, Bloc economic overtures have been relatively unsuccessful except in Iceland, where the loss of Western markets and the alternative offered by Bloc trade have involved a shifting of the trade pattern away from the West. Iceland's substantial dependence on Soviet markets contributed to the strengthening of neutralist forces and has been a factor in the government's recent political calculations. Soviet repression in Hungary, combined with a considerable improvement in Iceland's prospects for obtaining Western currencies, has served to lessen Iceland's vulnerability to Soviet economic diplomacy. However, should there be a decline in international tensions, Iceland's present government would again be more susceptible to Soviet influence. While there is an incipient trend of increasing trade between Portugal and the Soviet Bloc, it is not likely to influence Portugal's foreign policy.

V. PROBABLE BLOC COURSES OF ACTION AND THEIR EFFECTS

44. The new economic tactics are likely to continue as an important element of Bloc policy. The Sino-Soviet leaders probably consider that their economic diplomacy is an effective means of expanding their political influence and does not materially increase the risks of a general war. At the same time, expanding economic ties with underdeveloped countries will continue to offer prospects of economic advantages to the Bloc. The programs begun over the past two years have developed a momentum of their own which should produce a steadily expanding level of Bloc trade with less developed countries and enlarged technical assistance activities.

45. While total Bloc credits to underdeveloped countries are likely to expand, the rate at which new credit commitments increase in the next year or so is not likely to be as great as in 1956. Concerned with problems of Bloc solidarity and facing the prospect of a decline in the rate of economic growth in the Bloc, the Soviet leadership may question the wisdom of substantially expanding foreign economic assistance outside the orbit at this time. Also, the Soviet leaders may estimate that additional assistance to countries now receiving or scheduled to receive aid will produce minimal political results pending the implementation of current projects. At the present time, only about one-third of the Bloc's program of nonmilitary credits has been implemented or is under firm contract.

46. However, the Bloc will continue to be alert to situations susceptible of exploitation and offering a promise of political gain in exchange for economic assistance. Additional credits and increased trade are almost certain to be offered to one or more of the Arab states in an effort to maintain Bloc influence in this area. Bloc leaders are likely to pay careful attention to the possibilities of extending economic programs to Laos and the newly independent countries of Africa. The general focus of their efforts will continue to be in the Afro-Asian areas.

47. It is almost certain that the Bloc will endeavor to meet its present commitments for

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assistance in the Middle East and Asia, barring overriding internal priorities. On the other hand, implementation of Bloc assistance to Yugoslavia has been slowed down and some of the credits may even be withheld as a result of political and ideological differences.

Probable Effects

48. The great majority of the underdeveloped states will be willing to accept increased trade with the Bloc. For most states the extent of this trade will not constitute major dependence. In the Middle Eastern and Asian countries which are already the recipients of major Bloc credit programs, Bloc prestige and opportunities for exercising influence will probably be maintained and in some cases increased. The expectation of continued credit benefits is almost certain to be a factor influencing the policies of even such an assertively independent country as India. Nevertheless, in most of these countries economic influence will not be sufficient to confer on the USSR or Communist China anything like the ability to directly control or even to manipulate their policies. Moreover, expanded economic relations with the Bloc will almost certainly be productive of some dissatisfactions and frictions which will tend to lessen the benefits to the Bloc of its activities.

49. Most of the recipient governments are extremely sensitive to any apparent indications of direct subversion by Bloc officials and technicians, although they do not in all cases have the ability to develop effective countersubversion measures. However, many of these governments are taking deliberate measures to check the growth of local Communist parties. In time, the prospect for the growing attraction of Communist ideas, as a consequence of economic activities, is probably a more important potential danger. As personal contacts multiply between Bloc and local fellow workers, and as more and more technicians are trained by Communists, there will be an increasingly wide propagation of Communist ideas and doctrine. The extent to which these dangers will become of importance depends on the complex range of political, psychological, and economic factors which together determine the stability of the countries involved.

In Southeast Asia, Chinese Communist trade and aid programs and the presence of their missions will have a particularly important effect on the attitudes of the local Chinese communities.

50. Under special circumstances, Bloc aid by contributing to economic growth and stability in recipient countries may make it more difficult for the Communists to attain major influence. For a state which already tends to be politically stable and which is making tolerable progress in coping with its economic problems — through the combination of its own resources and Western assistance — Bloc aid might have a cumulative effect which would be to Western advantage. This could be the case in India.

51. On the other hand, in many countries aspirations have been aroused which are unlikely to be fulfilled. Under these circumstances, a government may become unable to deal effectively with its internal problems and turn to authoritarian solutions. In such a case, the example of Communism will be appealing, and it might be that a local Communist party, as the most effective available organization, would assume power.

52. Bloc arms shipments and economic aid to states engaged in anticolonial and other quarrels, e.g., Egypt, Syria, and Yemen, will support Bloc policy of maintaining tensions at a high pitch. This has already proven to be so in the case of Egypt and Syria; at the same time the estrangement of these countries from the West will continue to increase the extent of their involvement with the Bloc. The increasing economic dependence of Egypt and Syria on the Bloc, and the consequent ability of the Soviet leaders to influence their policies, will almost certainly continue, whatever resolution is made of outstanding issues in the Middle East.

53. The effects of Bloc economic programs are also potentially great in small primitive states on the borders of the orbit. Afghanistan is already significantly involved with the Bloc as a result of major Bloc programs. While Afghanistan is attempting to balance its relations between the Bloc and the West, the extent of its involvement with the Bloc and

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its geographic location will continue to be major factors influencing Afghan policies. Similarly, the acceptance of Bloc assistance by Laos in substantial amounts could fairly quickly become a major factor affecting its economy and its policies.

54. The availability to underdeveloped countries of Bloc economic assistance has in some measure reduced the influence which the US is able to exercise through foreign aid. Hitherto, the West has been the primary source of large-scale capital funds and technical assistance; in the future the Bloc will provide an additional or alternative source of assistance welcome to a number of states. The disposition of these states to balance their relations with both protagonists in the East-West conflict will be strengthened. Already in the uncommitted states of Asia the acceptance of aid from both the great powers has a high symbolic importance as an assertion of their independence. At the same time, the availability of Bloc assistance will tend to raise

the price of exercising influence through foreign aid in uncommitted states and may make such aid a more necessary and more expensive condition of maintaining Western positions with allied states.

55. Nevertheless, we believe that few additional states are likely to enter into major credit arrangements with the Bloc in the near future. As pointed out earlier, the Bloc is likely to reduce the rate of expansion of its credit programs in the next year or two. Further, the continuing value of Western economic ties and suspicions of the Communists in most states throughout the underdeveloped world are likely to outweigh the advantages offered by Communist assistance and trade. However, Western economic policies or conditions adversely affecting particular underdeveloped countries would almost certainly enhance Bloc opportunities. The Bloc has already given evidence of an alertness to seize such opportunities.

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ANNEX

**STATISTICAL DATA ON BLOC ECONOMIC AC-
TIVITIES (INCLUDING ARMS DEALS) IN
UNDERDEVELOPED AREAS**

TABLE 1

Minimum Known Credits, Offers of Credits, and
Numbers of Specialists Provided by the
Bloc to Underdeveloped Countries

Recipient Countries	Credits Accepted 1954-1956 (millions of US dollars)	Credit Offers Outstanding as of 31 Dec. 1956	Specialists serving 30 days or more during 1956
Middle East			
Egypt	\$283.6	\$236.	380
Ethiopia	3.	---	---
Jordan	---	---	15
Iran	3.	---	15
Lebanon	---	1.	---
Saudi Arabia	---	5.	---
Sudan	---	.7	10
Syria	80.2	24.8	65
Turkey	16.9	220.5	40
Yemen	9.	---	10
Total	\$395.7	\$488.	535
South and Southeast Asia			
Afghanistan	\$161.9	---	430
Burma	---	---	85
Cambodia	---	---	20
Ceylon	---	---	5
India	281.9	22.	270
Indonesia	112.3	---	20
Total	\$556.1	\$22.	830
Western Europe			
Iceland	\$ 1.7	\$9.5	5
Yugoslavia	464.	---	30
Total	\$465.7	\$9.5	35
Latin America			
Argentina	\$21.5	\$15.	5
Brazil	2.6	11.5	--
Cuba	---	3.	--
Mexico	.1	---	--
Paraguay	---	---	5
Total	\$ 24.2	\$29.5	10
GRAND TOTAL	\$1,441.7	\$549	1,410

TABLE 2

Total Bloc Credits Accepted and Under Consideration by Types of Projects as of 31 December 1956

Type of Project ^(a)	Credits Accepted Plus Those under Consideration (millions of US dollars)	Percent
Arms	357.0	18
Irrigation and Power	29.8	1
Agriculture	22.5	1
Mineral Development and Manufacturing	608.7	31
Transportation and Communications	172.4	8
Raw Materials and Capital Equipment n.e.s.	173.0	9
Other Credits ^(b)	<u>627.3</u>	<u>32</u>
TOTAL	1,990.7	100

^(a) Includes equipment.^(b) Credits which have not been committed or for which no reliable project breakdown can be determined on the basis of present information.

TABLE 3

Arms Credits Extended by the Soviet Bloc
to Underdeveloped Countries

1955-1956

(millions of US dollars)

Recipient	Total Bloc
Afghanistan	28
Egypt	250
Syria	70
Yemen	9
Total	357

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